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**Otto Group Chair of Strategic Management  
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**Discussion Paper Series**

# **Entrepreneurship and Professional Service Firms**

## **– A Literature Review<sup>1</sup>**

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**Discussion Paper # 13**



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# Entrepreneurship and Professional Service Firms – A Literature Review<sup>1</sup>

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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 an inherent contradiction between the very ideas of entrepreneurship and professionalism. Our perspective on entrepreneurship for this chapter is rather broad, focusing on new venture management and renewal in professional service firms as well as embracing aspects such as learning, innovation, and institutional change. Our chapter reviews previous work on entrepreneurship in professional services from three levels of analysis – the entrepreneurial team, the entrepreneurial firm, and finally the organizational field within which the creation and exploitation of entrepreneurial opportunities take place.

## Chapter for the Oxford Handbook of Professional Service Firms

**Keywords:** Professional Service Firms; Entrepreneurship; Project-based Learning; Innovation; Institutional Entrepreneurship; New Venture Management

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## 1. Introduction

Although professional services have been among the fastest growing sectors in the past decades and described as ‘innovative by their nature’ (Hargadon and Bechky 2006; Nikolova 2012), research on entrepreneurship and entrepreneurial renewal in professional service firms has been rather limited. This may be understood in terms of opposing values of entrepreneurialism and professionalism where entrepreneurialism is founded on ideals such as cultural individualism and change, while professionalism is based on ideals of a stable and protected knowledge base. Professional work may involve judgment, discretion and advanced problem solving, but it is not typically a novelty creating entrepreneurial enterprise (Freidson 2001: 17).

This chapter sets out to investigate the specific conditions of entrepreneurship in PSFs and reviews the extant research at the intersection of entrepreneurship and professional service firms. Entrepreneurship is here defined as how opportunities are discovered, created, and exploited to bring ‘future’ goods and services into existence (see Venkataraman 1997) and thus goes beyond narrow definitions of entrepreneurship focusing on new firm creation. In line with recent developments, we view entrepreneurship as closely linked to the opportunity concept, describing entrepreneurship as opportunity-seeking and opportunity-exploiting behavior (Eckhardt and Shane 2003; Hitt, Ireland, Sirmon, and Trahms 2011; Shane and Eckhardt 2003; Shane and Venkataraman 2000). This may be manifested in the establishment of new firms but often takes place within existing firms, where it is observable through the creation of new services, markets, and processes (traditionally referred to as intrapreneurship or corporate entrepreneurship).

Following Wood and McKinley (2010), we argue from a constructivist view which understands the subjectivity of entrepreneurs and their interaction with their socio-cultural environment as an integral component of the opportunity creation process. Entrepreneurial processes couple the expanding business with new interactive socio-economic milieus as represented by new regional markets, new client industries or new segments of the talent market. 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 ‘embedding’ itself into and ‘shaping’ the ‘new’ social context with its own local regulations and institutional practices (Greenwood and Suddaby 2006; Reihlen and Apel 2007; Reihlen, Smets, and Veit 2010). Entrepreneurship therefore involves the emergence of 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.

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. In the following review we will first discuss the tension between the concepts of professionalism and entrepreneurship and then we turn to the specific characteristics of professional service work and PSFs and their consequences for opportunity creation and exploitation. These sections are followed by a review of extant research structured along three levels of analysis – the team, the organization and the organizational field. In a final section future research opportunities are identified.

## **2. Entrepreneurship and professionalism – opposing concepts?**

Entrepreneurship as an institution is founded on ideals such as cultural individualism and change (Brandl and Bullinger 2009). Cultural individualism encourages individuals who are considered as 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 quite different. 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. Professionalization can be conceived as a process of cognitive standardization. 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 professional occupation through mechanisms of recruitment, training, socialization, and peer monitoring. While professional work involves fresh judgment and discretion, it is not typically a rule-breaking entrepreneurial practice (Freidson 2001: 17).

To resolve some of the contradictions between entrepreneurialism and professionalism, we argue to differentiate different types of professional organizations. In particular, we distin-

guish between classic or regulated PSFs such as accounting, law, or architectural firms and neo-PSFs such as consulting firms or advertising agencies (von Nordenflycht 2010). While in the former case firms belong to a classic profession with well-developed institutions of professionalism, 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 little, if any, commonly accepted knowledge standards and good professional practices exist (Groß and 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. Consequently, 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 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 and Suddaby 2006).

### **3. Specific conditions for entrepreneurship in professional service firms**

Professional work and firms are by previous research attributed certain characteristics that shape the context for entrepreneurial initiatives in important ways. Central characteristics identified in previous research are the motivational disposition of the professional, service delivery as the main locus of innovation and a relationship-based market place.

#### **Motivational disposition of the professional**

Professionals strive for challenging assignments providing opportunities to learn (Fosstenlökken, Løwendahl, and Revang 2003; Maister 1993; Teece 2003). Challenging tasks are generally presented as more important for motivation and retention of personnel than financial and other kinds of rewards (Alvesson 2004; Løwendahl 2005). This provides a fertile ground for continuous learning and innovation and individual entrepreneurial initiatives (c.f., Heusinkveld and Benders 2002).

The organizational and commercial exploitation of these opportunities generated by individual and local experiments is, however, challenged by several countervailing forces. One of these is professionals’ preference for autonomy. Directing and coordinating professionals dur-

ing entrepreneurial ventures is considered a special challenge and has been described as the ‘herding cats’ (e.g., Løwendahl 2005) or ‘aligning stars’ (Lorsch and Tierney 2002) problem. Professionals cherish their autonomy dearly and resist efforts to curtail it through managerial interventions telling them, for example, what services to deliver and in what way (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 outside of one’s professional domain may easily be perceived as an illegitimate invasion of other experts’ domains or the admittance of professional weakness (c.f., Hargadon and 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 (Anand, Gardner, and Morris 2007; Heusinkveld and Benders 2005).

Finally, the often claimed primary loyalty of professionals to a profession or knowledge domain rather than a specific employing organization (Freidson 2001; Løwendahl 2005) creates challenges in relation to retention, since professional’s are highly mobile, and the firm’s commercial orientation. 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 existing competencies.

### **Service delivery as the locus of innovation**

New ideas are typically developed in interaction with colleagues and clients, and triggered by challenges experienced by clients (Fosstenløkken et al. 2003; Heusinkveld and Benders 2002; Skjølsvik, Løwendahl, Kvålshaugen, and Fosstenløkken 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 service offerings in order to stay at par with clients) is an important prerequisite for individual success. In the larger organizations the building up of a new service offer (practice) is often seen as a prerequisite for promotion to partner (Anand et al. 2007).

Given that innovation is intimately linked to client assignments, the choice and design of these assignments 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 (Fosstenløkken et al. 2003; Liedtka and 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 et al. 2007).

### **A relationship-based market place**

The entrepreneurship literature has shown that nascent entrepreneurs' personal networks play a crucial role in creating new business opportunities (Aldrich and Ruef 2006). Since the market for professional services is to a large extent based on personal relationships and reputation (Glückler and Armbrüster 2003; Hanlon 2004), it is a prime example how network structures in which professional entrepreneurs or PSFs are embedded represent a significant portion of their opportunity space. A majority of new business in most professional service sectors is derived from existing clients (Armbrüster 2006; Maister 1993). This relationship- or network-based character of the professional service industry both enables and restricts the creation and exploitation of entrepreneurial opportunities. Established client relationships are a common basis of entrepreneurial activity, such as geographical expansion and 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 in the professional service industry (Greiner and 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). 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.

## **4. The Entrepreneurial team**

Professional service firms create new entrepreneurial opportunities by bringing together the knowledge and expertise of individuals, often across discipline and organizational boundaries (Hargadon 1998). This is typically realized in project-based work forms, in which profession-

als, often together with client representatives, form an engagement team with the sole focus of solving a client's problem (Handley, Sturdy, Fincham, and Clark 2012).

Previous research on the ability of teams to make use of their members' knowledge and experience in processes of learning, knowledge creation, or knowledge integration is extensive. However only a rather limited portion of it is conducted in the specific context of professional service firms that through their specific organizational context (e.g. highly competitive career structures) and interorganizational nature (involvement of the client) represent unique challenges. We review some of these challenges and the attributes and processes of teams that facilitate entrepreneurship.

### **Challenges to opportunity creation in engagement teams**

To exploit the creativity of collectives and potential of professionals, there must be active engagement by professionals in seeking others' knowledge as well as sharing their own knowledge. Professionals must also engage in the reflective reframing - joint exploitation of this diverse knowledge in social interactions - in which they 'make new sense of what they already know' (Hargadon and Bechky 2006: 491). These processes presume that professionals are willing and able to engage in these kinds of activities, something that previous research provides several reasons to question.

First, we may question professionals' willingness to share and seek knowledge. Professionals' identity and 'value' in organizations is to a large extent linked to their possession of a unique set of expertise and experience (Morris 2001). Against this background, it has been argued that professionals may be reluctant to share their knowledge, as that may reduce their power in relation to the organization (Morris 2001). In a similar vein, seeking help in highly competitive organizations may risk being perceived as an admittance of ignorance providing a threat to professionals' career chances and self-confidence (Hargadon and Bechky 2006). In addition, psychological barriers, such as fear of being ridiculed or criticized, may limit the extent to which professionals share or seek knowledge (Argyris and Schön 1978; Edmondson 1999; Hargadon and Bechky 2006). Research has thus found that there is a strong tendency in groups to focus on widely shared knowledge among the participants rather than bringing up their unique knowledge, which is the knowledge that has the largest potential to contribute to innovative solutions (Edmondson 2002).

Second, research provides reason to question professionals' ability to share and seek knowledge. Previous research has shown that the differences in knowledge underlying the

idea of innovation through knowledge complementarities may create communication boundaries (Carlile 2002; Ringberg and Reihlen 2008). A focus on homogeneity of people and strong personal bonds – both within PSFs and in relations with clients – are thus common. While they may limit the innovative capacity of PSFs they increase efficiency in communication (Nikolova 2012).

Third, research questions professionals' willingness and ability to engage in reflective reframing as this may be related to considerable psychological risks. These are especially salient in the relationship between the professional and their clients. As argued by Schön (1983), this relationship is often carried out within an 'expert framework' where any doubts and uncertainties by the professional are suppressed in order not to compromise the client's confidence in the professional or threaten the professional's self-esteem (Schön 1983). It has also been argued that the asymmetry of the relation may be the other-way around (Niewiem and Richter 2004), with the client dictating what the professional should do or think, which equally limits the potential for innovation in the engagement team (Nikolova 2012; Skjølsvik et al. 2007).

### **Attributes and processes of the opportunity creating engagement team**

While realizing the entrepreneurial opportunities of the engagement team may be challenging, previous research has looked extensively at how these barriers may be overcome. Research on knowledge sharing and knowledge integration in teams highlights the importance of the possibility for direct interaction between individuals as it enables the sharing of tacit and experience-based knowledge as well as the dynamic reflective reframing through which existing knowledge may be reevaluated and made relevant (or irrelevant) and new solutions may be found (Hargadon 1998; Hargadon and Bechky 2006). However, as noted above, opportunities for direct interaction will not necessarily create entrepreneurial opportunities. In order for these to emerge, interaction needs to take place in a climate that encourages knowledge sharing and reflection.

In order for individuals to engage in knowledge sharing and reflection, the social environment needs to be perceived as safe by those acting in it. Edmondson (1999) shows, that what she calls 'psychological safety' is related to a group's ability to reflect and learn. She defines psychological safety as 'a shared belief that the team is safe for interpersonal risk taking ... a sense of confidence that the team will not embarrass, reject or punish someone for speaking up' (Edmondson 1999:354). This is supported by clear and shared understandings of the task. Additional characteristics of groups in which knowledge sharing is enabled include having

fun (Dougherty and Takacs 2004) and communicating in terms of approving rather than disapproving terms (Losada and Heaphy 2004). The interactive climate is further linked to patterns of power and influence, where research has shown that knowledge sharing and innovation in groups is supported by relatively egalitarian power structures (Edmondson 2002; Hargadon and Bechky 2006; von Krogh 1998).

Furthermore, previous research has emphasized the importance of professionals' understandings of their roles and responsibilities in performing the joint task. These, it has been argued, shape the extent to which knowledge is actively shared and exploited in joint reflection as they set the boundaries of which individuals may have relevant competence and to what extent they may legitimately seek or contribute to this knowledge and which aspects of the task are open for reflection and reframing and which are not (Dougherty and Takacs 2004; Hargadon and Bechky 2006). Broad representations, creating redundancy and overlap between individual professionals' perceived responsibilities, support knowledge integration as they make it legitimate for actors to step into each other's domains (Dougherty and Takacs 2004; Swan, Newell, Scarbrough, and Hislop 1999; Swart and Kinnie 2003; Werr 2012; Werr and Runsten 2013).

## **5. The entrepreneurial firm**

As the size and importance of PSFs have grown interest in the entrepreneurial strategies these firms may employ to update and develop their service portfolios and thus market position has increased. Still, research on the entrepreneurial strategies of PSFs is rather limited, as the professional service firm has been attributed a less important role in entrepreneurial activity than either the profession or the professional. Four main approaches to investigating the entrepreneurial PSF may be identified; new venture management process, identifying different entrepreneurial strategies in different types of PSFs, the development and embedding of new practices in PSFs, and governance of entrepreneurial firms.

### **New venture management**

One of the core research areas in entrepreneurship is new venture creation or start-up management (Cooper 1981; Gartner 1985). There are a number of general factors influencing the start-up management from its foundation to its early growth such as active entrepreneurial cognitions (Mitchell et al. 2007), actions (Frese 2009), personal networks (Ostgaard and Birley 1996), and venture team dynamics (Ensleya, Pearson, and Amasonc 2002) as well as

environmental conditions including industry competition (Sandberg and Hofer 1987), capital availability (Cooper, Gimeno-Gascon, and Woo 1994), legitimacy (Zimmerman and Zeitz 2002), and regulation (Capelleras, Mole, Greene, and Storey 2008). We can assume these factors also play an important role for venture creation of PSFs, but it is surprising how little empirical research has been conducted in this field.

The little empirical work that exists is mainly based on qualitative case studies. In a study of a small consulting firm, for instance, Ram (1999) explores the emergence of the firm and analyzes three related processes: the hiring process of consultants, the client relationship management, and the dynamics of project management. Ram's findings suggest that small PSFs operate under unstable co-operation conditions among their key constituencies, making it particularly challenging to manage the tension between the need to increase organizational efficiency and the pressure for continuous entrepreneurialism. The study of Clarysse and Moray (2004) investigates the constitution of the entrepreneurial team of a university spin-off and explores how the team deals with and learns from a crisis situation during the start-up phase. The authors argue that the crisis in the entrepreneurial team co-evolves with disturbances in the development of the business. More recently, Günther (2012) studied the start-up and early growth stages of two successful corporate law firm spin-offs. He shows that these firms orchestrated a number of different strategies that helped them to mimic standards of large corporate law firms by high involvement service delivery and distinctive people development and to create a degree of uniqueness by particular client strategies and a strong cultural alignment. Furthermore, in a longitudinal study of law firms in the Silicon Valley, California, Phillips (2002, 2005) analyzed the consequences of 'organizational life chances when a member of an existing firm leaves to found a new firm' (Phillips, 2002: 474). His study highlights a number of consequences when resources and routines are transferred from the parent firm to the newly founded spin-off. As he shows, resource transfer increases life chances for offsprings, but decreases life chances for parents (Phillips, 2002). Furthermore, he shows that in the newly founded firm gender inequality is likely to be reproduced (Phillips, 2005). Overall, existing studies on new ventures provided scattered evidence. So far, they emphasize that venture success rests on a number of factors such as firm's ability to learn quickly, including learning from crisis and learning through new hires, the creation of legitimacy and reputation, and leveraging social capital for new venture management.

## **Different entrepreneurial strategies in different PSFs**

A recurrent theme in the literature on PSFs is the recognition that PSFs may adhere to different configurations, internally consistent patterns, of strategy, structure, service delivery and HR processes (Greenwood, Hinings, and Brown 1990; Løwendahl 2005; Maister 1993). This approach has led to the creation of a number of ideal type PSFs such as the Brain, Grey Hair or procedure PSF (Maister 1993), the P<sup>2</sup> vs. MPB (Managed professional business) firm (Pinnington and Morris 2003), The P<sup>2</sup>, Star and Global professional network (GPN) (Brock 2006) or the A, B and C form PSF (Løwendahl 2005). In spite of the differences in label, the different configurations identified show considerable similarities in abstracting empirical phenomena.

While seldom explicitly discussed, the different configurations offer different opportunities for opportunity recognition and exploitation. Løwendahl (2012) provides a rare explicit discussion of entrepreneurial strategies in different kinds of PSFs and argues that entrepreneurial strategies in PSFs may relate to one or several of three key areas – the resource base (the development of new competencies and skills), the domain (kinds of clients targeted) and the service delivery process (organization and procedures). She discusses three different configurations, type A, B and C firms, with type A firms offering generalist services to a select group of clients, based on the expertise of individual consultants and type B firms offering specialized services to a broad range of clients based on ‘organizational’ knowledge. Type C firms represent a position between these extremes.

A first entrepreneurial strategy, mainly associated with type A firms, may be labeled an organic strategy, where extensions in the resource base through recruitment may lead to new services and extended client relations. Type A firms are typically rather small, characterized by a strong reliance on the expertise of individual consultants, and new solutions are developed in the work of individual consultants. The lack of formal knowledge management and other kinds of formalization strategies, however, inhibit the organizational spread of such innovations. Over time, the knowledge base of the firm is mainly developed through the recruitment of new experienced consultants, which will typically have similar expertise to those already employed. At times, however, professionals with different expertise and client relations may be recruited which provide a potential for entrepreneurial opportunities. These may emerge both in the interaction between existing and new professionals that may create new services and in relation to the client base that may be broadened.

A second entrepreneurial strategy may, following Heusinkveld & Benders (2002) be labelled a corporate driven entrepreneurial strategy and was dominant in type B firms. These focus on the delivery of specialized services to a broader set of clients and to a larger extent than type A firms rely on structural capital in terms of coordinated procedures and routines to ensure reliable and efficient service delivery. Type B firms are more tightly and hierarchically controlled and mainly hire juniors rather than experienced professionals. While entrepreneurial opportunities in the type A firm mainly occurred serendipitously, type B firms had experts assigned to the development of entrepreneurial opportunities in their domains of expertise and dedicated R&D initiatives. A large part of these developments would be directed towards more efficient service delivery processes or incremental developments of the service offering, thus making these the main source of opportunities in the Type B firm. Given that these firms mainly recruited juniors, opportunity creation in the resource base was rare. A strong focus on a rather narrow service range also created potential challenges in relation to broadening the domain (client base). This was, however, sometimes overcome through acquisitions of firms offering complementary services.

A third strategy, labelled professional driven (Heusinkveld & Benders 2002), was finally central to Type C firms. These focused on delivering highly specialized services, with a reputation of excellence and innovativeness. Innovation in each client project is thus an integrated part of the strategy of the Type C PSF. However, the exploitation of these opportunities requires a strong entrepreneurial mind-set among professionals in the firm. Opportunities in the type C firms could also emerge in the resource base through the hiring of new expertise or in the domain through the acquisition of new clients with new demands.

### **The process of new practice creation**

Recent research has further investigated the process of new practice development, which is typically the outcome of exploiting new opportunities, leading to new service offerings. Exploiting new knowledge areas and opportunities is highly contested in PSFs and new ideas for service offerings are not necessarily welcomed by managers or professionals (Anand et al. 2007; Gardner, Anand, and Morris 2008; Heusinkveld and Benders 2005; Heusinkveld, Benders, and van den Berg 2009). While new practice areas may originate from new client needs, lateral hires, or from within the pool of professionals, they can also challenge individual and departmental interests and power positions as well as established client relations and reputation (Heusinkveld and Benders 2005). This highlights the need to not only identify entrepreneurial opportunities but to create legitimacy around them internally as an important

aspect of entrepreneurship in PSFs (Gardner et al. 2008). Anand et al. (2007) identify four prerequisites for the successful establishment of a new practice area. The first prerequisite is *agency* – the existence of a champion with a desire to create and develop a new practice area. This desire is in large PSFs driven by the career system and its focus on reputation and the establishment of a distinct area of expertise. Second, new practice areas are built on an *expertise* which is sufficiently differentiated from existing practice areas to be perceived as distinct but similar enough not to become too alien. Nevertheless, new expertise areas were often highly contested by representatives of existing core areas of expertise which felt their individual and organizational positions to be threatened (Gardner et al. 2008; Heusinkveld and Benders 2005). Third, new practice areas required the establishment of a *defensible turf*, i.e. the establishment of clear territorial boundaries around the new practice area both internally toward other practice areas in the organization and externally in relation to clients. The development of a client pool was identified as an important resource in establishing internal legitimacy and thus a defensible turf. Forth, *organizational support* in terms of resources and political sponsorship was required to establish a new practice area.

### **Entrepreneurial governance**

The question of governance of the entrepreneurial PSF has been a largely neglected area of research. Previous research has focused on a dichotomous view on governance of PSFs, in which firms choose between professional partnerships versus corporations (Empson 2007; Empson and Chapman 2006; Greenwood and Empson 2003), between collegial clan control (Greenwood et al. 1990; Starbuck 1993) versus corporate hierarchy (Brown, Cooper, Greenwood, and Hinings 1996), or between professional bureaucracy versus adhocracy (Mintzberg 1979). As Empson (2012) argues, a good deal of governance systems and practices cannot be captured by these dichotomized models. We argue that especially the specific type of entrepreneurial governance has been mainly overlooked by mainstream governance research of PSFs. This is surprising since prominent empirical examples such as Greenberg Traurig LLP, a fast growing Miami-based law firm (Kolz 2007), or the large advertising conglomerate WPP (Grabher 2001) do not seem to be explained well by either partnership or corporate models of governance.

Following some more recent work that builds upon configuration theory (Harlacher 2010; Harlacher and Reihlen forthcoming), we suggest that entrepreneurial governance is a distinctive form that attempts to maximize entrepreneurial opportunity seeking of organizational



members by expanding individual autonomy. Contrary to managerial governance that strives to create firm-wide consistency in approaches, services, markets or partnership governance that attempts to reach consensus on strategic matters, entrepreneurial governance captures the benefits of market opportunities by encouraging its members to engage in entrepreneurship – seeking out new market opportunities in services, industries, and/or regional locations. This governance form is reflected in its structure, culture, and systems to manage professionals. The governance structure is more decentralized and its culture favors entrepreneurial values emphasizing personal autonomy (for their individual commercial gain) and thus opposing the formalization and standardization usually associated with becoming more ‘corporate’ (Empson and Chapman 2006). Furthermore, remuneration incentivizes individual performance (e.g., eat-what-you-kill) and deemphasizes seniority-based (e.g., lockstep) remuneration more commonly found in partnerships.

## **6. Institutional entrepreneurship<sup>2</sup>**

Institutional entrepreneurship has become an emerging and increasingly important research area in the field of professional services. Institutionalists initially focused on explaining convergent change in response to isomorphic pressures within organizational fields (e.g. DiMaggio and Powell 1983; Meyer and Rowan 1977; Scott 1987; Tolbert and Zucker 1983; Zucker 1977, 1983). Their over-emphasis on the social environment imposing upon - rather than also emerging from - human interaction, however, produced increasing dissatisfaction with their inability to conceptualize divergent change (e.g., Barley and Tolbert 1997; DiMaggio and Powell 1991; Greenwood and Hinings 1996; Hirsch and Lounsbury 1997; Oliver 1991, 1992). In response, institutionalist scholars re-focused on explaining the role of interest and agency in divergent institutional change and, following DiMaggio’s (1988) early lead, subsumed their efforts under the concept of ‘institutional entrepreneurship’. This initial framing informed subsequent research in two ways: First, it pointed to the centrality of interest, agency, and resources for explaining institutionalization as a process rather than a state (e.g., Barley and Tolbert 1997; Greenwood and Hinings 1996). Secondly, it opened institutional arguments to ideas from the co-evolving entrepreneurship literature (e.g., Aldrich and Fiol 1994; Aldrich and Martinez 2001). The core argument of the institutional entrepreneur-

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<sup>2</sup> This section is based on the chapter from Smets, M., and Reihlen, M. (2012). "Institutional entrepreneurship: a literature review and analysis of the maturing consulting field," in M. Reihlen, and A. Werr (eds.), *Handbook of Research on Entrepreneurship in Professional Service Firms*, Cheltenham: Edward Elgar, 297-317.

ship literature, hence, centers on the conditions and mechanisms that enable entrepreneurs to actively shape their institutional environment from within.

Initially, institutional entrepreneurship was associated with disadvantaged actors located in the periphery of mature fields or within emerging fields trying to gain a more central (privileged) position. More recently, entrepreneurial action by central, elite participants in mature fields has been conceptualized as ‘the toughest example of embedded action’ (Greenwood and Suddaby 2006: 43). In the following we review major streams and show how different empirical foci correspond to different phases of theory development, and explain how this correspondence shaped our understanding of institutional entrepreneurship in PSFs.

### **Institutional entrepreneurship in emerging fields**

Emerging fields are still relatively under-organized domains, characterized by weakly entrenched, relatively localized ‘proto-institutions’ (Lawrence, Hardy, and Phillips 2002). Actors within emerging fields recognize some degree of mutual interest, but interact sporadically rather than through a structured system of social positions. Hence, actors lack clearly delineated reference groups of dominant or peer organizations whose isomorphic demands they would have to observe. This ambiguity provides considerable opportunity and motivation for institutional entrepreneurs to act strategically, shape emerging institutional arrangements or standards to their interests, and secure for themselves a central and resourceful position in the emerging field (e.g., Fligstein and Mara-Drita 1996; Garud, Jain, and Kumaraswamy 2002; Hargadon and Douglas 2001; Maguire, Hardy, and Lawrence 2004). Previous studies have investigated institutional entrepreneurship in emerging technological fields such as sponsorship strategies in setting common technological standards (Garud et al. 2002) or HIV/AIDS treatment advocacy in Canada (Maguire et al. 2004). These examples deal with specific types of knowledge-intensive organizational fields composed of technology developers that, however, are not considered yet to have gained full professional status.

Previous research primarily attended to peripheral actors and emerging fields. As a consequence, this strand of research has greatly advanced the notion of agency in institutional theory. Emerging fields are characterized by low institutionalization and weak isomorphic constraints on human agency. Consequently, the image that is often painted is one of a single organization acting innovatively’ (Greenwood and Suddaby 2006; Hargrave and Van de Ven 2006; Lounsbury and Crumley 2007) or a heroic or ‘hypermuscular’ (Lawrence et al. 2009) activist driving change.

This empirical one-sidedness has been reflected in theory development as critics note that the resultant understanding of agency is overly voluntaristic, individualistic and disembedded (e.g., Lawrence, Suddaby, and Leca 2009; Leca and Naccache 2006; Lounsbury and Crumley 2007; Seo and Creed 2002). Accounts of institutional entrepreneurship are based on a model of planned change with institutional entrepreneurs engaging in actions that are ‘purposive’ (Lawrence and Suddaby 2006), or ‘directed toward’ (Lawrence 1999) realizing a preferred institutional arrangement.

However, to address the criticisms discussed above and take seriously the embeddedness of agency in stable institutional structures, institutional entrepreneurship research re-oriented its empirical focus and attended to instances of institutional change initiated by privileged, central actors in mature fields who so far had been assumed to be strongly embedded and unmotivated to challenge the institutional status quo.

### **Institutional entrepreneurship in mature fields**

Searching for strong cases of embedded action, empirical work in this stream of research re-discovers classic professions such as accounting, healthcare and law as fruitful research settings, exemplifying highly institutionalized fields. The apparent stability and strength of institutional structures in professional contexts as well as the recognized role of professionals as institutionalized and institutionalizing actors (DiMaggio and Powell 1983; Scott 2008) make professional contexts an appropriate empirical setting for studying embedded motivated action. Instead of the professions per se, however, institutionalists now attend to professional service firms as elite actors in mature fields. For instance, Greenwood and colleagues publish a series of papers on the efforts of the ‘Big Five’ global accounting firms to legitimize multidisciplinary practice as an appropriate organizational form (Greenwood, Hinings, and Suddaby 2002; Greenwood and Suddaby 2006; Suddaby and Greenwood 2005). Covalleski and colleagues (2003) attend to the same set of elite organizations and their interactions with professional and regulatory bodies in legitimizing new work practices. Sherer and Lee (2002) choose elite US law firms to document the demise of the highly institutionalized ‘Cravath’-style promotion system. Reay and colleagues (2006) focus on the critical role of professional associations and managers in shaping the micro-political moves of introducing a new work role in healthcare.

### **Institutional entrepreneurship in maturing fields**

What has remained surprisingly underexplored in this extreme swing from emerging to mature fields, however, are those proto-professions and proto-professional firms whose institu-

tional projects have made some progress, but whose organizational forms, practices and logics cannot yet be considered fully institutionalized. These arenas, which can be described as ‘maturing’ fields (Smets and Reihlen 2012), combining characteristics of emerging and mature fields, may hold particular conditions for institutional entrepreneurship. Typical cases of maturing fields are advertising or management consulting. Drawing on illustrative data from the German management consulting field Reihlen et al. (2010) explore those conditions and identify a portfolio of strategies such as co-option, lobbyism, membership, standardization, and influence that institutional entrepreneurs in the consulting industry employ and show how these strategies serve a dual purpose: creating individual competitive advantage and enhancing individual or collective institutional capital. This interplay of competitive and institutional strategy has previously received little attention.

## **7. Conclusions and outlook**

Based on the review of the literature a number of opportunities for further research may be identified on different levels of analysis. An *individual* level of analysis has not been part of our review, as research on this is largely missing in the PSF context. It has, however, been a strong focus of entrepreneurship research in general which has extensively investigated the individual entrepreneur and his or her drivers, characteristics and strategies in creating and exploiting entrepreneurial opportunities (Frese 2009; Rauch and Frese 2007). Given that large parts of professional service sectors are traditionally dominated by single practitioners or small, entrepreneurial ventures (Brock, Powell, and Hinings 1999, 2007), this lack of research provides large opportunities for research initiatives, especially as we may assume that the drivers for entrepreneurial activity among professionals, given their often claimed unique motivational structure, may be different from those of other kinds of entrepreneurs (Løwendahl 2012).

On a *team* level of analysis, extant research has highlighted the role of client projects and the engagement team as a locus for the creation and exploitation of entrepreneurial opportunities in PSFs. The nature and quality of communication and interaction in this setting is found to be an important enabler of opportunity creation, and aspects such as the interactive climate and actors’ understandings of the situation and their roles in it have been identified as shaping the conditions of this interaction. Further research is needed to investigate these aspects in the specific context of different kinds of PSFs. Unique features in this context include the often highly competitive career structures in PSFs and how this may facilitate opportunity creation

and learning from e.g. failures (Handley et al. 2012; Smets, Morris, and Malhotra 2012; Stollfuß, Sieweke, Mohe, and Gruber 2012) as well as the challenges involved in interacting with clients across organizational and contractual boundaries (e.g. Handley et al. 2012; Nikolova 2012). Previous research has highlighted the embedded nature of entrepreneurial processes in PSFs in multiple networks of discourse, cognition and power (Reihlen and Nikolova 2010). Future research may investigate in more detail how this embeddedness is played out in concrete client-professional teams. Especially the highly ambiguous role of power that may be both a barrier as well as an enabler of the creation of entrepreneurial opportunities in engagement teams is an issue deserving of further research. Which are the processes by which certain ideas gain “interpretive dominance” and how do they affect the number and innovativeness of the ideas considered? (Nikolova 2012).

Moving to the *firm* level of analysis, research has highlighted the activities aimed at opportunity creation and exploitation on the firm level, although they are generally not labelled as entrepreneurial activities. Especially firms in the less bounded professions, such as management- or PR consulting may have considerable opportunities for entrepreneurial action. This research points at the importance of attentiveness towards different kinds of PSFs and the different contexts for entrepreneurship they offer. Different kinds of firms (e.g. size, strategy, client relationships) and professions (e.g. the level of institutionalization) may provide very different conditions for entrepreneurial activities and thus display different kinds of entrepreneurial processes. Firm level research has also demonstrated the contested nature of the establishment of new services in PSFs. While entrepreneurial opportunities are repeatedly created in on-going client work, their exploitation through new institutionalized service offerings is challenged by a need to gain both internal and external legitimacy and support for these new services. A limited amount of research has also been identified in the area of entrepreneurial governance structures for PSFs.

Opportunities for further research on the firm level also emerge in relation to research on the creation of new PSF ventures, the entrepreneurial strategies of PSFs and the development of new services within the context of PSFs. Additional research is needed both on the conceptualization of these processes as well as how they play out in different contexts. Previous work has provided us with scattered evidence of why new professional service ventures are created and how they are managed through different stages of development. Following Malhorta and Morris’ (2009) earlier call, we suggest that future research on entrepreneurship should also focus on differences and heterogeneity of professional service sectors as they create unique institutional conditions for firms, teams, and professionals shaping particular opportunity

spaces and constrains. Some contextualized studies on entrepreneurship in particular professions have been conducted, for instance, in healthcare (Scott, Ruef, Mendel, and Caronna 2000), higher education (Clark 1998), or law (Muzio and Flood 2012). Despite these scattered accounts, there is need for more systematic comparisons across professional fields that will allow for refined theoretical explanations why different entrepreneurial strategies emerge in different professions and professional service firm configurations (Løwendahl 2012).

Extant research on the challenges involved in new practice creation also highlights the socially constructed nature of entrepreneurial opportunities in PSFs. Further research may pay special attention to the distribution of power in this process of opportunity construction and the consequences of different power distributions. How does the distribution of power among actors interact with the identification and realization of entrepreneurial opportunities? (Nikolova 2012). More research is, further, needed at the intersection between the governance structures of PSFs and the identification and exploitation of entrepreneurial opportunities. While empirically the entrepreneurial governance type (Harlacher 2010; Harlacher and Reihlen forthcoming) seems to proliferate in different industries such as advertising (Grabher 2001), law (Kolz 2007), or even universities (Clark 1998), research has just started to take notice of this trend. We see great need to develop theoretical and empirical accounts that help to understand design parameters, conditions, and limitations of the entrepreneurial governance forms.

Finally, there is a need on the firm level of analysis for research about the management of the entrepreneurial PSF in relation to which Løwendahl (2012: 199) concludes: ‘It is not obvious that firm growth, size, formal structure, globalization and the like are positive for the firm and all its stakeholders, nor that they are indicators of PSF success. We need a lot more research into what are the true key success factors of such firms of different kinds, what are the challenges, and what firms can do in order to overcome them’.

The review of current research reported in this chapter reveals that the term ‘entrepreneurship’ in relation to professional service firms has almost exclusively been applied to the organizational field level, where research on ‘*institutional* entrepreneurship’ to a large extent has been carried out within the context of professional services. This may be explained by the institutional embeddedness of especially the classical professional services such as law and accounting and the on-going struggles of the neo-professions such as management and PR-consulting to institutionalize. Entrepreneurship under these conditions requires changes not only of individual firm practices but of institutionalized rules of the game, thus making especially the

classical professional services suitable objects of study of this interplay between firm and institutional environment.

While this aspect of entrepreneurship in the context of professional services has attracted considerable attention recently, future research in this area is needed to investigate maturing fields like management consulting or advertising. These offer potential for further insights on organizational field formation, disruption, and reconstruction. Since institutional entrepreneurship has traditionally been investigated in emerging or mature fields, maturing organizational fields that are caught in limbo between structurally unconfined and highly embedded agents would further inform research on the entrepreneurial opportunities of PSFs as well as institutional theory. In this context, there is a need for research on institutional entrepreneurship to go beyond either overly individualistic approaches that portray entrepreneurship as a mainly voluntaristic endeavor or overly collectivist approaches that regard entrepreneurship as a surrogate of collective meaning systems. Alternatively, a systemic approach to institutional entrepreneurship promises a meta-theoretical perspective that allows to integrate agency and structure and blends the micro- and macro-foundations of institutional entrepreneurship (Reihlen, Klaas-Wissing, and Ringberg 2007).

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