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Discussion Paper Series

**Towards a Multi-Level Approach to Studying
Entrepreneurship in Professional Services**

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Discussion Paper # 4



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Towards a multi-level approach to studying entrepreneurship in professional services

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Abstract

Research on entrepreneurship in professional services is rather limited. We argue that one reason why the two fields of professional services and entrepreneurship have operated in isolation rather than in mutual interaction is a result of inherent contradictions between the very ideas of entrepreneurship and professionalism. Our perspective on entrepreneurship for this handbook is rather broad, focusing on renewal in professional service firms and embracing aspects such as learning, innovation, and institutional change. After reviewing managerial challenges faced by the entrepreneurial professional service firm, we preview the contributions to this handbook. These are structured according to three levels of analysis – the professional service team, the professional service firm, and finally the organizational field within which the creation and exploitation of entrepreneurial opportunities take place.

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Introduction

Over the last decade, most professional services, such as those provided by management consultants, engineering consultants, lawyers, accountants, advertising agencies, and market research firms, grew rapidly in all advanced industrial nations. These services are at the crossroads of three major developments: the rise of the service economy, the increasing role of scientific and technological knowledge in business, and changes in the organization and production of knowledge work in many companies (e.g. Bell, 1973; Tordoir, 1995). Unlike manufacturing companies, which can derive their competitive advantage from patents, cost-effective locations, or unique physical products, professional service firms (PSFs) gain their competitive advantage primarily from having the ability to create and sustain knowledge (Werr & Stjernberg, 2003), reputation (Glückler & Armbrüster, 2003), and institutional capital (Reihlen, Smets, & Veit, 2010).

Services in general, and professional services in particular, represent an increasing part of most Western economies. The global market for professional services was estimated at approximately \$1 trillion in 2002, with 85% generated in the so-called developed economies (UNCTAD, 2004). Professional and other kinds of knowledge-intensive services are seen as the future for these Western economies, as manufacturing and other kinds of labor-intensive activities are outsourced to low-cost countries. Entrepreneurship and innovativeness in professional services are thus expected to become an important driver or engine for the future prosperity of these economies reflected by progressive market dynamics. In the European Union, for instance, professional services grew annually between 2004 and 2007 in sales by more than 10% and in employment by more than 6%.¹

Furthermore, professional services are important facilitators of innovation and entrepreneurship in their client organizations. As providers and brokers of knowledge and relationships, they support the creation and recombination of knowledge resources in innovation systems (Bessant & Rush, 1995; Hertog, 2000; Hislop, 2002). This is achieved both directly through their provision of services and indirectly through facilitating the mobility of highly educated and well networked individuals (Hertog, 2000).

Research on entrepreneurship and innovation in professional services, however, is rather limited. Even so, we argue that professional services represent a unique context for entre-

¹ Based on Eurostat for Nace K72, K741, K742, K743, and K744.

preneurship and innovation that merits specific attention. Our perspective on entrepreneurship for this handbook is rather broad, focusing on renewal in PSFs and embracing aspects such as learning, innovation, and institutional change. We define entrepreneurship as the creation and exploitation of future goods and services (see also Venkataraman, 1997). Research on entrepreneurship has redirected its attention to the opportunity concept, describing entrepreneurship as opportunity-seeking and opportunity-exploiting behavior (Eckhardt & Shane, 2003; Frese, 2009; Hitt, Ireland, Sirmon, & Trahms, 2011; Shane & Eckardt, 2003; Shane & Venkataraman, 2000). This was an important move away from earlier theorizing, which explains the nature of entrepreneurship by referring to traits of agents (Deivansenapathy, 1986) or focusing on problems of managing start-up firms (Van de Ven, Hudson, & Schroeder, 1984).

Although the opportunity concept has captured the interest of many researchers, the detailed mechanisms of how opportunities emerge have not been studied in depth. Only recently, researchers have pointed out that the dominant view of opportunities as an objective reality that exists out there independently of the specific cognitive makeup of entrepreneurs is too simplistic and may not stimulate research that tries to understand the mechanisms of opportunity creation (Wood & McKinley, 2010). Especially, the entrepreneurial processes involved in the production of professional services represent in a sense an ‘extreme case’ because, both in respect of their value-added input and of their service output, knowledge is what is primarily exchanged (Morris & Empson, 1998). Thus, opportunities are not given, but enacted by meaning-seeking and meaning-giving entrepreneurs acting in a social context. Opportunities exist in the heads of entrepreneurs who construct them in social interaction (Vygotsky, 1978) and on the basis of previous experience (see Glasersfeld, 1995).

Following Wood and McKinley (2010), we regard constructivism as a powerful theoretical platform to refine our understanding of the opportunity concept. Constructivism not only integrates entrepreneurs into the cognitive process, but at the same time understands the subjectivity of entrepreneurs, and their interaction with their socio-cultural environment, as an integral component of the opportunity creation process. Opportunity creation and exploitation ensures a ‘fit’ between the PSF and the environment with which it interacts. Entrepreneurial processes couple the expanding business with new interactive socio-economic milieus, as represented by new regional markets or new client industries. Therefore the necessary learning and innovation processes of an entrepreneurial PSF embrace not only the discovery of industry-specific facts and skills, but also the firm’s ‘growing into’ and ‘embedding’ itself into the ‘new’ social context with its own local regulations and institutional practices (Reihlen & Apel, 2007; Reihlen & Nikolova, 2010). Entrepreneurship therefore involves the emer-

gence of entrepreneurial conceptualizations and evaluations of opportunities and how these entrepreneurial cognitions are subsequently linked with social processes of influence through the use of cultural (e.g., rhetoric, impression management), economic (e.g., scarce technology), or political resources (e.g., positional authority, lobbying) through which opportunities are socially created in the market. A good example is management consultancies, whose self-marketing aims at filling a rhetorical space with a great array of arguments which orient management discourse in a direction that legitimizes their products and processes (Berglund & Werr, 2000). By strategically criticizing existing business practices, they re-shape or socially influence the market for management ideas and establish their own innovations as sources of commercial success.

While this example focuses on entrepreneurial opportunities related to the PSF's services, innovations creating a basis for entrepreneurship in PSFs may also take other forms. As both the cost and the quality of the professional service are to a large extent linked to individuals and their motivation and behavior, significant entrepreneurial opportunities exist in process innovations (i.e. new procedures and work methods for improving the production of professional services through, for example, knowledge-management practices) and organizational innovations (i.e., new ways of designing and managing organizational structures and (HRM) systems in PSFs) (Hipp, Tether, & Miles, 2000).

Framing the concept of opportunity and entrepreneurship within a constructivist perspective allows us to connect dispersed research streams in the entrepreneurship field as well as in the professional service field that have been published under various headings. Such a broader conception of entrepreneurship, which entails various socio-cognitive processes at the level of the professional team (chapter 2-4), the level of the entrepreneurial firm (chapter 5-15), and the level of the organizational field involving processes of institutional entrepreneurship and change (chapter 16-19), allows us to integrate various contributions in this volume under the joint entrepreneurship umbrella.

The remainder of this introductory chapter proceeds as follows: First, we briefly reflect upon inherent contradictions between the concepts of 'entrepreneurship' and 'professionalism'. We argue that these have not been seen as close companions, which explains the neglect of a fruitful joint research agenda. Second, we outline specific characteristics and challenges with regard to innovation, learning, and entrepreneurship of the professional service context. Third, we provide a preview of this handbook by introducing its four parts dealing with entrepreneurship on three interrelating levels – the professional team (individual in-

teraction), the firm (which is subdivided into the organizational conditions (organizing) for team interaction and the managerial challenges and strategies involved in growing PSFs), and finally the institutional context. We here discuss how the specific conditions for PSFs outlined above relate to the different levels and provide a brief preview of the chapters in each section.

Entrepreneurship and Professionalism – two opposing concepts?

Entrepreneurship and professionalism are generally not perceived as close companions, which may be the reason why both fields have operated in isolation rather than in mutual interaction. We suggest that the reasons for the lack of knowledge-sharing across these two fields lie in inherent contradictions between the very ideas of entrepreneurship and professionalism. In an article on the societal conditions of entrepreneurship, Brandl and Bullinger (2009) argue that entrepreneurship is not only a process of opportunity creation and exploitation, but also an institution that transports and stands for specific symbolic values and a particular social order which facilitates entrepreneurial ventures. Entrepreneurship as an institution is founded on ideals such as cultural individualism and change. Cultural individualism encourages individuals who are considered autonomous and uncontrolled to engage in creative and innovative activities. This autonomy of the free-willed entrepreneur reflected in cultural individualism is regarded as a necessary social condition for entrepreneurship to emerge. Change is then seen as the consequence of opportunity-seeking entrepreneurs. Through processes of creative destruction (Schumpeter, 1942) entrepreneurs engage in rule-breaking behavior, and demonstrate their capacity to control the external world. The entrepreneurial organization or society is one in which change becomes the norm and stability the exception.

Professionalism, on the other hand, is something else. Abbott (1988), for instance, emphasizes that a key distinguishing feature of professional work lies in its reliance on academic knowledge that formalizes and standardizes the skills on which professional work proceeds. Professional expertise defines the body of knowledge that skills newcomers have to possess in order to become competent practitioners. Thus, professionalization can be conceived as a process of cognitive standardization that allows the offering of distinctive and recognizable professional services to potential clients. This permits, as Larson (1977: 40) points out, ‘... a measure of uniformity and homogeneity in the “production of producers”’. Professionalism therefore is a method of how exclusive knowledge is controlled by the profession through mechanisms of recruitment, training, socialization, and peer monitoring. While professional work involves fresh judgment and discretion, it is, however, not typically a rule-breaking entrepreneurial enterprise (Freidson, 2001: 17). This would dissolve profes-

sional judgment into pure discretion, turning expertise-based decisions into creative deconstructions without reference to professional standards (Freidson, 1994).

Thus, professionalism and entrepreneurship do not easily go together. Entrepreneurs build their authority on the ability to see things differently, challenge the status quo, and make change and innovation happen. Professionals, on the other hand, ground their authority on their professional expertise, and the internalization of and adherence to professional standards of conduct. In fact, in some cases innovation in PSFs is regarded as an unwelcome phenomenon. Arthur Andersen, for instance, once one of the largest accounting firms worldwide before its demise in 2002, was regarded by the SEC as a ‘serial offender’. Andersen’s creative interpretations of accounting standards, which stretched professional norms to its limits, led to some of the biggest corporate bankruptcies in corporate America – Enron and WorldCom (Alt, 2006; Smith & Quirk, 2004). Even so, PSFs have been recognized as substantial innovators, like Accenture in outsourcing (Kipping, 2002), McKinsey & Co. in strategy consulting (McKenna, 2006), or WPP in advertising (Grabher, 2001).

To resolve some of the contradictions between entrepreneurship and professionalism, we follow von Nordenflycht’s (2010) suggestion of distinguishing between different types of professional organizations, in particular, between classic or regulated PSFs such as accounting, law, or architectural firms, and neo-PSFs such as consultancies or advertising agencies. While in the former case firms belong to a classic profession with well-developed institutions of professionalism like professional associations, control of work, professional knowledge and education, and exclusive jurisdiction over a specific body of knowledge (Abbott, 1991), in the latter case at least some of these institutions are missing. Especially, neo-PSFs lack a clearly confined academic-knowledge base. In management consultancy, for instance, very few, if any, commonly accepted knowledge standards and good professional practices exist (Groß & Kieser, 2006). On the contrary, in classic PSFs these standards are well-defined by professional associations and mediated through teaching programs and credentials as a reference point for assessing professional practice. As a result, the more the professional knowledge base is confined, the less discretionary freedom and creativity is left to the professional. Innovation is then caged within professional boundaries. This also explains why management consultancy, lacking a clearly defined body of knowledge, can engage in more ‘creative’ problem-solving, while their counterparts from accounting become accused of ‘cooking the books’ when interpreting accounting rules in novel ways. Yet, as studies on entrepreneurship in the regulated professions show, classic PSFs do innovate beyond professional boundaries. However, they do so by taking institutional leadership roles in professional associations,

and thereby get actively involved in setting standards of their own profession (Greenwood & Suddaby, 2006). As Greenwood et al. (2002: 61) point out: ‘professional associations ... are arenas through which organizations interact and collectively represent themselves to themselves.’ Under these conditions, entrepreneurship becomes a cooperative venture of a profession, sometimes initiated by a single firm, but still orchestrated by multiple actors that change the rules of the game before new products or new organizational forms are put into practice.

We turn now to the specific challenges of the entrepreneurial and innovative PSF.

Framing the challenges – the professional service firm as context for entrepreneurship and innovation

Professional service firms are different from ‘traditional’ organizations. Characteristics such as the focus on non-routine problem solving, a highly educated workforce, the existence of and respect for professional norms, the co-production of value together with the client and a strong dependence on reputation and networks in generating business make the PSF a specific context for management in general and entrepreneurship and innovation in particular (Alvesson, 2004; Kaiser & Ringlstetter, 2011; Løwendahl, 2005). In framing the specific challenges involved in entrepreneurship in professional services, we will in the following briefly discuss the motivational disposition of professional service workers, the close relationship in professional services between client work, learning and innovation, the need in professional services to constantly manage the relation to both the client market and the talent market, the tension between the professions, individual professionals and the firms employing these professionals, and the specific characteristics of the market place for professional services.

Motivational disposition of the professional

Entrepreneurship research often links opportunity creation and exploitation to individuals and their cognitions and emotions (Mitchell et al., 2007). How professionals understand and appreciate their work has consequences for their engagement in innovative and entrepreneurial behaviors. Three motivational characteristics of the professional service worker stand out in the literature: a search for new challenges and learning opportunities, a strong need for autonomy, and loyalty to a profession or knowledge domain rather than to a single firm.

Professionals strive for challenging assignments that provide opportunities to learn (Fosstenlökken, Løwendahl, & Revang, 2003; Maister, 1993; Teece, 2003). Challenging tasks are generally presented as more important for the motivation and retention of personnel than financial and other kinds of rewards (Alvesson, 2004; Løwendahl, 2005; Södergren, 2002).

Fosstenløkken et al. (2003) found that when a choice between exploitation and exploration modes of working was available, knowledge workers preferred the exploration mode. This preference for novel and challenging tasks among professionals thus provides fertile ground for continuous learning and innovation and individual entrepreneurial initiatives (c.f., Heusinkveld & Benders, 2002).

The organizational and commercial exploitation of the opportunities generated by individual and local experiments is, however, challenged by the professionals' preference for autonomy. Directing and coordinating professionals during entrepreneurial ventures is considered a special challenge and has been described as 'herding cats' (e.g. Løwendahl, 2005) or 'aligning stars' (Lorsch & Tierney, 2002). Professionals cherish their autonomy dearly and resist efforts to curtail it through managerial intervention telling them, for example, what services to deliver and in what way. It may also be argued that management seldom has the necessary knowledge and insights to do this, as the professionals often possess superior knowledge on their specific service offerings, clients, and market segments (Maister, 1993).

Such a focus on the sovereignty of the individual expert may also hamper the dissemination of innovations within PSFs and thus the exploitation of entrepreneurial opportunities. In individualistic expert cultures, sharing as well as seeking knowledge may easily be perceived as an illegitimate invasion of other experts' domains or the admission of professional weakness (c.f., Hargadon & Bechky, 2006). The institutionalization of new services in PSFs (often taking the form of new practices) has also been found to be a highly politicized process, with different professionals protecting their respective knowledge domains and client relations (Anand, Gardner, & Morris, 2007; Heusinkveld & Benders, 2005).

Finally, the often claimed primary loyalty of professionals to a profession or knowledge domain rather than to a specific organization (Freidson, 2001; Gouldner, 1957; Løwendahl, 2005) creates challenges in relation to retention and the firm's commercial orientation. A primary loyalty to a specific knowledge domain implies that firm profitability is seldom a priority of professionals (Maister, 1993). This creates a challenge of balancing entrepreneurial opportunity-seeking with opportunity-exploiting activities (Shane & Eckardt, 2003). Professionals need to be given challenging work to maintain their motivation, but this work generally has to be balanced with less stimulating (but economically more rewarding) work which exploits newly generated competencies to ensure the firm's survival. A too strong commercial orientation may easily lead to the loss of key professionals, who may look for more challenging and developing opportunities with other employers or start their own firm.

Much entrepreneurial activity in the professional service sector is related to professionals leaving established firms to set up their own ventures (Kubr, 2002).

Taken together, the motivational disposition of professional service workers thus creates a fertile ground for innovation and entrepreneurship on an individual and local level. The managerial challenges are related to the channeling, control, and organizational exploitation of entrepreneurial opportunities rather than to inducing entrepreneurial behavior (Sundbo, 1997).

Service delivery as the locus of innovation

As opposed to industrial organizations where new opportunities are primarily developed in separate R&D departments, new opportunities in PSFs are developed in the ongoing service delivery processes. New ideas are typically developed in interaction with colleagues and clients, and triggered by challenges experienced by clients (Fosstenløykken, Løwendahl, & Revang, 2003; Heusinkveld & Benders, 2002; Skjølsvik, Løwendahl, Kvålshaugen, & Fosstenløykken, 2007). The exploration of such opportunities is supported both by the search for new challenges by professionals, but also by the reward and career systems of PSFs, where the ability to generate business (which to some extent involves the creation of new services in order to stay on a par with clients) is an important prerequisite for individual success. In the larger organizations the building up of a new service (practice) is often seen as a prerequisite for promotion to partner (Anand et al., 2007). An active engagement in intra/entrepreneurship is thus expected from all employees in PSFs (de Jong & Kemp, 2003; Sundbo, 1997).

Given that innovation is intimately linked to client assignments, the choice and design of these assignments to a large extent shapes both the content and character of emerging opportunities, thus making the stock of existing and potential clients an important asset. Expansion into new service areas involves the acquisition of assignments in that area both to develop and validate the service offerings as well as the competences necessary for their delivery. Acquiring such projects in novel areas is often easier with established clients than with entirely new ones (Fosstenløykken et al., 2003; Liedtka & Haskins, 1997). Client assignments that support knowledge creation and innovation share a number of characteristics, including novel tasks demanding customization, delivery in multi-disciplinary assignment teams, time pressure, a certain size involving both many people and an extended duration, and finally opportunities for face-to-face interaction with the client (Skjølsvik, 2004).

Intertwined talent and client markets

Another characteristic of the PSF that creates a unique context for entrepreneurship is the close relationship between organizational structures, HR procedures to motivate and attract professionals, and the firms' service offerings. As argued by Maister (1993), professional service firms compete on two distinct markets: the market for services and the market for talent. Organizational structures and procedures need to bring the two together in a way that creates an attractive and motivating environment for professionals at the same time as it delivers valued services to clients (Teece, 2003). The two processes of professional and market development are thus intimately linked in PSFs and need to be balanced accordingly. Moving into more standardized services from a position with an 'elite' work force, business development will create frustration and turnover among professionals. Moving into less standardized services from a position with a less elite and less well-educated professional workforce may induce issues related to stress and service quality (c.f., Liedtka & Haskins, 1997; Løwendahl, 2005; Maister, 1993).

The possible space of opportunities to be exploited in entrepreneurial activities in PSFs is thus enabled but also restricted both by the set of current clients as well as the characteristics of the professional workforce. This implies that new opportunities may emerge both from innovations driven by the client, but also from the professional workforce and the way in which this is managed. Innovations in the area of HRM, such as career structures and new organizational roles, or different ways of managing knowledge, may for example enable new client services as well as tapping into new pools of talent. The introduction of new organizational archetypes, such as the managed professional business, has enabled both new kinds of client offers and employer offers in professional services (c.f., Alvesson, 2004; Cooper, Hinings, Greenwood, & Brown, 1996; Hanlon, 2004).

Professional embeddedness and institutional entrepreneurship

We argued above that the creation of entrepreneurial opportunities takes place in relation to professionals' understanding of their task and role. Professional services are to a greater (e.g. law) or lesser (e.g. management consulting) extent controlled by professional values and norms specifying what is to be regarded as professional work and how this is to be performed in an acceptable way. The creation of entrepreneurial opportunities in professional services – at least when it comes to the classic professions such as law and accounting – thus takes place within clear institutional boundaries which have some stability, but of course also may be changed by professional actors (Hanlon, 2004). For other types of professional services, such as management consulting, these institutional boundaries are weaker but still

frame entrepreneurial activities in different ways. Sundbo (1997: 447) thus describes the creation and exploitation of opportunities in PSFs as ‘disciplined intrapreneurship.’ He argues that ‘...the profession set up a framework – some trajectories for the thoughts, which limited the fantasy and the wildness of the intrapreneurship’. In some cases, professional norms and regulations may explicitly prohibit innovative practices. The use of contingency fees in management consulting, for example, was long regarded incompatible with the ethical standards of the profession (Kubr, 2002). A key challenge for PSFs is therefore to engage in entrepreneurial strategies that shape the creation, transformation, and disruption of explicit or taken-for-granted rules of the game (Lawrence, 1999; Oliver, 1991, 1997). While institutional entrepreneurship becomes a necessity for more fundamental innovations in the classic professions (Greenwood & Suddaby, 2006), it also offers considerable opportunities for neo-PSFs to act strategically, shape emerging institutional arrangements to their interests, and secure for themselves a central and resourceful position in the market (Reihlen et al., 2010).

A relationship-based market place

The market for professional services is to a large extent based on personal relationships and reputation (Glückler & Armbrüster, 2003; Hanlon, 2004; Kaiser & Ringlstetter, 2011). A majority of new business in most professional service sectors is derived from existing clients (Armbrüster, 2006; Maister, 1993). Similarly, research on the buying behavior of clients of professional services shows that they primarily rely on their previous experiences and established relationships when choosing a specific supplier, followed by the recommendation of trusted peers and general reputation (Dawes, Dowling, & Patterson, 1992; Furusten & Werr, 2005; Glückler & Armbrüster, 2003).

The relationship-based character of the industry both enables and restricts the creation and exploitation of entrepreneurial opportunities. Established client relationships are a common basis both for geographical expansion as well as expansion into new service areas. Within management consulting, for example, the internationalization process has to a large extent been driven by the needs of increasingly internationalized clients desiring the support of consultants in a growing number of locations (Glückler, 2006; Kubr, 2002; Maister, 1993; Spar, 1997). In a similar vein, responding to client needs for support in related service areas is a common driver for diversification into new service areas in the professional service industry (Greiner & Malernee, 2005; Løwendahl, 2005). This way of leveraging existing customer relations has been a key driver of, for example, the diversification of accounting firms into legal services and management consulting (Hanlon, 2004) as well as the establishment of the

‘one stop shop’ consulting houses providing everything from strategy consulting to outsourcing services (Kubr, 2002).

Such diversifications of PSFs illustrate another important characteristic of the professional services sector, namely the rather fluid boundaries of especially the neo-professions, which open up a considerable entrepreneurial space. This is more limited in the classical professions where the areas of engagement of e.g. law firms or accounting firms are more restricted. In the wake of the Enron scandal, the engagement of auditors in consulting services has, for example, been strongly debated and in some countries even prohibited.

The importance of established reputation and client relationships for the creation and exploitation of entrepreneurial opportunities, however, also implies that the lack of these may become a strong barrier to entrepreneurial activities. Seeking new opportunities in new industries or service areas without established relations and a reputation is a challenging task, as illustrated by the struggles of strategy-consulting firms regarding how to deal with the emerging IT-consulting market (Armbrüster, 2006; Kipping, 2002).

Recent developments in clients’ purchasing behavior may, however, challenge this established relationship-based logic in professional services. The relationship-based choice of professional service providers is being increasingly challenged by the involvement of procurement departments introducing more comparative and ‘rational’ purchasing procedures to professional services with the aim of breaking the long-term relationship between individual managers and their trusted providers of different professional services. While such purchasing procedures are already well established in some sectors (e.g. IT consulting) others are still in the early stages of implementation (e.g., management consulting, advertising services) (Furusten & Werr, 2005; Mohe, 2005; Werr & Perner, 2007). Such changes must ultimately be expected to change the dynamics of entrepreneurial activities as they alter the relationship between PSFs and their clients (c.f. Skjölsvik et al., 2007).

Entrepreneurship in PSFs as a multi-level phenomenon. A preview of this handbook

Creating and exploiting entrepreneurial opportunities in PSFs involves a multitude of processes on several levels of analysis. The contributions to the current handbook approach this phenomenon on three levels of analysis: the professional service team, emphasizing the interactions between professionals as arena for the construction of entrepreneurial opportunities; the professional service firm, focusing on the firm both as a context for entrepreneurial activities but also as an entrepreneurial actor in its own right; and finally the organizational

field, emphasizing the dynamic interplay between the institutional context and the professional service firm in shaping opportunities and processes of entrepreneurship.

The entrepreneurial professional team

Professional organizations vary in how they structure their work; some operate as professional bureaucracies (Mintzberg, 1979) and others evolve into adhocratic networks (Miles & Snow, 1995). However, they all produce professional services through some kind of teamwork (Alvesson, 1995; Hodgson, 2002). We suggest that the smallest social unit of professional work is the professional team consisting of a number of experts, often including clients as co-producers. It is a system whose members are mutually dependent on one another, so that individual and collective behavior and cognition are mutually contingent. Most professional teams such as in auditing, advertising, or consulting are temporary assemblies of advisors and clients, the main goal of which is to solve the issue for which the project is designed and set up. Our particular interest, however, lies in the entrepreneurial processes within these teams, such as knowledge creation and transfer, error management, and client involvement accountable for innovation and self-renewal. Since most PSFs do not innovate through centralized R&D activities, most entrepreneurial opportunities and ventures are spin-offs from daily work practices with colleagues, clients, and peers. Collaboration between professionals working on challenging problems is a key locus for the creation of new knowledge and opportunities (Hargadon, 1998; Hargadon & Bechky, 2006; Leiponen, 2005, 2006).

Part II, focusing on the professional service team, discusses the creation and exploitation of entrepreneurial opportunities in four different contributions. *Chapter 2 Knowledge integration as heedful interrelating – Towards a behavioral approach to knowledge management in professional service firms* by Andreas Werr sets the scene for this part by arguing for a view of PSFs as distributed knowledge systems deriving success from their ability to integrate professionals' dispersed knowledge resources into creative solutions of their clients' problems. Based on a review of the literature, it is suggested that successful knowledge integration involves heedful help-seeking, help giving, reflective reframing and reinforcement. These behaviors, it is argued, are framed by professionals' understanding of their task (representation), their social identity, and the interactive climate in which knowledge is integrated. The organizational context of knowledge integration in terms of organizational structures and human resource processes is also discussed.

Chapter 3, Dealing with errors in professional service firms by Martin Stollfuß, Jost Sieweke, Michael Mohe, and Hans Gruber elaborates on the theme of exploiting the collective

experiences of PSFs by focusing on their ability to make use of a key source of learning: errors. They discuss how specific characteristics of PSFs, such as service intangibility, difficulty in evaluating employees' performance, and internal competition for limited promotion opportunities pose specific challenges related to error management, and learning based on errors. Barriers to effective error management (i.e. detection barriers, communication barriers, and handling barriers) as well as mechanisms related to effective error management, such as the creation of safe environments, the design of incentives and rewards and teamwork and team training are also discussed.

This is followed by *chapter 4, A space for learning? Physical, relational and agential space in a strategy consultancy project* by Karen Handley, Andrew Sturdy, Robin Fincham, and Timothy Clark. This chapter discusses the project-based work structure in PSFs as an arena for innovation by tacit learning. It draws attention to the importance of context and the conditions of possibility for reflective practice in enabling innovation. Drawing on a longitudinal study of a strategy-consulting project, the authors argue that contextual possibility can be understood in terms of three interrelated conceptions of 'space': the *physical* space available to, and produced by, project participants; the *relational* space reflected in patterns of power and dependency; and the *agential* space available to people on the basis of their individual experience and situational understanding.

The final chapter in this first part, *chapter 5, Innovating through clients* by Natalia Nikolova deals with the key arena of innovation in PSFs: interaction with the client. The chapter identifies and discusses two different streams of literature exploring the role of the client in the innovation process of professional services: the functionalist perspective, viewing the process that leads to innovations as a strategic, cooperative service delivery process, in which the client is a willing participant, and the constructionist perspective, stressing that professional services innovations are the result of a process of social construction that involves negotiation, translation, and legitimization of meaning and power. By comparing and discussing the explanatory power of the two perspectives, the chapter provides a more comprehensive view of the role of the client in the innovation process.

The entrepreneurial professional service firm

In parts III and IV of this handbook, **Organizing the entrepreneurial professional service firm** and **Managing and growing the entrepreneurial professional service firm** we move from the team/group level of analysis to the organizational level. While part III has an organizational focus discussing e.g. structures and (HR) procedures, and how they shape the

conditions for entrepreneurial activities in PSFs, part IV investigates managerial and strategic aspects of growing the PSF through entrepreneurial activities such as new practice creation, marketing, and internationalization.

One of the recurring conclusions in the chapters of part II was the enabling and restricting nature of the organizational context on entrepreneurial initiatives. **Part III, Organizing the entrepreneurial professional service firm** discusses in more depth how structures and procedures, the composition of the professional workforce, as well as leadership practices shape the conditions for opportunity creation and exploitation in PSFs (cf. Hargadon & Bechky, 2006) and highlights the key challenges involved in balancing the demands of the client and talent markets.

Chapter 6, Professional service firms, knowledge-based competition, and the heterarchical organization form by Markus Reihlen and Mark Mone sets the scene for the third part of this handbook by setting out on a search for organization and governance structures that may unlock the mysteries of organizational self-renewal by catering for the specific needs of knowledge work. As an alternative to current hierarchical and network forms of organizing, they propose and develop the idea of the heterarchical organization. This organizational form combines elements of cooperation and competition through the creation of opportunities for broad participation in decision-making, the flexible creation of temporary hierarchies, temporary and flexible leadership structures, and the use of normative cultural control to balance entrepreneurial autonomy and integration. The chapter also explicates and challenges latent assumptions of the heterarchical model in order to identify contingencies or conditions under which this model is applicable.

The investigation into the organizational conditions of entrepreneurial activities is continued in *chapter 7, Changing career models and capacity for innovation in professional services* by Michael Smets, Timothy Morris, and Namrata Malhotra. The premise of this chapter is that, as entrepreneurial thinking and innovation in PSFs are the responsibility of senior front-line professionals, the career model by which professionals are recruited, retained, and promoted is key to a professional firm's capacity to innovate. The chapter explores how a firm's organizing model – comprising its incentive scheme, leverage model, team composition, and fee-billing arrangement – mediates how professional talent is translated into innovative services. Drawing on a study of elite London law firms, the chapter shows how the traditional 'up-or-out' career model has come under pressure and been replaced or supplemented with alternative career structures. The authors conclude that with the introduction of new ca-

reer structures, innovation will spring from new sources in the organization, as entrepreneurial thinking and commitment to innovation trickle down the organizational hierarchy.

This chapter is followed by an investigation into the PSF's resource base and its impact on entrepreneurial performance. *Chapter 8, Diversity and experience as entrepreneurial value drivers in professional engineering consulting firms* by Volker Mahnke, Keld Laursen, and Per Vejrup-Hansen explores the performance impact of two entrepreneurial value drivers: professional diversity and professional experience. It is argued that professional diversity increases the social complexity of service offerings and thus offers protection against imitation of services. Professional diversity, however, comes with complexity costs, which is why the authors suggest a curvilinear relation between a firm's performance and professional diversity. Accumulated professional experience, in turn, increases the reliability with which services are delivered, but benefiting from experience is complicated by the nature of experience accumulation, as well as compensation policies deployed. An empirical test of the proposed relationships reveals a significant relation between performance and human capital diversity (non-linear), as well as experience-based pay and performance (linear).

The final chapter in part III deals with leadership and how it shapes the conditions for entrepreneurial activities in PSFs. *In chapter 9, Leadership in entrepreneurial professional service firms*, Lars Strannegård delves into the character of leadership in PSFs. Given professionals' preference for autonomy and the intangible character of what PSFs offer, he argues for a view of leadership as a branding and mediating practice. Leaders are instrumental in substantiating the promises of certain effects or careers made to the client and labor markets respectively. Leaders, as actors and symbols, mediate between the institutional pressures of the environment and the agency of professionals. They translate institutional pressures into linguistic artifacts that contain ready-made interpretations of these pressures that enable as well as constrain entrepreneurial activity.

While part III focused on the organizational conditions for the creation of entrepreneurial opportunities, **Part IV, Managing and growing the entrepreneurial professional service firm**, focuses on the management and exploitation of these opportunities in processes of new practice development, marketing, and internationalization. Part IV also discusses entrepreneurial strategies in PSFs as well as changing governance models as PSFs evolve.

Chapter 10, Entrepreneurial strategies for professional service firms by Bente Løwendahl opens up this part by providing a nuanced understanding of the differences among professional service firms and their different entrepreneurial strategies. The chapter presents

three ‘generic’ types of PSFs: the individually driven adhocracy (type A), the managed professional bureaucracy (type B), and the complex and creative organization (type C). Entrepreneurship in the type A firms is shown to be to a large extent serendipitous, linked to the recruitment of professionals with complementary expertise, skills, and networks in order to extend the firm’s resource base as well as the service domain accessible to the firm. In type B firms, entrepreneurial opportunities are pursued more systematically by dedicated experts and their search for both service and process innovations. In type C firms, finally, innovation is at the heart of the service provided, and linked to explicit and focused research and development activities.

One of the key manifestations of entrepreneurship in PSFs is the establishment of new ‘practices’. This process is the focus of *chapter 11, New practice development in professional service firms: The role of market sensing* by Stefan Heusinkveld, Jos Benders, and Robert-Jan van den Berg. The chapter examines the process by which PSFs acquire, interpret, and utilize client information in the context of the development of new practices. On the basis of a case study of a high-tech consultancy, it is shown how translating client information into new practices within PSFs (1) involves continuously performing market information processing activities throughout the entire practice development process, and (2) requires internal organizational capabilities that enable learning about clients.

The interface between the firm and the market in entrepreneurial endeavors is further explored in *chapter 12 Marketing in professional service firms: Turning expertise into customer-perceived value* by Aino Halinen-Kaila and Elina Jaakkola. This chapter provides a literature review of the key marketing means of professional services and, on that foundation, proposes a value-based framework for marketing in entrepreneurial PSFs identifying three key marketing activities that tie together the central aspects of value-creation in an entrepreneurial PSF: (1) developing services that create value, (2) delivering value through relationships, and (3) communicating value to clients.

The following two chapters deal with another key manifestation of entrepreneurship in PSFs, namely internationalization. *Chapter 13, The globalizing professional service firm: Managerial and organizational challenges* by David Brock and Susan Segal-Horn, focuses on managerial challenges and organizational innovations in internationalizing PSFs. Against a backdrop of institutional theory the authors interweave aspects of the resource-based view of the firm, global strategy, and organizational learning to understand what it may take for a firm to transfer its capabilities across national borders and across foreign intra-firm boundaries.

The findings of the chapter relate to (1) challenges in governance and organizational structure, (2) required changes in scale and scope; and (3) trends and challenges in market entry strategies.

Additional insights into the mechanisms of internationalization are provided in *Chapter 14, A network approach to the internationalization of business service firms* by Johannes Glückler. The chapter argues for a relational perspective in the analysis of international expansion. Using empirical research into the international market entries of management consulting firms in London, Frankfurt, and Madrid, the chapter demonstrates that social networks are the most frequent cause of internationalization and that these networks also affect the choice of entry mode.

Chapter 15, Beyond dichotomies: A multi-stage model of governance in professional service firms by Laura Empson concludes part IV by discussing the evolution of governance structures as firms grow in size and complexity as the result of entrepreneurial initiatives. The chapter argues against previous dichotomized models of organizational archetypes and legal forms such as the professional partnership *versus* the managed professional business or the adhocracy *versus* the professional bureaucracy. Adapting Greiner's (1972) classic model of the stages of organizational growth, the chapter presents and illustrates a multi-stage model of governance in PSFs. Five phases and the crises triggering the transitions between them are identified and discussed. These phases are the founder-focused phase, the collegial phase, the committee phase, the delegated phase and the corporate, federated or dispersed phase.

The entrepreneurial PSF and the organizational field

An understanding of the entrepreneurial PSF involves the investigation of the interplay between the firm and its (institutionalized) environment, which is the focus of the final **Part V** of this handbook. PSFs build up exchange networks within and across firms evolving into complex systems of interaction. PSFs are embedded in their environment, which not only provides resources such as funding, manpower, or legitimacy but also offers cognitive networks of orientation through which professional practices are regulated. The institutional ecology of PSFs is made up of all systems that directly interact with the firm, such as other PSFs, professional associations supporting or regulating the firm's activities, universities and colleges standardizing the fund of professional knowledge, clients supplying problems, funds, and learning opportunities, and the public by tolerating, hindering or supporting professional work. Clearly, the institutional environment is a focal point of departure in studying the nature of entrepreneurship, innovation, and learning in professional service organizations. As

Freidson (2001) points out, professionalism refers ‘to the institutional circumstances in which members of occupations rather than consumers or managers control work’ (p. 12). The chapters in Part V explore these social processes accountable for institutional entrepreneurship and change within a complex network of institutional arrangements.

Chapter 16, Institutional entrepreneurship: A literature review and analysis of the maturing consulting field by Michael Smets and Markus Reihlen opens this part by discussing strategies by which PSFs can enhance the ‘institutional capital’ that helps them to extract institutionally contingent resources such as legitimacy, reputation, or client relationships from their environment. The chapter reviews the literature on institutional entrepreneurship by distinguishing two phases of theory development that are associated with a varying degree of empirical attention to institutional entrepreneurship in PSFs: (1) institutional entrepreneurship among peripheral actors and emerging fields, and (2) embedded action by central elites in mature fields. In addition, the authors present the case of institutional entrepreneurship in the maturing management-consulting field, which is caught in limbo between early emergence and full structuration. Maturing fields, as the authors argue, offer considerable scope for institutional entrepreneurs to shape arrangements in ways that enhance their institutional capital.

The question of how institutional entrepreneurs shape emerging institutions is further examined in chapter 17, *After the Goldrush: The role of professionals in the emergence and configuration of organizational fields* by Lianne Lefsrud and Roy Suddaby. The connections between the co-emergence of an organizational field and professions are explored by using the gold rush phenomenon as a particularly useful example of a *de novo* organizational field that starts as pre-professional, pre-organization, even pre-nation state. The gold rush is taken as an example of a field emerging around a valuable resource, and typifies the transition from ambiguity to meaning, chaos to order, and lawlessness to governance. The chapter outlines five processes by which institutional entrepreneurs configure an emerging field while constructing themselves as authoritative professionals within the field.

A very different setting of institutional change and field structuration is presented in chapter 18, *The emergence and dynamics of venture capital in Germany: An organizational field based approach* by Michael Woywode. He compares the German venture capital market with the American one in terms of their origins and characteristics, and derives a number of interesting insights about processes of structuration and professionalization that have occurred within the German venture capital market. In the chapter different actors in the organizational

field of German venture capital such as banks, corporate and private VCs, business angels, lawyers, consultants, entrepreneurs, and state institutions are explored.

The final chapter 19, *Professionalism and entrepreneurship in the 19th century legal profession* by Daniel Muzio and John Flood brings us back to the relation between entrepreneurship and professionalism. This question is addressed by exploring the historical development of the 19th and early-to-mid 20th-century legal profession in England and Wales. The chapter reveals how entrepreneurship, rather than being a recent and perhaps alien development for professionalism, was an intrinsic feature of the 19th-century professional project. It is argued that there was a shift in the logic and practices of the legal profession throughout the 19th and early-to-mid 20th century, which provides a compelling example of how different occupational principles such as professionalism, entrepreneurship, or managerialism coexisted in a fluid mix. In particular, the chapter describes how the marked entrepreneurial orientation of the 19th-century legal profession was connected to the lack of a sufficiently large and stable work jurisdiction and to the existence of a lighter regulatory framework, which made it both imperative and possible to obtain work through entrepreneurship and innovation.

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