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Institutional Forms and Organizational Structures: Homology, Trust and Reputational Capital in Professional Service Firms

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Abstract. *This paper examines how professional service firms have used a combination of clan and bureaucratic control techniques to manage change over a 100-year period. Both sets of controls have been present throughout, but the mix between the two has altered to reflect changes in the broader institutional environment. These shifts create new contradictions that eventually undermine their very success. However, in the midst of these changes and shifts, the basic institutional features of homology, trust and reputational capital have continued to structure these professional arenas.* ***Key words.*** *institutionalism; professional service firms; reputational capital; trust*

Simmel, amongst others, highlighted some fascinating contradictions within society—for example, the liberating and constraining consequences of a shift towards the use of money (Simmel, 1991a) or the fact that, for him, style represented something of a contradiction between the unique and the general (Simmel, 1991b). In many ways he was captivated by the study of opposition and the pull in different directions that a phenomenon could exert on social activity (Naegle, 1958). As with all great social theorists, it was the social wrinkle that drew him. Like Marx, Weber and Durkheim, the discovery of contradiction was used to shed light on social forces. In a much more prosaic and minor way, this paper wishes to examine a seeming opposition; namely, how professional service firms have managed to combine the use of the somewhat opposing techniques of bureaucratic and clan control. Such combining has enabled these firms to adapt to and ride different social waves in their

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successful bid to maintain and improve their social position (on the successful adaptability of professionals, see Ackroyd, 1996).

To throw some light on this issue we need to examine control within these firms historically. This paper provides an analysis of elite accountancy and law firms over the past 100–150 years. It does this by using a combination of Ouchi's (1980) clan, bureaucratic and market control mechanisms and the work of Hinings et al. on professional service firms. The paper suggests that the preponderance of any one strategy is closely related to changes within the wider social structure and the need to maintain the socially constructed characteristics of trust, homology and reputation that are necessary to the selling of these services in the marketplace. No one strategy has ever been used exclusively, and the preponderance of any particular strategy only temporarily solves organizational difficulties before giving rise to new contradictions and control dilemmas that oftentimes reflect changes at a broader institutional level.

What follows concentrates on the largest legal service and accountancy firms and in many ways treats both as organizationally one and the same. This is a somewhat suspect endeavour as there are real differences between the two, but for our purposes the organizational similarities, which are well documented (Flood, 1996; Anderson-Gough et al., 1998; Brock et al., 1999), will be stressed.

Ouchi (1980) suggests that organizations arise in order to control the diverse range of individuals lodged within every collectivity with an economic goal. As is well known, he highlights three mechanisms for delivering such control: markets, bureaucracies and clans. He describes a clan as an organizational form that relies on the socialization of staff to ensure that the organization's goals and those of the individual are closely matched. Unlike bureaucracies (Coase, 1937; Blau, 1970) or markets, clans do not measure individual output, use individually derived efficiency as the primary organizing principle, develop extensive formalized rules or create an extended hierarchy with a legitimate authority structure. Indeed, in opposition to both bureaucracies and markets, rewards are distributed within clans on a non-performance basis, indicating a perhaps more socialized understanding of control.

In contrast, bureaucracies and markets measure and exhibit more direct control. Bureaucracies set down formal rules and dictate ways of behaving, and autonomy is limited because staff are often not trusted to use their discretion well. Similarly, markets assess and value the direct contribution and utility of an employee. Thus the clan form is qualitatively different and in some senses in opposition to bureaucracies and markets because it assumes autonomy and suggests that discretion on the part of employees will be used 'properly' and to the organization's benefit.

Institutional Forms: The Long-Term Centrality of the Clan Structure

Ouchi's work on control is important to the study of professional firms because it has been argued that historically they have been organized as clans (Hinings et al., 1991: 377). This paper will argue that such a statement is only partially true. What follows demonstrates how these firms used a mixture of controls for most of the 150 or so years of their existence. Certainly they have relied on the elongated socialization of personnel, but they have also made extensive use of bureaucratic controls through, for example, the measurement of value added and income generation as a legitimate source of authority. Indeed, professional service firms regularly engaged in internecine blood-letting as partnership agreements were rewritten to take account of the different performance results and/or value added of different individuals. For instance, the major law firm Linklaters and Paine renegotiated its partnership agreement at least three times between 1863 and 1881 to reflect the different performances of partners (Slinn, 1987: 30–57). Other law firms such as Freshfields (Slinn, 1984) and Cravaths in the USA (Swaine, 1946) and major accountancy firms such as Thomson McLintock (Winsbury, 1977) or Brown Fleming and Murray (Jones, 1981) also measured performance and readjusted agreements accordingly.

However, despite the measuring of individual performance and the periodic blood-letting that went with it, it is fair to say that the socialization aspect of the clan form has been central to the survival of successful firms and to their ability partially to create and shape their market environment. In the past, clan control was exerted through family and friendship ties and long periods of socialization into the firm. Thus these firms employed family members,[1] married into other professional and/or client organizations, sent children to the same elite schools as other high-status professionals and/or clients, and generally socialized their family and staff members into a milieu of networks wherein status and reputation were paramount and based upon one's ability to fit in (a process that was umbilically tied to class—see Waters, 1995; Runciman, 1993; Fulcher, 1995; Corfield, 1995).

One demonstration of this is the law firm Freshfields, where senior partners sent their children to Trinity College Cambridge to mix with the children of clients such as the bankers Hambros, Rothschilds, Barclays, Lloyds and so on (Slinn, 1984: 111–138). These male children then entered the firm and, when they were made partner (if not before), were introduced to the Governor of the Bank of England in an attempt to boost the strength of the firm's relationship with its most important client. Such processes embedded them in a milieu of networks within the financial services arena of which the Bank of England was the central point. Freshfields' partners (and those in other firms) were also expected to be active in City life, to take up directorships, encourage family and friends into complementary occupations (for solicitors this often entailed a brother joining the Bar), perform charity work (a role often reserved for the wives of partners), etc. (Slinn, 1984, 1987; Jones, 1981; Winsbury, 1977). These processes were aimed at breaking down the barriers between working and (elements of) private life and they sought to socialize personnel into the firm, thereby ensuring that its goals and theirs were closely aligned.[2] Such policies were combined with the 'Cravath system' (see Swaine, 1946: 1–25), whereby staff members deemed unsuitable for partnership were pressured out of the firm at an early stage.[3] These clan strategies ensured that firms were inhabited and dominated by individuals who shared the values of the organization and who were located within the same social space as each other, their professional rivals, clients and potential clients. Being placed within such an environment encourages people to engage in what Mannheim (1940; 51–8) calls self-rationalization; i.e. it facilitates self-prescriptive regulation of one's actions and ideas. Such a process provides a code for one's behaviour and was integral to the commercialization of the self that typified many aspects of the middle class in the 19th century (Newton, 1998).

Furthermore, this clan structure induced homology and trust-based partner autonomy and enabled the creation of networks. Partner autonomy is an essential element of professional service markets because it allows partners to act entrepreneurially and to develop income-generating relationships with clients (Hinings et al., 1991). It is difficult to manage such relationships centrally because the delicacy of the product means trust is essential to selling it. For example, financial or legal details about future client plans, restructurings, raising of finance, etc. were (are) vital elements in the survival and growth of client businesses, so providing such details to an adviser entails an act either of trust[4] or of desperation. In these conditions, trust is created through co-presence, familiarity, face-to-face contact and so on (Giddens, 1991; Fukuyama, 1999). These features mean markets are necessarily constructed around shared values, understandings and predictability. This puts relationships and/or reputational capital at the apex of selling complex products in professional markets and, in turn, these relationships and reputations are built on partner autonomy because this allows for the co-presence, flexibility and tailoring of the service upon which trust is based. As with any era (but perhaps especially during this status-conscious period—see Waters, 1995; Newton, 1998; Corfield, 1995), trust was further developed because the social exchange took place amongst (relative) equals (an important factor in trust-based exchange—see Homans, 1961). Trust was important both to clients and to professionals. For clients it lessened the possibility of malfeasance, whereas for professionals, as we shall see, it introduced elements of stability into the marketplace, it helped to open up new markets to them and it enabled them to at least partially frame and control some social spaces. Such developments both facilitated and were facilitated by a clan structure.

However, a clan structure does not mean that partner autonomy was complete. Like all economic autonomy it was embedded within the rules of exchange or agreed norms that shape a market as a social construct—that is, the collective formal and informal agreements on how business should be conducted, who can deal with whom, how pricing mechanisms are arranged, how new business is generated, how a business relationship is terminated, etc. (Fligstein, 1996; Baker et al., 1998). Without these informal rules unpredictability could emerge thereby diminishing trust. The rules of exchange change over time but, as Stinchcombe (1965) pointed out, such change often leaves the original institutional forms of a marketplace intact. For professional service firms, as we shall see, these institutional forms centred on the importance of homology, trust and reputational capital. These features have remained constant and have shaped the control strategies adopted by these organizations.

'Cohesive Competitive Professionalism': An Institutional Form? 1850–1920

Professional service firms were organized around what could be called 'cohesive competition' from the latter half of the 19th to the early 20th century. As described above, these firms operated in a market closely regulated through shared understandings and social ties. Markets were expanded, new products created and businesses grown through the close ties, shared values and trust developed with clients. For example, lawyers used their conveyancing skills and their intimacy with landed property transactions to develop detailed knowledge of the finances and personal circumstances of wealthy individuals and families in the 18th and 19th centuries (Offer, 1981: 23–34; Anderson, 1992). As the use of land as security for mortgages grew, lawyers became increasingly central figures in financial services. Anderson (1972) and Miles (1984) both highlight how lawyers used their closeness to wealthy clients to act as commissioned middlemen and brokers between lenders and borrowers. In many respects, they acted in ways similar to banks (Offer, 1981; Mathias, 1983: 132–59). These relationships with clients, combined with solicitors' centrality in property markets, enabled them to become important figures in the emerging rail- and canal-building exercises that were so important to capitalism's development. They structured the purchasing of the land necessary for such projects, they negotiated the antiquated rules for establishing these companies, they steered the Bills needed to create these canal and rail firms through Parliament and finally, as these new companies created new problems (and hence new legal markets), they provided solutions to their resolution, e.g. industrial accident compensation (Sugarman, 1994).

Through providing these services they actually framed social spaces. For example, industrial accident compensation was much narrower and stricter in the UK than on Continental Europe and this was partly because solicitors (and others) were closely aligned with capitalists and provided advice to both them and the legislature, thereby shaping this domain in ways that supported the cause of 'profitability' at the expense of 'safety at work' (Perkin, 1970; Mathias, 1983). Any changes to these areas would therefore have to dismantle a framework that lawyers and others had a vested interest in maintaining. These frameworks structured the markets that professionals had helped create and in which they had been deemed 'expert'. It seems then that lawyers used their existing markets, their knowledge and networks and their position as trusted advisers to build new markets and develop new knowledge and networks. The development of these institutional structures was enabled by the socialization procedures and structured partner autonomy that existed in these firms and that operated within an environment of homology, reputation and trust.

In short, being embedded in a social space around land enabled lawyers to respond to client need or perceived need and to take advantage of emerging social spaces, and indeed to forge new ones. Markets did not simply appear; they were made and captured, and the organizational forms adopted by solicitors enabled them to do this in some arenas. For example, there was no pressing technical reason why solicitors (and not, say, barristers) engaged in the conveyancing deemed necessary to build canals and railways in the early and mid-19th century. Solicitors performed this task because they had contacts with the (often) regional businessmen who dominated transport (Mathias, 1983: 252–65; Perkin, 1970: 77–95) and because they traditionally embraced business and client need as well as acting entrepreneurially. All of this meant they could exploit contacts and the advantages they brought. A clan structure based on socialization and networks, combined as it was with the bureaucratic measurement of both value added and income generated, encouraged solicitors to: one, get close to clients and gain their trust and, two, develop business from such proximity in order to advance their individual careers. On the other hand, barristers, who were also obvious candidates for much of this work, actively sought to distance themselves from direct contact with clients, remained self-employed rather than combine in firms, cultivated contacts with solicitors rather than other groups and concentrated themselves in London both because the courts were centralized there and because they could avoid direct client contact, thereby enhancing their non-commercial nature and hence 'respectability' (see Kirk, 1976: 171–6). Such organizational decisions ensured that, when these new legal markets were still potential markets, barristers did not see the emerging opportunities—or, if they saw them, did not avail themselves of them—whereas solicitors did. Such vision enabled solicitors to exclude other groups by dominating these markets (for professional exclusionary tactics, see Armstrong, 1985; Abbott, 1988).

In this professional world, markets and organizational forms are interlinked. Markets are probably best viewed as city landscapes with numerous zones or locations that are being gentrified, in decline, being constructed, and so on, depending on their place in the city firmament. Each zone represents a different market. Like a city, these arenas are organic; they grow, decay or rejuvenate depending on the care and attention they receive. This provision or lack of provision is dependent on resources allocated to a district (market), which in turn is dependent on who is interested or can be persuaded to be interested in the district (market). Such a situation requires, first, that one has the social status to enter the city (market)—a feature the long socialization processes of the clan model can ensure. Secondly, once in the city (market), one is exposed to and has to earn the trust of actors who can provide access to existing districts (markets), to different ones or to the wherewithal for the construction of new ones, etc.—a feature the clan form can also facilitate. Thirdly, one has to have an incentive to act entrepreneurially; i.e. to cultivate and manage the networks and knowledge needed to move around and create districts—a feature ensured by bureaucratic controls and the measurement of individual performance. Without the required social status, access to a market is denied and, once in, access to new/ existing markets may be denied or removed if disapproval occurs and networks are withdrawn. Such sanctions are invoked if one has broken the rules of exchange and hence proved untrustworthy.

Thus, these institutionalized markets are informally regulated and maintain a stability at the base of which are relationships. It is through relationships and direct or indirect experience that trust is developed. Such an environment generates homology and stresses reputation. In many ways these structures create a sacred set of practices in the Durkheimian sense. That is, the moral code developed puts constraints on certain forms of behaviour (for example, stressing safety over profitability) whilst encouraging other practices as ideal types of behaviour (for example, increasing client profitability above all else) (see Naegele, 1958). To avail oneself of opportunities, one has to be ‘one of us’. Put simply, one has to engage in self-rationalization and self-proscribe non-acceptable behaviour.

Three things are notable about this situation. First, existing markets and networks beget new ones. But these areas are not the neutral markets of liberal thought (Gray, 1986); it is better to think of them as social spaces in which goods and services are bought and sold and frameworks for social activities are put in place, thereby securing power for some groups in the emerging milieu because the rules that regulate these spaces reflect the interests of those dominant in the marketplace. Such markets have important consequences because the state, capital and other parties act in ways that are at least partly structured by these rules. For example, differences in industrial compensation legislation between the UK and Continental Europe encouraged capitalists to pay less attention to health and safety in the UK than in France (Mathias, 1983: 252–65). Secondly, trust and reputation are essential because professional access to these markets and the social frameworks they create are reserved for those groups and individuals who exhibit the 'right' values. In such an environment, personal networks, trust and the market were (are) intimately interlinked. Because these professional markets shaped key activities within capitalist societies through their framing and regulating of power, they were deeply embedded within a social space that was sealed by factors such as class, gender, social status, and exposure to clients and potential clients via family and friends. These were highly structured and embedded markets that partially shaped a wide range of social activity. Thirdly, a mixture of clan and bureaucratic structures helped ensure the establishment of trust and reputation, because the autonomy and contacts necessary to establish trust, the weeding out of the 'untrustworthy', and the incentives to exploit networks entrepreneurially were all present.

The relationship between this organizational structure and the market was mediated by what Ranson et al. (1980) call interpretative schemes. Essentially, these are an ideological way of understanding and valuing how work was/is organized, who carries it out, and why it was/is done this way. The interpretative scheme for this world suggested partners were expected to expand the business via individual entrepreneurial endeavour based on networking and reputation, and they were rewarded via 'eat what you kill'—i.e. on the basis of the amount of revenue generated. This ideology reinforced practices that encouraged a fluid view of what lawyering or accountancy were about. They were not seen as professional activities tied to specific specialist areas such as auditing. Rather they were entrepreneurial exercises that were in many ways (although not completely) driven wherever the market and opportunity led them. The interpretative scheme reinforced structures by facilitating an organizational form, a market culture and shared values that endorsed entrepreneurialism, market-building, and organizational blood-letting and restructuring as a partner's star rose or waned. However, successful firms were also cohesive in that family members and friends were introduced into the firm, socialization processes were long and entailed both pre- and post-employment socialization, networks were built and solidified, and many groups were excluded from both these firms and these markets, thereby strengthening similarity amongst producers and consumers. All of these features made the sphere homologous at a crucial point in the development of capitalism and helped to shape much social activity (Perkin, 1989).

'Collegiate Professionalism': Strengthening the Clan Form? 1920–1980

The institutional setting mapped out above altered in the pre- and inter-war period. First, auditing and conveyancing became the dominant products within accountancy and law respectively, thereby lessening occupational fluidity. Solicitors received a monopoly on conveyancing in 1804 and, over the course of the century, it went from providing 20 per cent of income to becoming the mainstay of the profession (Kirk, 1976: 125–54). In many ways it seems that from the late 19th and early 20th centuries solicitors retreated into conveyancing and moved out of other markets as conveyancing became more widespread, more stable as a market, quicker to perform and more lucrative (Offer, 1981). Elite law firms moved further into conveyancing while also availing themselves of their reputational advantages to tighten their hold on the elite corporate law market. Similarly, accountants became increasingly dependent on the audit as a fee generator. Again, it was lucrative and a stable, annual purchase that soon came to dominate fee income. For example, Richards (1981) suggests that between 1900 and 1915 Touche Ross (now a Big Five firm) saw receivership replaced by auditing as the main source of fees and, in comparison with other big firms (see Winsbury, 1977; Jones, 1981), Touche Ross was slow in moving into this area. Thus by 1920 these markets had established themselves as the main sites of fee generation in law and accountancy.

Accompanying the increasingly concentrated and stable marketplace was an ongoing separation of providers into high- and low-status producers, thereby further restricting competition. An environment of ongoing professional–client interactions, client loyalty to their advisers and the continuance of a dominant kinship control group within the firm helped to create a stability wherein prestigious clients remained with certain firms, thereby establishing a status hierarchy. At the bottom of this hierarchy were individual and small-firm lawyers and accountants dealing largely with conveyancing, general accounting, wills, personal tax and so on for individuals and small businesses—the dominance of this work was reflected in the training laid down by the professional bodies such as the Law Society until the 1990s (Moorhead and Cushley, 1995).[5] Podolny (1993: 831) argues status is a signal of the supposed quality of a firm's product or service. In both law and accountancy, certain firms were seen as producers of high-quality products and hence they occupied the top of the status ladder (for accountancy, see Winsbury, 1977; Jones, 1981; Richards, 1981; for law, see Slinn, 1984, 1987). Through a combination of bringing the offspring of partners into these firms and the appointment of well-connected individuals, certain firms were reinforced as high-status producers. The market stabilized around a hierarchy in which prestigious clients farmed out their legal and accounting work to high-status professional firms. As this situation stabilized, the environment was altered and new rules of exchange were created—entrepreneurialism waned, personnel movement declined, demarcation increased and occupational fluidity decreased, kinship and friendship networks ensured that familial dynasties controlled firms and relationships were increasingly passed on. As a result of all these changes, attachments with clients shifted from being a client attachment to an individual to one in which the client was structurally attached to the firm. This altered the institutional environment as organizations became increasingly dominant over individuals.

However, these markets remained socially embedded and the high-status firms that emerged were sought after by both high-status and potentially high-status clients as a way of sending signals to important third parties such as the City. These signals led clients, as befits important firms, to seek out the 'best' legal and accounting advice. Podolny (1993: 831) suggests such symbolism is mutually enhancing to both the producer and the consumer. As such, the professional firm's reputational capital (not any one individual's) became key to selling professional advice. Thus relationships remained central but the emphasis shifted from the individual to the firm. This allowed some law and accounting firms through their continued embedding in a social milieu of the right schools, the right clubs, a prestigious and loyal client portfolio, good appointments, sitting on government committees and so on to insulate themselves in a high-status, homologous and non-price competitive market.

These developments were in line with and shaped by the external environment and the more general growing concentration of capital and decline of competition as monopoly capitalism established itself (see Mannheim, 1940; Hayek, 1944; Hall and Schwarz, 1988). Indeed, like all other organizations, professional service firms had a dialectic relationship with their environment. They were both shaped by and partially shaped the world in which they were placed. One example of this is their relationship with the state. The state played a role in creating professional markets in a variety of ways. After the Second World War, the most important way was possibly through its attempts to concentrate industry, in the belief that larger firms would act as national champions. Stacey (1954: 224–30) suggests that at least 20 per cent of the UK's industrial capacity was nationalized after the Second World War and that the state also encouraged private sector mergers in the inter- and post-war periods. By so doing, the state helped build new markets for professionals (often after taking their advice on how best to reform existing markets). Professional service firms were central to these processes because they provided the know-how to restructure such organizations and/or nationalize them; that is, they provided the legal structures, the company articles, much of the financing expertise, the internal financial control structures and so on (see Hannah, 1976, for the important role played by professional service firms, in particular McKinsey management consultants, in the inter-war merger boom). The firms that provided this expertise were the high-status institutions that were intimately bound up with the state–industrial–financial milieu of the time and appeared on and before government committees concerned with such issues (see Slinn, 1984, 1987; Winsbury, 1977; Jones, 1981). Afterwards, these firms were used by the newly created organizations to provide legal and accounting advice in a manner somewhat akin to a gamekeeper turned poacher.

Thus by the inter- and post-war period the markets within which these elite firms operated changed: they became more concentrated around corporate law, land and auditing; they became more concentrated in terms of clients; they generated a status hierarchy; and they became mature, with more predictable growth patterns. However, they remained heavily socially embedded. In short, homology and trust gave certain firms access to networks that begot new markets, concentrated existing markets and created a status hierarchy. In the light of these external developments, leading partners responded to ensure that organizational structures and interpretative schemes were suitably altered. In this new environment, two important factors should be noted: first, the individual's reputational capital becomes less important than that of the firm; and, second, these changes created a situation in which business did not need to be pursued as aggressively because entrance to key markets was restricted. These conditions pulled against the then existing organizational form with its fluid view of markets and its encouragement of aggressive, largely individual, entrepreneurialism. For the elite professionals in the high-status firm, restricted markets, firm reputational capital and oligopoly made sense, whereas fluid markets, aggressive competition and entrepreneurialism could de-couple high-status firms from clients. As such, high-status firms (amongst others such as clients, the state, etc.) endorsed changes in the rules of exchange and organizational structures.

Organizationally, structures changed as high-status firms developed forms based on seniority, rewards were allocated via the 'lockstep model', which was based on time served rather than income generated, collegiality was encouraged rather than the previous individual entrepreneurialism, competition between firms was restricted, there was a decline in personnel movement between firms, etc. (Hanlon, 1994, 1999). These organizational developments brought a change in the interpretative schemes used to reinforce structures. Seniority became the key variable when dividing up partner profits. The value added by an individual partner was not used as a way of rewarding partners, hence there was a decline in elements of the bureaucratic model as the clan structure became even more dominant, with its emphasis on socialization, self-rationalization and rewarding non-performance criteria. Increasingly, professional work was not about entrepreneurialism, developing new markets or renegotiating partnership agreements, but about defending jurisdictions and professional specialist expertise, becoming a professional firm person, maintaining the high status of the firm because it was this that brought in clients, and so on (Jones, 1981; Slinn, 1984, 1987). Such endeavours ensured that the firm, not the individual, became the centre of market development.

However, this period was not all about change. Recruitment was still highly selective because homology, reputational capital and trust were still at the institutional core of these embedded markets, which regulated huge (and increasing) areas of social activity and acted as lubricants for frameworks of social power (Johnson, 1972; Larson, 1977). As in the past, social cohesion, self-rationalization and status were vital to being able to succeed, fit in and engender trust. Not fitting in meant one was still forced out of the firm under the Cravath system. This is rational because not fitting in could lead to unpredictability and hence anxiety and risk in the marketplace. In short, homology and shared values were still king. So the organizational structure changed as the market changed and the interpretative scheme altered accordingly (although the causal flow was not simply one way; all three spheres—market, organizational form and interpretative schemes—had a dialectic relationship), but trust, homology and reputation remained at the core of these markets and central to the way in which the organizational structure changed.

‘Commercialized Professionalism’: Bringing Bureaucratic Controls Back In? 1980–Present

Yet again, within these professional service markets the institutional form has altered as the rules of exchange shift and new organizational structures and new interpretative schemes come about. However, as with previous transitions, central aspects of the old features have remained, so change has not been complete. The stable features are once more based around the centrality of relationships and the perseverance of homology, trust and reputation. So what are these changes and why did they come about?

One change concerned the fact that in the 1960s and 1970s UK corporations came to be increasingly dominated by a new stratum of professional managers rather than family owners (Hannah, 1976) and this management stratum slowly instituted more rigorous purchasing policies in professional and other services. This process challenged the existing rules of exchange and led to a significant shift in client behaviour. This change threatened long-term client loyalty to firms and hence potentially the status hierarchy. With changes in the external environment such as the recession of the 1970s and the shifts in corporate behaviour that followed in its wake, professional service firms were pressured into altering their own practices. The most important features of these changes were the reintroduction of price competition and demands that professionals respond to client needs in a more proactive way (Baker, 1990; Baker et al., 1998; Rosen, 1989; Grey, 1994; Anderson-Gough et al., 1998, 2000; Brock et al., 1999). This meant that the rules of exchange shifted and features such as what the service was supposed to entail, how it was costed, and how and to whom work was allocated were renegotiated.

The state was another factor in this change. The state set about altering the economic environment, which in turn transformed the professional service world. It pushed for a more open international economy and set about re-regulating financial services, denationalizing assets, reshaping employment legislation, restructuring the welfare state, encouraging inward investment, attacking professional monopolies, etc. (Jessop, 1991). These processes had a wide-ranging impact upon professionals in a variety of spheres, although of particular concern to this paper is the impact they had on elite legal and accountancy firms. From the point of view of the large professional service firm, the impact has been very positive (Lee, 1992).

Re-regulation of financial services and their general expansion have created a lot of work for lawyers and accountants (Flood, 1996). For the top law firms, financial services now account for roughly 65 per cent of their fee income, over half of which is gleaned through overseas work (London Economics Ltd., 1994). The accountants have also benefited from these developments. For example, accountants and lawyers were heavily involved in the denationalization of much of UK industry (as they were in its nationalization) and have used their UK experience as a marketing device to develop markets in Eastern Europe and other regions (Martin, 1993; Wedel, 1998). The sums involved in denationalization are colossal (Marsh, 1991). Between 1990 and 1997, gross proceeds from the UK privatization programme amounted to US$64 billion, and globally the figure is US$583 billion (OECD, 1999). Evidence from the flotation of Railtrack and the privatization of the electricity industry suggests that, in the UK, professional service firms receive between 2 and 3 per cent of gross proceeds. This means that for the UK they have received roughly US$1.8 billion and, assuming such figures can be translated to the world economy, professionals potentially made US$14.5 billion.

In the case of Railtrack, for example, £39 million was spent on advisers, marketing services and sales commissions (National Audit Office, 1998: 69). Lawyers (the firm Linklaters and Paine) received £3.6 million and accountants (Deloitte and Touche and Ernst and Young) received £1.9 million between them. The sale of the electricity industry netted professional service firms £191 million in fees (National Audit Office, 1992: 23). Again, the major law firms (in this case Slaughter and May) and accountancy practices (all of the Big Five except Arthur Andersen) were represented. All of this is despite the fact that the House of Commons Public Accounts Committee estimated that the electricity sale was undervalued by £1 billion (Martin, 1993: 89). It has also been estimated that the sales of British Aerospace, British Telecom and British Gas netted professional service firms £6 million, £152 million and £175 million, respectively (Martin, 1993: 90). Such developments are important because during the 1980s consulting fee income spent by the state grew by 31 per cent in the USA and by 47 per cent in the UK (Martin, 1993: 88). Thus the neo-liberal push to an internationally open economy with a denuded state sector has benefited these firms and enabled them to build new regulatory frameworks and markets for regulating and structuring these new spheres. They were able to embed themselves in an emerging and rapidly growing (global) market. This market would be made up of new companies needing the regulatory expertise these professional service firms were well positioned to provide as they once again moved from gamekeeper to poacher. Dezalay and Garth (1995) have suggested that these firms are engaged in creating the rules of the global economy through advising and lobbying national and international regulatory agencies such as the European Union, the World Trade Organization and the International Monetary Fund, and then using their knowledge of the social space they have helped create to advise private business and other clients on how best to negotiate the new terrain. Indeed, Wedel (1998: 45–83) argues that in Eastern Europe it is even more pernicious than this because these firms have created rules for economic activity and privatized large amounts of economic resources in ways that are favourable to their Western clients—with whom they have relationships based on trust and economic advantage. As in the past, new social spaces and markets are being configured and these frameworks of power are partially shaped by professionals who have a vested interest in the new structures. As we shall see, as in the past, such an endeavour is not doled out to anyone, thus issues of homology, trust and reputation remain paramount.

These developments created tensions for professional service firms. Although profitable for these organizations, the changes had to be taken advantage of, and to do this firms had to alter. For example, clients began to shop around for advisers rather than simply use their traditional providers, and the state created new markets, which required new products and ways of engaging clients. Because of their previous success, these firms were well placed to take advantage of these opportunities. However, that very success was built on practices that would have to be altered if these opportunities were to be exploited. Elite professionals eagerly created and seized such opportunities. As in previous eras, they used their location within a social space to see, generate and exploit markets and potential markets. For example, when the City was re-regulated, huge sums of money were earned by many groups (Jessop and Burgi, 1991). Lawyers and accountants were one such group. Lawyers actively put resources into financial services in a bid to provide the advice and solutions necessary to develop many of the new financial service products, to take advantage of the new insurance and re-insurance opportunities, and to create the legal infrastructure necessary to ensure money and shares could move more freely around the globe. They structured deals to enable international project financing, they stepped into the breach when new global problems arose such as those created by the Maxwell pension fund scandal (Flood, 1996), they facilitated the new mega global mergers and takeovers,[6] and so on. Such changes were beneficial. From figures derived from ICCLAW (1999) and

London Economics Ltd. (1994), it seems that the firms Clifford Chance, Linklaters and Paine, Freshfields, Lovell White Durrant and Slaughter and May saw their staff numbers grow by 78 per cent and their fees by 97 per cent between 1994 and 1999. This growth was accompanied by a further shift into areas of law that are international (London Economics Ltd., 1994) and into new or increasingly important areas such as financial services, banking and intellectual property (Hanlon, 1999: Table 2).

Similarly, the Big Five accountancy firms have grown rapidly and, indeed, they have expanded into legal services, complicating the legal services market. Between 1989 and 1999 the fee income of four of these firms in the UK grew by on average 512 per cent (figures compiled from Hanlon, 1994, and *Accountancy*, 1999). Such growth was accompanied by a well-documented shift out of auditing and into areas such as management consulting. By 1999 the Big Five accountancy firms earned twice as much from non-auditing services as they did from auditing, whereas in 1996 the two were almost on a par (*Accountancy*, 1999). Accountants sold the audit as something of a loss leader and used it to develop and secure new markets in management consultancy, tax, information technology, insolvency and receivership, mergers and acquisitions, and so forth (Rose and Hinings, 1999). Thus, like a re-run of history, these professionals used their connections to move from one zone of the city to another or to regenerate previously neglected zones, and by so doing they helped shape a social space that empowered certain groups—themselves, mobile capital, internationally oriented capital—at the expense of others—the public sector, nationally oriented capital and much of the labour movement (see Marsh, 1991; Jessop, 1991). Indeed, these firms are now key players in the firmament of global cities such as London. These cities act as control and coordinating nodes in the world economy and in an increasingly post-industrial and polarized labour market. At the apex of this market are producer services such as investment banking, law, consulting and information technology (Sassen, 1988, 1991, 1994). Indeed, to understand the growth of elite law and accounting firms, this emerging global regulatory role has to be acknowledged and understood (Hanlon, 1994, 1999). Unfortunately, the ways in which these cities and the services they provide relate to one another is little understood (Beaverstock et al., 2000), although data are increasingly being gathered, especially on migratory patterns (Sassen, 1988; Hanlon, 1996; Beaverstock and Boardwell, 2000).

So how did the changing market and changing rules of exchange affect these firms? They encouraged the firms to restructure or perhaps, more accurately, they encouraged certain elite groups within these firms to push for restructuring. This led to what Fligstein (1996: 657–63) calls ‘political projects’; that is, the organizational structures and the practices they encourage or support are reconfigured in light of external change, which undermines the existing equilibrium and leads to inter-group infighting. For such pressure to build up and create change, Greenwood and Hinings (1996) suggest that a number of features are usually present. In particular, they stress that organizational resistance to change is influenced by the strength of the existing interpretative scheme, the openness or otherwise of a sector to outside influences, and the internal dynamics of a firm, which will encourage it to fall into or out of line with the rest of the sector. In the 1980s and 1990s the confluence of a number of factors made these professional service sectors and the elite professionals within them ripe for change.

As has been highlighted, these firms are open to other sectors. Indeed, they developed historically through a close interaction with clients in a variety of sectors from banking to steel to cars and coal. In a chameleon fashion they used exposure in one sector or firm to sell services to other sectors and firms; thus they are open to outside influence and respond to it (Greenwood and Hinings, 1996: 1030). Secondly, the pressure of clients for change built up from the 1960s and 1970s. It encouraged internationalization and massive merger movements amongst professional firms (Powell et al., 1999), it encouraged them into new service product areas such as management consultancy (Rose and Hinings, 1999), and it slowly undermined their existing interpretative scheme as new and increasingly powerful groups such as management consultants reached a critical mass (Rose and Hinings, 1999) and old elite groups realized the need for change if they were to compete in existing and new markets (Hanlon, 1994, 1999). Thirdly, although the internal dynamics of these organizations allowed for differences to emerge between them and, indeed, between the legal and accounting sectors, the overwhelming feature is actually the similarity of response.

The old rules of exchange were undermined from within and without as clients looked for new relationships with professional firms. This encouraged elite groups within professional service firms to alter their organizational controls and to change what they expect or demand from staff and partners. Increasingly, in response to client pressure and to new opportunities, those in control of these firms demand that professionals act entrepreneurially, that they provide clients with commercial rather than professionally driven advice, and that they are fluid and work across professional boundaries. This means that firms have also moved away from aspects of the clan organizational structure and adopted more bureaucratic controls. Thus today, unlike in the era of collegiate professionalism, firms rigorously measure individual performance. Partners' (and staff) income generation and other contributions are increasingly measured in both law and accountancy, and those partners deemed to be under-performing are removed from the firm. Thus the clan-based 'lock-step model' is being replaced with a structure that bears more than a passing resemblance to the more mixed 'eat what you kill' model from yesteryear.

There are other similarities with the past. Homology, reputation and trust remain crucial to this new environment and they continue to shape structure. They are still key features of these markets and are still located within the largest high-status firms. However, they are also increasingly located within the individual in ways that are a throwback (in some but not all regards) to the 19th and early 20th centuries. Thus reputational capital and high status gain a firm access to a market, and its ongoing relationship with many of its clients ensures it is considered as the front-runner for much work. However, because the market's new rules of exchange stress competition (in terms of commercial awareness and often price) and because potential political projects between commercialized and more traditional groups are ongoing in these organizations (Rose and Hinings, 1999), the reputational capital of an individual may be increasingly more central to selling new services. Individual professionals within high-status firms are often sought out by clients, and/or clients will follow them if they move (Hanlon, 1999). As a result, the balance of where reputation lies between the firm and the individual may be drifting back somewhat to the individual (although it is important not to overemphasize this shift). For example, it is trusted individuals who first spot and, in many ways, create many of the new markets that have emerged recently. Marty Lipton from the law firm Watchell, Lipton, Rose and Katz and Joe Flom from the law firm Skadden Arps are credited with seeing and developing the hostile transactions business in mergers and acquisitions in the USA (Starbuck, 1993: 900). Similarly, Wedel (1998: 51–3) argues that David Thomas of then Coopers and Lybrand was able to blaze the trail for the firm into the East European foreign aid contracts market, which made up 50 per cent of the firm's business in Eastern Europe in the late 1980s and early 1990s, because of his close links with government officials. These officials trusted him, thereby enabling the firm to develop the privatization market along lines familiar to them.

Individuals are able to develop business and markets partly because of their experience in the field, partly because the new rules of exchange stress close client contact and a detailed knowledge of both the client and the market sector, thereby giving rise to opportunities to see market niches and potential new services, and partly because their own reputational capital encourages clients to unlock new opportunities for them because they trust their skills and ability to deliver. Firms now constantly encourage individuals to build relationships with other professionals and clients in an attempt to place themselves in a social space where people think of them when potential business arrives (Hanlon, 1999). Thus careers are increasingly driven by market opportunities and are less tied to jurisdiction and/or professional specialism because individual income generation is once again used as a rewarding device.

The increased emphasis on individual entrepreneurialism means fluidity, market development and boundary crossing are central to individual careers. This has some resonance with the era of cohesive competition. All of this means that individuals are protective of the relationships they have with clients and seek to maintain and exploit them rather than simply (loyally) pass them on to the firm (Flood, 1999). Thus individuals are attached to clients in ways that are similar to those of the past and there has been an increase in the importance of individual attachments at the expense of structural ones. This creates a (currently manageable) contradiction in that the firm may become more vulnerable to certain individuals, or at least the interests of the individual and the firm diverge more than was the case under the previous structure (which was less aggressively entrepreneurial).

Paralleling this have been changes in the interpretative scheme. The shift towards an 'eat what you kill' structure has led to calls from partners and staff for greater rewards if they are successful at bringing in new business—so some partners are paid super-profit shares and firms are lengthening their hierarchies. There has also been a re-emergence of personnel mobility between professional service firms as the loyalty to and from the organization supposedly engendered by clan structures weakens. Thus partners and others are poached, whole teams move between firms, and firms use the fact that they can hire new partners as a means of buying in expertise and moving into new markets where they may be traditionally weak. Such strategies nicely reflect the contradictions in the changing rules of exchange because they undermine staff loyalty through a more evaluative assessing of staff and an intensified work environment (see Anderson-Gough et al., 1998, 2000). This increased mobility for some staff is possible owing to the belief that clients will follow the individual partner or the team because clients are at least partially attached to the individual(s). Nonetheless, firms and the structural attachments between them are still important; if individuals and/or teams move it is often to other elite firms that are at or near the top of the entrenched status hierarchy.

All of these changes have facilitated (and been facilitated by) the new interpretative scheme, which stresses commercial awareness, entrepreneurialism, measuring and rewarding on the basis of individual performance, etc. However, yet again the change is not complete; these markets are still based on trust, homology and reputational capital, so socialization and the clan structure continue to play a role. This means the market is still heavily embedded and the status hierarchy still exists, and, if anything, is getting stronger (especially in accountancy). Thus only certain firms have the reputational capital to 'perform' elite tasks, and when individuals and/or teams move they often move to other high status firms. So the rules of exchange do not encourage a liberal free market but rather create an equally embedded new one.

Conclusion: Embeddedness in Professional Service Markets

This paper has highlighted how professional service firms have mixed the seemingly contradictory ideal types of bureaucratic and clan forms. The dominance between the two forms has shifted over time but both have always been present. The changes in organizational form have a dialectical relationship with changes in the marketplace and changes in interpretative schemes. All three areas are important to the structuring of these institutional spaces. However, although there has been a lot of change, there has also been a great deal that has remained constant. In particular, professional service markets and organizational forms are based on trust, homology and reputational capital. As the wider social environment alters, these organizations look for ways to adjust. At junctures of major change the existing organizational forms hamper these firms and challenge the institutional bedrock upon which their success was built because what is expected has changed or is being renegotiated. This renegotiation brings uncertainty and unpredictability, which existing organizational forms and interpretative schemes heighten; hence change is required. If this change re-establishes trust and predictability then it exaggerates and facilitates the change in the wider sphere, thereby contributing to a snowball effect.

Within this institutional setting, shared values are central to the way in which business is conducted. Networks and trust open up new markets and potential markets, and they allow professionals to glean knowledge that is used to sell services to new or existing clients and to spot opportunities to develop new services and markets. This is not a free market in the liberal sense; rather, access to and success in these arenas are heavily influenced by who you are, where you work and have worked, who you know and how closely you share the dominant values of the marketplace. Given that these professionals create frameworks for regulating and controlling economic and social activity, this is perhaps unsurprising. By their very nature, these frameworks exclude certain groups. In the past, women and the working class were excluded. Today, although women, the working class and ethnic minorities are theoretically capable of entering these arenas, they appear to be excluded by the rules of exchange. For example, Anderson-Gough et al. (1998, 2000) and Sommerlad and Sanderson (1998) highlight how the socializing necessary to be deemed trustworthy in accountancy and law practices excludes women, especially if they have children. Stinchcombe (1965) suggested that the original features of an institutionalized arena continue to shape it; professional service markets appear to reflect this and trust, homology, reputational capital and exclusion are still central to their operation.

Thus, although these organizations are more open now than in the past, they are not meritocracies. Indeed, they can never be as long as homology, trust and shared values are what these markets are based on, because some groups either will be seen to reject or will actually reject the dominant values of this sphere. Given the nature of professional services and the frameworks of economic and social life they create, these groups will therefore be deemed untrustworthy. As Durkheim and, more recently, Bauman (1998) have highlighted, an ‘other’ inevitably has to be created if a moral code or worldview is to bind a group or society. Like the expansion of the middle class in the post-war era (Goldthorpe, 1980), as these firms grow there is room for more people at the top but, curiously, less diversity—if we take diversity to mean a variety of values and practices. Women and ethnic minorities may be promoted, but only if they undergo a self-transformation (Mannheim, 1940: 57) that allows them in times of change to self-observe, reflect, internalize and endorse the newly correct ends. Thus a somewhat contradictory process is emerging, one of widening access accompanied by a tightly circumscribed set of practices that encourage an entrepreneurial or commercialized worldview. This is increasing (or at least maintaining) the legitimacy of excluding those who do not submit (or appear to submit) to this worldview, because the firms' seeming openness and widening of access mean it is not at fault. Rather, exclusion is the fault of the excluded who adopt the 'illegitimate' views not allowed in the open but homogenized world of professional service firms. If replicated on a wider scale, such a process may be contributing to the greater polarization of the social structure that we have witnessed over the past 20 years, because claiming to be more open, inclusive and meritocratic allows the winners to assert that they rightly deserve their increasing rewards, whereas the losers are seen to lose out because of their refusal to play by the rules of a game that is now both open and legitimate (Bauman, 1998).

Notes

1 Between 1800 and 1927 eight male family members became partners in the elite law firm Freshfields (Slinn, 1984: 55).
2 In many ways this has resonances with current processes highlighted in the 'project of the self literature'.
3 Although see Flood (1999), who questions the extent to which UK firms adopted the Cravath model.
4 The importance of trust in these markets was highlighted by Adam Smith (1976: 122–3) amongst others.
5 These professions were contradictory in the sense that, although they were divided in terms of social status, they seem to have become more homogeneous during this period. For example, the Law Society came to represent even more of the solicitors' occupation in the 20th century than it did in the 19th and the polarization of incomes lessened (Kirk, 1976). It appears that, although legal professionals operated in different markets, they felt there was more to be gained by occupational solidarity than by separation. One can speculate that the elite firms got to dominate the Law Society and hence represent all solicitors through its dealings with the state, etc., whereas the less prestigious lawyers got some status from being represented by firms that worked closely with the government (Sugarman, 1996). However, despite these developments, the relationship between the elite firms and the rest of the profession was fraught at times (Kirk, 1976). The accountancy profession was always more fragmented, although the Institute of Chartered Accountancy in England and Wales did gain increasing status and power as the 20th century wore on (Stacey, 1954).

6 For example, Vodafone's recent takeover of Mannesmann for over £100 billion cost £600 million in professional fees (*Guardian*, 2000).

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