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► **To cite this version:**

Sébastien Gand, Philippe Lefebvre, Jean-Claude Sardas. Professional Service Firms confronted with management challenges: can democracy be an organizational solution? A case-study in a democratic consulting firm. EGOS, Apr 2007, Vienne, Austria. hal-00818099

HAL Id: hal-00818099

<https://hal-mines-paristech.archives-ouvertes.fr/hal-00818099>

Submitted on 26 Apr 2013

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Paper presented at the 23rd EGOS colloquium, Vienna, 5th -7th July 2007
Sub-theme 3: Professional service organizations and knowledge-intensive work

**Professional Service Firms confronted with management
challenges: can democracy be an organizational solution?
A case-study in a democratic consulting firm.**

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Abstract

Due to the nature of their inputs, outputs and processes, professional service firms (PSFs) face three generic management challenges, namely strategic management, knowledge management and human-resource management. These three management issues are closely interrelated. They need to be managed in consistent whole patterns in relation to kinds of business activities. Following the typology of Lowendahl (2005 [1997]), ‘client relation’ and ‘adapting solutions’ kinds of PSF have consistent overall approaches to the three management issues. But, concerning ‘creative problem-solving’ (‘CPS’) PSFs, there is a lack of a consistent overall management approach. This latter can be neither hierarchical management nor self-management. We propose to investigate the democratic management approach as a potential consistent solution for ‘CPS’ PSFs. To this aim, we draw on a longitudinal in-depth case study in a French democratic consulting firm confronted with the need for managing differentiation between individuals and collective integration. In the last section we discuss the contributions of such a management perspective for PSFs, as well as the difficulties and the contingencies of the case-study.

Introduction

There is general agreement on the growing and future importance of the management of knowledge workers (Drucker, 1999; Newell, Robertson, Scarbrough, & Swan, 2002) and of the management challenges associated with such a population of workers. There are limitations to ‘traditional’ hierarchical management, able to prescribe and control workers’ production (Lowendahl, 2005; Mintzberg, 1998). Human resources are the sources of competitive advantage and generate issues of retaining workers and ensuring their commitment through interesting and stimulating job content (Haesli & Boxall, 2005; Kinnie, Hutchinson, Purcell, Rayton, & Swart, 2005). Knowledge production has become increasingly complex and can no longer rely on individuals as in the traditional professions (Cooper, Hinings, Greenwood, & Brown, 1996; Gibbons et al., 1994).

In the large category of firms whose work is based on knowledge workers, Professional Service Firms (PSFs) can be defined according to the nature of their inputs and outputs (Greenwood, Li, Prakash, & Deephouse, 2005; Morris & Empson, 1998): they rely on a highly educated workforce to deliver customized services that are ‘intangible applications of complex knowledge’ (Greenwood et al., 2005). Adding the work processes’ dimension in the

definition is also important (Carlsen, Klev, & von Krogh, 2004), even if those processes are non-routinized and vary considerably, depending on the PSF. Work processes are mainly characterized by team-projects and interactions with the client in the service design and delivery. But beyond these generic features, work processes are strongly interrelated with HR practices such as recruitment, knowledge management orientations and strategic management (Haesli et al., 2005; Hansen, Nohria, & Tierney, 1999; Lowendahl, 2005).

In this paper we examine a category of PSF that has been labelled ‘creative problem-solving’ (Lowendahl, 2005). This kind of firm faces difficult management challenges as, due to the nature of its activity, it can rely on neither individual nor centralized knowledge developments. Consequently, such PSFs have to design organizational functioning that cannot be a collection of individuals or a hierarchical pyramid. This observation opens the way for examining alternative management models. Here we investigate the possibility for ‘creative problem solving’ PSFs to organize democratically in order to tackle their management challenges.

The paper is set out as follows: in the first part we review the three generic management challenges that PSFs face. From that we build some differentiated management patterns according to the nature of the activity and suggest the idea of democratic management for ‘creative problem-solving’ firms. In the second part we investigate this possibility through a longitudinal in-depth case study in a French consulting firm that provides consulting and expertise to French and European works councils. In the last section we discuss the interest of democracy for such PSFs, including difficulties and contingencies.

I. PSFs and management challenges: in search of original management responses

Examining the three generic management challenges that the PSFs face, scholars of PSFs show that they have to be managed as a whole in consistent patterns, according to the product/market positioning. Following Lowendahl’s typology, we argue that the PSFs are still needed for original management responses in the ‘creative problem-solving’ category of services. This leads us to suggest democracy as a potential response to managerial challenges for this kind of PSF.

1.1. The three generic management challenges for PSFs

In the literature on PSFs, three generic management challenges for the PSFs are treated, namely, strategic management, knowledge management (KM) and human resources management (HRM). Irrespective of the authors' main focus (strategic management, KM or HRM), it is emphasized that there are strong interrelations between the three.

1.1.1. PSFs and strategic management: the dissemination of strategic knowledge

For a long time, strategic management has been overlooked in analyses of PSFs (Lowendahl, 2005). This can be explained by several reasons, such as 'part-time' managers who are focused on day-to-day operations and client relations (Lowendahl, 2005), or a competitive situation that was relatively comfortable (Greenwood, Hinings, & Brown, 1990). More fundamentally, the nature of strategic management in PSFs differs from traditional strategic planning in industrial activities. Such an approach does not fit with flexible and decentralized organizations such as PSFs. It calls for strategies that are more 'emergent' than 'deliberate' (Mintzberg & Waters, 1985), that is, that have a different nature and are elaborated in different processes. As PSFs are highly decentralized, there is a need for collective agreement on a vision and goal priorities, both to coordinate the different activities and to manage the accumulation of knowledge and competences (Lowendahl, 2005). Nevertheless, the consensus-based strategy is enabled and constrained by the available resources of each PSF. It generates a 'complex resource-strategy contingency fit' (Hitt, Bierman, Shimizu, & Kochhar, 2001) that needs to be managed in appropriate ways, according to the resources.

The perspectives founded on the Resource-Based View theory of the firm encompass all resources in a single category, be they individual or collective, tangible or intangible (Lowendahl, 2005; Lowendahl, Revang, & Fosstenlokken, 2001). For managerial purposes, we think that it may be interesting to consider two separate, although strongly interrelated, categories of analysis and management:

1. **Human resources** are the knowledge workers, regarded as individuals who possess possibly differentiated skills, knowledge and desires with regard to their work and career.
2. **Knowledge fields** represent the different parts of the knowledge map of a firm, relative to the services it delivers or wishes to deliver. Of course, in PSFs the content of knowledge fields is mainly related to the knowledge of individuals and

combinations of individuals. But the management of knowledge fields represents an object of management *per se* for PSFs. It encompasses knowledge issues in a collective way, as opposed to resources which are too often mainly considered as a combination of individual knowledge (Morris et al., 1998). This generic category opens the way to consider processes of knowledge development, capitalization, diffusion and combination in very different possible generic strategies ('personalized' or 'codified' (Hansen et al., 1999), individually or collectively produced and stored, etc.).

In devising a strategy the firm therefore has to take into account the fact that individual professionals possess pieces of the relevant strategic knowledge (a) and that the knowledge fields on which a PSF operates and manages its knowledge, enable and constrain the strategic perspective (b).

(a) The mobilization of professionals for strategy-building

Additionally, numerous PSFs are organized in partnerships in which the workers hold shares in the firm and have rights to participate in defining its strategic orientations. This peer context strengthens the need for strategic consensus (Greenwood et al., 1990; Lazega, 1999). Even when partnerships are converted into more managerial forms of organization, the professionals seem to keep control of strategic issues (Pinnington & Morris, 2003).

Finally, it may be difficult to decide for professionals what they should do, especially when subjective involvement is needed, as in creative professions (Pinnington & Morris, 2002).

(b) Knowledge fields and strategic perspective: enablers and constraints

The knowledge fields act upon strategy as both enablers and constraints. They represent the accumulated knowledge in different areas: processes of production (project teams, individual assignments on clients) and of capitalization and diffusion ('codified' vs 'personalized' (Hansen et al., 1999)). This representation is important when reasoning on strategy, since it helps to reason on the consistency of a strategic choice and its implementation (Zack, 1999). For instance, how to move from one knowledge field to another one? How to capitalize on a knowledge field to diversify into related services and markets (Hitt et al., 2001)?

Consequently, the strategic vision can better encompass strategic operations such as acquisitions, recruitments of new kinds of expertise, career management or project portfolio management.

The generic strategic management question for a PSF could be summed up as follows: how to devise a consistent strategy by mobilizing the relevant disseminated knowledge and taking into account the knowledge that a PSF already holds or that is lacking?

1.1.2. PSFs and KM: the joint dynamics of knowledge and individuals in a strategic framework

The intensity of knowledge dynamics is the fundamental distinctive feature of PSFs, while the management of knowledge is a fundamental task for them. To this aim, key issues are to understand how knowledge is developed and disseminated within firms (Hinings & Leblebici, 2003) and which organizational devices for knowledge management such firms can adopt (Hansen et al., 1999).

Knowledge management is linked to strategy, as strategy defines associated knowledge fields to develop and orientate the nature of knowledge management for a firm (a). Knowledge management cannot be disconnected from the human resources of a PSF that are concretely in charge of managing knowledge development and dissemination (b).

(a) Strategic framing of knowledge management: mapping and management orientation of knowledge fields

First, strategy defines knowledge requirements, or directions of development, relative to the targeted services and clients. It helps in mapping knowledge fields, their content, and knowledge gaps (Zack, 1999).

Additionally, strategy orientates the KM approach that will be prioritized. Following Hansen et al. (Hansen et al., 1999), two kinds of economic model ‘reuse economics’ and ‘expertise economics’, are associated with related KM strategies, respectively ‘codified’ and ‘personalized’. This kind of KM strategic choice depends on the activity since there are strong ties between the activity, the nature of the knowledge base for the service, and the positioning of the firm in its market (Morris et al., 1998). For instance, the ‘Big5’ auditing firms usually adopt strategies of knowledge ‘commodification’ that then allow them to ‘colonize’ new markets (Suddaby & Greenwood, 2001).

(b) Knowledge management embedded in social relations

There is no questioning the fact that knowledge fields are nurtured by human resources, even when the KM is oriented towards ‘codification’ because knowledge needs first to be codified. The understanding of knowledge production and dissemination outside and inside a PSF is essential (Morris et al., 1998). This necessitates in-depth analysis of the processes going on within a firm (Skaret & Bygdas, 1999). Subtle analysis can show, for instance, that the success of ‘codification’ processes may lie in their limitations of scope, avoiding the loss of ‘property rights’ for knowledge workers (Morris, 2001), and the fact that they take into account the different natures of knowledge that often comprise professional practices (Morris et al., 1998).

The embeddedness of knowledge management in social networks may completely impede knowledge transfer if both are not consistent with each other (Morris et al., 1998; Newell et al., 2002). Issues of the professional legitimacy of knowledge are fundamental for knowledge innovations’ dissemination and recognition in PSFs (Annand, Gardner, & Morris, 2007). Therefore, conflicts around knowledge issues have to be managed (Empson, 2001; Scarbrough, 1999). For instance, peer review is a common HR practice among professionals, that fosters both knowledge sharing and legitimacy (Bergquist, Ljunberg, & Lundh-Snis, 2001).

The generic managerial issue concerning knowledge management is: how to develop relevant knowledge according to the strategy? How to manage consistent processes of knowledge production and dissemination related to the human resources and their management?

1.1.3. PSFs and HRM: career management to develop members’ competences and commitment

There are two issues in HR management for PSFs: they need to recruit and be attractive on the labour market and they have to develop the knowledge of their human resources in relation to their product/market strategy and environment (Boxall & Steeneveld, 1999; Morris et al., 1998).

At the activity-based level, human resources cannot be disconnected from knowledge management, as the latter deeply impacts on the organization and its HR practices (a). On the career management issue, the opportunities and constraints that frame the workers’ evolution in the firm are closely related to the firm's strategy (b).

(a) Impact of Knowledge Field Management on the organization and its HR practices

The reverse side of the embeddedness of KM in social networks is that the forms of KM must fit the ways of organizing the activities (Morris et al., 1998). This determines strong links between KM and HRM (Haesli et al., 2005; Lowendahl et al., 2001). Differences in structuring KM structure PSFs' different tasks, roles, incentives and recruitment policies (Hansen et al., 1999; Lowendahl et al., 2001; Morris et al., 1998).

One fundamental challenge is to manage the tension between specialization of professional workers and flexibility with sufficiently versatile profiles (Lowendahl, 2005). In contexts of complexification and diversification of professional services, flat team-based work may be an appropriate approach (Pearce, 2004). But this still needs to be designed according to the nature of the knowledge, the number of knowledge fields needed for providing complex services, and the way knowledge can be 'codified' or not.

(b) Strategy and professional workers' evolution: framing opportunities and constraints

In traditional sociological studies, professionals are said to be more committed to their work than to an organization (Gouldner, 1957-58; Lowendahl, 2005). At the least, it is recognized that professional workers must be offered professional challenges to develop their competences (Kinnie et al., 2005). Therefore, offering opportunities associated with professionals' wishes is an HRM issue.

At the same time, depending on the activity, the strategy of a PSF constrains HRM (Newell et al., 2002). It is important to have a fit between the firm's strategy and the orientation of its HRM. For instance, auditing firms adopt an 'up-or-out' system that is consistent with the 'commodification' strategy of the activity (Suddaby et al., 2001). For small and relatively homogeneous consulting firms, the HRM practices will be more limited and will rely on personal development of clients and competences (Lowendahl, 2005; Palmer, 1987; Ram, 1999).

Concerning HR management, the generic issue for PSFs is how to recruit, develop and retain relevant HR according to the firm's organizational needs?

1.1.4. The generic SHK management model for PSFs

The literature review has shown that the three management challenges have strong interdependencies. Reasoning on the management of one dimension requires one to reason on

the management of the other two related dimensions in a consistent all-encompassing approach.

We propose here to adopt a global management approach to PSFs, integrating the three basic elements in a generic framework called S-H-K (for Strategy, Human resources, Knowledge fields). From this, our intention is to discuss the challenges of managing these three domains in a consistent manner and in relation to different kinds of activities.

Figure 1 summarizes the different interrelations between the management of strategy, human resources and knowledge in PSFs, as presented above.

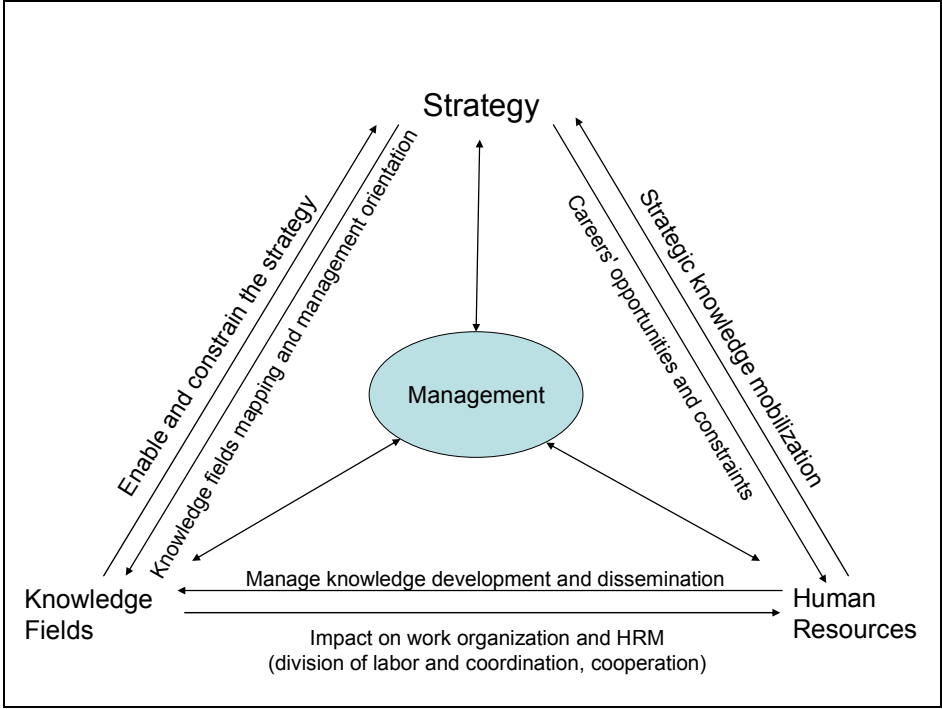


Figure 1: The generic SHK management model for PSFs

From this generic management model, it is then important to integrate a more precise characterization of the activity for reasoning on consistency between the organizational management and the activity.

1.2. Managing tensions in ‘creative problem-solving’ services: the democratic appeal?

1.2.1. Different kinds of PSF services and consistent patterns of management

Although it is recognized that not all PSFs can be managed in the same way due to their differentiated activities, strategies, resources and processes, a few attempts at typologies of PSFs have been proposed (Lowendahl, 2005; Maister, 1993; Winch & Schneider, 1993). But there are difficulties in the homogeneity of the types that are proposed, due to the number of variables. We do not have easy and ready proposals to suggest, and such a attempted typology would be beyond the scope of this paper. We simply wish to show here how certain kinds of activities trigger management problems that are especially challenging.

To this aim, we will revert to the proposition of Lowendahl (2005 [1997]: chap V, pp118-150). She distinguishes between three favourable configurations that are analytically consistent as regards the strategic focus of the firm and the resources that are predominantly in use. Two of these configurations describe a consistent management approach in terms of the main features, whereas the third one is more challenging.

1. One configuration is output-driven and is called ‘**Adapting solutions**’: it consists mainly of PSFs that develop technical solutions or strong methodologies, which are their more valuable resources. These resources are organizationally produced and controlled. In this kind of firm, hierarchical management is present and makes the strategic decisions. Knowledge management is predominantly codified in order to allow for task delegation to junior professional workers. This codification may be developed first by R&D units and then enriched by local workers. The HRM usually rests on an ‘up-or-out’ system, where professional learning and organizational commitment go hand in hand with hierarchical promotion. The main overall management approach is hierarchy.
2. Another configuration is labelled ‘**Client relations**’: this kind of PSF delivers services that are primarily tailor-made according to the specific clients’ needs. This kind of firm relies mainly on the expertise of the individual professionals as their main resource. The scope of services offered is usually not extensive. If needed, external recruitment of expert professionals can complete the competences of the firm. Strategic management is essentially bottom-up and consensus-based: the strategic

focus is on the development of clients and the professionals are autonomous in their activity. Consistent with this, the knowledge is not explicitly managed. Knowledge field development is based on the individuals' expertise, and little knowledge sharing is structured. Lastly, HRM is not really present for senior professionals who are autonomous; it is based more on 'self-management' in line with their interests and wishes. If junior staff are recruited, they are trained through apprenticeship. In this kind of PSF the main management approach to this association of professionals would be 'peer democracy'.

3. B. Lowendahl proposes a third kind of PSF, the '**Creative problem-solving**' PSF: this kind of PSF generates tough management challenges as the orientations that are clear for the two preceding types are impossible for the 'creative problem-solving' one. It has to match individual resources with organizational ones, for the value of services resides in the ability to deliver tailor-made and innovative services, which necessitates sufficient knowledge sharing to allow for new developments. There is the need for strategy-building which takes into account professional strategic knowledge and wishes as well as the organizational possibilities and priorities. Concerning knowledge management, there is a constant development of innovative knowledge through individuals but, at the same time, knowledge sharing is important for the development of professionals as a whole. HRM consists essentially in offering the professionals challenging projects so that they can develop their competences, within the constraints of the organizational needs. The overall management approach must consider the need for both individual participations and collective orientations. This can neither be traditional hierarchy nor autonomous self-management. It calls for original management approaches to link professionals to the collective organization.

	Adapting solutions	Client relations	Creative problem solving
Strategic management approach	Top-down	Bottom-up + consensus	<i>Two ways</i>
KM approach	Codified	Personalized	<i>Matching knowledge development, sharing and reuse</i>

HRM approach	‘Up-or-out’ system	Self-management for seniors Apprenticeship for juniors, if any.	<i>Career management matching individuals’ wishes and organizational needs</i>
Overall management approach	Hierarchy and partners’ oligarchy	Association Peer democracy	<i>Neither hierarchy nor self-management</i>

Table 1: SHK consistent patterns according to kinds of activities (derived from Lowendahl, 2005)

1.2.2. The democratic appeal for ‘creative problem-solving’ (CPS) PSFs

These management challenges have generated a renewal of corporate democracy in the literature. In a knowledge and service economy, democracy has regularly been mentioned as a possibility for organizations to move beyond the limitations of hierarchical management (Harrison & Freeman, 2004; Rousseau & Rivero, 2003; Rousseau & Shperling, 2003). Yet, the cited works are not based on existing cases of such functioning. To our knowledge, there has been no case study on existing democratic PSF¹. Even if ‘CPS’ PSFs may have favourable features for a potential democratic form and functioning, there is a need for investigating its potential concrete consistency. In the following section we examine an exploratory case study of such a PSF, originally organized in a democratic way and that has to re-think and re-shape its SHK content to be able to answer clients’ evolving demands in a more competitive market. The essential challenge is to match the management of dynamic knowledge production and diffusion in a collective way with the management of consultants’ careers.

Moreover, we think that reasoning in terms of democracy in a PSF may be interesting for PSFs management in general: excluding hierarchical solutions to respond to management challenges may force firms to innovate in collective ways of organizing and reveal promising approaches for reasoning on collective action.

¹ de Jong, G., & van Witteloostuijn, A. 2004. Successful corporate democracy: sustainable cooperation of capital and labor in the Dutch Breman Group. *Academy of Management Executive*, 18(3): 54- 66. treat a successful case of organizational democracy, but its business activity is construction engineering.

Consequently, our main research questions in treating the case study are: can democracy be relevant for managing differentiation between individuals and collective integration in a ‘creative problem-solving’ PSF? Does it allow for the design of a consistent management model integrating strategic management, HRM and KM?

II. Case study: A democratic PSF confronted with management challenges to match differentiation between individuals and collective integration.

2.1. Case study presentation and methodology

2.1.1. Consulting Firm (CF): a democratic PSF

What we refer to hereafter as CF (for Consulting Firm) is a French expertise and consulting firm that delivers economic analyses and consulting services to French and European works councils. It can be defined as a PSF, relative to the nature of its inputs and outputs (Greenwood et al., 2005; Lowendahl, 2005; Morris et al., 1998): its workforce is highly-educated and uses abstract and complex knowledge to deliver customized and intangible services to its clients.

The firm was created at the beginning of the seventies. The founders chose a self-management form for ideological reasons. This ideology can be found in the internal charter of the firm. It refers to the equality between members, the will to organize democratically, the rejection of hierarchy and the autonomy of consultants in the organization of their work. Currently, CF employs more than 350 consultants and 50 members in administrative functions. The firm is structured in 17 autonomous business groups, based on geographical location and branches of industry.

The democratic functioning can be pinpointed at two levels: the business groups and the corporate centre. At the centre the general assembly of members elects a team of four corporate managers every two years, on the basis of a corporate platform. The corporate managers cannot be elected for more than three terms (six years maximum). An elected supervisory board is in charge of controlling the corporate managers through quarterly meetings. At the business group level, each one elects its manager for two years, renewable

twice. Depending on their own needs and organization, the business groups elect other delegates for additional functions (finance, recruitment, computing, etc.).

As in many other professional activities, CF's business area has been challenged by evolving demands and the competitive environment. This was the triggering element of a collaborative research project between the three authors and CF, initiated more than two and a half years ago. The research was engaged in on the issue of competence management in a context of diversification and an increase in the complexity of the firm's business activity.

2.1.2. Methodology

Collaborative research is a research methodology based on the intervention of researchers on the management issues with which a company has to deal (Moisdon, 1984). It has a twofold aim of working on operational management solutions and of developing academic knowledge on exploratory issues (Adler, Shani, & Styrhe, 2004; Hatchuel & David, 2007). In our research issues on PSFs it is important to note that this kind of research has been under-represented in the literature, leading to an under-investigation of actual activities and their transformations (Carlsen et al., 2004).

In the case of CF, we have adopted a process of investigation and intervention in three phases:

1. **Analysis of the issues:** due to the organization of CF into 17 autonomous groups, we have started by exploring the issues in four groups, namely two geographical groups and two groups dedicated to particular branches of industry. To investigate the issue of competence management, an in-depth analysis of the groups' concrete functioning has been conducted through more than 50 interviews in the four groups, focused on the careers of each CF's members and the changes in the business activity. The research team has also had access to numerous internal documents and has attended regular members' meetings in each group they worked with. Additionally, the results of the analysis for each group were presented and discussed in one or two meetings with all the members. For the firm as a whole, this resulted in a document on its historical transformations and on the associated management issues. It was then discussed and validated in the firm.

2. **Design of management devices and experimentation:** after this first phase, the work has consisted in designing and experimenting with solutions that have been designed *with members* to treat the relevant issues. This has consisted in designing appropriate management models and in implementing them to assess their consistency and adjust them if need be.

3. Deployment and local adjustments: we have not yet started this phase.

In this paper we will consider the case at the business group level only, in one group in a branch of industry, that we call the ‘ α group’. Even though this does not give a comprehensive view of the firm, it is rich enough to further our understanding of how democracy may fit with a ‘creative problem-solving’ kind of PSF. Second, as the groups of CF are largely autonomous in their own markets and organize themselves, the case study will be sufficient to treat the management issues and to theorize from this on our research questions. Developing a case study from our collaborative research appears relevant to treat innovative issues that have not yet been theorized (Eisenhardt, 1989; Yin, 1994). Lastly, this group is the largest in the firm, with 50 consultants and 5 individuals in support functions.

We present the case study as follows: first we explain the original management model of CF and how it was applied in the α group. We then analyse the origins of the management crisis that occurred. Lastly, we develop the SHK model in relation to the evolving activity of CF and to its democratic context.

2.2. The origins of management issues:

2.2.1. An original management model based on peer democracy

CF values are rooted in the search for autonomy and the rejection of hierarchy. Refusal of the hierarchy is based on the idea that democracy and parity are principles likely to favour individuals’ commitment as well as their personal and professional fulfilment. This, in turn, is supposed to benefit their work and the firm. Accordingly, the firm has developed a business model in which all the consultants are supposed to be able to intervene on all the provided services. This view of the ‘omniscient’ consultant goes hand in hand with a ‘peer democracy’. In the initial management model, **strategic management is almost non-existent** because the α group does not really need it for a long time. CF operates on a steadily growing market in which the firm has really few competitors compared to the potential demand. Clients tend to arrive without any effort to attract them, and the group simply answers the demands as they emerge. Additionally, for a long time, CF consists of a substantial staff on contract, who see their jobs as something temporary. They do not see the future of CF as something fundamental for their career.

Knowledge is not managed by the group in a codified way. The knowledge needs are basically limited to four knowledge fields (financial accounting, cost accounting, strategy, and

social aspects) that are related to the analysis of the activity in order to deliver relevant analyses. As all the consultants are supposed to be ‘omniscient’ in these knowledge fields, knowledge is developed individually through the clients’ issues on which they are required to work on. There is only one formal place devoted to knowledge sharing: group meetings on activity-related issues, approximately every two months. Otherwise knowledge sharing exists in informal ways, related to affinities between consultants.

For newcomers, there is an apprenticeship that lasts 2 to 3 years, associated with initial formal training in the ‘basics’ of the activity. After this initial period they become peers. The other **main HR management issue is the clients’ assignments**. This is the main management challenge in the democratic context: the clients are considered to belong to the group as a whole and not to one person. Consequently, the assignments must ensure ‘equality’ of treatment in two respects: interest in the client’s issues, and the question of remuneration. The latter point is by no means anecdotal since remuneration is mainly based on a ‘self-employed’ model (i.e. the pay of each consultant is based on the amount of fees he or she charges over a year). Projections for an assignment are regularly drawn up by the elected manager and put to the vote in group meetings. The competence aspect is hardly taken into account – at best informally – since consultants are supposed to be interchangeable.

Given all these elements, the overall model is fairly consistent although slightly different from the ‘client relation’ type (Lowendahl, 2005). The activity has developed steadily but as long as the group has been able to attract, train et retain its personnel, the model has remained coherent, since knowledge needs have been relatively stable. Despite the steady growth of CF and its decentralized groups, size effects do not appear to be the major determinant of the needs for change. In a stable business context, such an organization of qualified and autonomous professional workers would not have necessitated major changes in its functioning.

2.2.2. The new but unmanaged needs for knowledge and career management

From the mid-nineties, the original management model proved to be ineffective due to a **transformation of the firm’s activities, associated with an increasingly competitive environment**. Regular tasks for clients necessitated more and more heterogeneous expertise to make an accurate diagnosis according to the works councils needs. Customers were

moreover asking for more consulting and support services rather than purely analytical expertise work. Consequently, the consultants have had to combine analytical and relational competences in their work. Additionally, the activities of CF have diversified; in addition to the services for works councils, the firm has developed related services for institutional clients, for instance the European Commission and French regional institutions. These services are strategically important in a context of increasing competition with aggressive competitors entering the market or wishing to expand their market share. Such expert products enhance the value of the firm's services externally, as well as its reputation.

As a consequence, the consultants can no longer be experts in all the knowledge fields that emerge and develop from the activity. Several consultants have asked for specialization in their assignments to sharpen their expertise (for instance, in the automotive industry). But these **requests for specialization** raise two kinds of issue: first, specialization is illegitimate in terms of the original democratic model, based on equality in the assignments and collective 'property' of the clients. The second issue is about the effectiveness of such an evolution in the long run. The specialization effect constrains the flexibility that this kind of firm usually needs (Lowendahl, 2005): when an *ad hoc* request from a client is received, there is a risk of not having the appropriate competences available. Additionally, it may lead to an uncontrolled diversification of practices, that could be risky for the quality and the reputation of the firm. At least group meetings are a kind of 'light' peer review and the staff rotation ensures a renewal of team-members. Lastly, specialization would imply that individual learning dynamics were sufficient to respond to all knowledge issues. But complexification and diversification make it necessary to cut across several fields of expertise to deliver relevant services. There is also **still a need for 'versatile' consultants, but expert knowledge has to be managed in a collective manner** so that 'versality' is sustainable. At the same time, career management also appears as an important issue, as the consultants are asking for this, to be able to develop expertise and to build long-term careers.

There are fundamental issues relative to:

- 1) managing competence differentiation in a democratic and peer context
- 2) developing collective cooperation and knowledge production and management rather than an aggregation of individuals to respond to dynamic knowledge production needs.

This post-analysis must not hide the seriousness of the endured crisis. Arguments around specialization were serious, especially during the group's management meetings. This

degenerated into a decline in attendance at the meetings, associated with some marginalizations and disengagements from the collective functioning, and finally some dismissals.

2.3. Towards an integrative management model and a democratic renewal?

In order to manage the differentiation of careers and knowledge for the consultants, the first step is to **build a collective strategy**. Even though evolutions in the activity have occurred, namely complexification and diversification, they have not been managed. They have mainly rested on individual, but uncoordinated and dissipated, initiatives in relation to local demands. There is a need for discussing and sharing the main changes and the future of the activities. This is a collective issue: to recognize and manage the differentiation legitimately.

To work on strategy-building necessitates the gathering of the strategic knowledge that is disseminated among the consultants. Each consultant has some pieces of strategic knowledge, stemming from interactions with clients and the issues with which he or she has had to deal. To collect this knowledge, **yearly interviews** are held between the elected manager and each consultant. From these interviews, the elected manager elaborates a strategic vision and a set of priorities. These are then presented on an argued basis, and **discussed in group meetings**, so that they can be completed or improved. At the end of the process, the strategic orientations and goals with associated resources are **submitted to the vote** of the consultants, thus legitimating the collective orientations.

Collective strategy opens the way for differentiation and integration of careers and competences. It defines organizational needs of competences and expertise associated with an external vision of the market and the services to provide. Enriching the members' representation of their activity allows them to discuss the way to collectively organize the responses to challenges. Two interrelated ways are explored: first, **partial specialization** in the assignments and the consultants' career development, and second, **structuring of knowledge management** in a mix of strong expertise development and internal dissemination in the group for 'versatile' profiles.

Once the organizational needs have been established, another management challenge is the manner in which **the consultants' careers are managed**. The **yearly interviews** are also a time when this issue is discussed between the elected manager and each consultant. The latter expresses his or her wishes in relation with his or her experience and competence. The

relevance of the wishes from an organizational point of view may be discussed. Apart from the choice of future assignments, the idea is also to define mid-term prospects. This is important for the KM aspects to which we will come in the next paragraph. From these yearly interviews, the elected manager proposes assignment priorities for each consultant, according to types of activity (e.g. steel industry, automotive industry). These **propositions are publicized** in a document sent to all members. It presents the assignment proposals in connection with a partial specialization and career prospects of each member. This document is **discussed and put to the vote** by the group members. It helps to recognize, and so to legitimize, the fact that the consultants have a dominant domain in which they predominantly work, related to the knowledge fields that are mapped through the strategic management. This also opens the way for adapted processes of KM, in a mix of personalization and codification.

The last management challenge, knowledge management, is the most challenging one. In a context that demands a dynamic and constant evolution of knowledge, the challenge is to **manage both expertise development**, on existing or new knowledge fields, **and knowledge development in the core activities**, through diffusion of expertise. The fact of elaborating a strategy makes it possible to map the knowledge fields that the firm has to manage. Then comes the issue of how to develop expertise and diffuse it.

Developing strong expertise in a field necessitates **partial specialization**, in connection with career management. This favours experiments with clients' emerging issues and a development path in a knowledge field associated with recurrent assignments in the domain. Another way to develop expertise is to work on specialized demands for clients such as institutions that buy specific expertise, through **surveys or studies**. These are the two means to develop expertise in a knowledge field in CF. The consultants that are assigned to a knowledge field have the responsibility to develop expertise whose value is twofold.

First, it is a good way **to develop a competitive advantage**: with new kinds of clients (e.g. public institutions) and with prospective clients, **by showing distinctive expertise**. Second, with existing clients, it fosters the recurrence of the clients through renewing and evolving services. For instance, this can be done through topical conferences and memos addressed to clients (existing or prospective). This is a second responsibility for the consultants that are assigned to the management of a knowledge field.

But **maintaining 'versatile' consultant profiles** demands that the expertise, or at least a part thereof, be shared with and diffused to the other consultants, so that they can answer and

enrich the clients' needs. To find the appropriate ways to do so, it is necessary to distinguish between two dimensions:

1. *Knowledge issue for the activities*: does the developed expertise have to be integrated into the core knowledge of the activity, i.e. an enrichment of all the professional knowledge? Or is the developed expertise a niche expertise that does not need to be widely shared?
2. *The means of knowledge diffusion and mobilization*: if the expertise is to be integrated into the core knowledge, how can it be diffused? What can be codified? What other means of learning are there? If the expertise is specialized, how can one ensure that it can mobilized if need be?

By crossing the two dimensions, appropriate devices of knowledge diffusion and mobilization can be considered, as shown in Table 2.

		Means of diffusion and utilization	
		Codification	Personalization
Expertise issue	Specialized expertise	- <i>Surveys</i> - <i>Memos</i>	- <i>Contextual and relational knowledge</i> - <i>Support for treating specialized issues</i>
	Core knowledge	- <i>Methodologies</i> - <i>Data</i>	- <i>Training</i> - <i>Support devices for learning in work situations</i>

Table 2: Management of the diffusion and utilization of expertise in CF

The **main collective issue is how to diffuse expertise that is regarded as the development of core knowledge for the activities**. Two means have to be considered: first, some knowledge can be codified, the most obvious being data processing, statistics, etc.; second, methodologies on the treatment of clients' issues are also important because they foster consistent practices between the different consultants. But these are not always sufficient, for two reasons:

1. not all the knowledge developed is necessarily codifiable; this necessitates training to share this complementary knowledge;

- the learning process may necessitate support for the expert on a client's mission. The expert and the consultant work together on the issue, which allows for knowledge sharing. In this case, it can also incrementally increase the expert knowledge due to its application to new environments or slightly different issues.

Concerning the **specialized expertise**, the collective issue is that **'versatile' consultants must have sufficient knowledge about their existence**, with 2 concerns: which services can they offer the client? Who is (are) the 'expert resource(s)' in the group?

A final point has to be considered, on the management of knowledge fields in the group: how is the overall management of these knowledge fields organized?

Figure 2 summarizes the three goals of a knowledge field's management: expertise development to develop clientele and core knowledge for all the consultants.

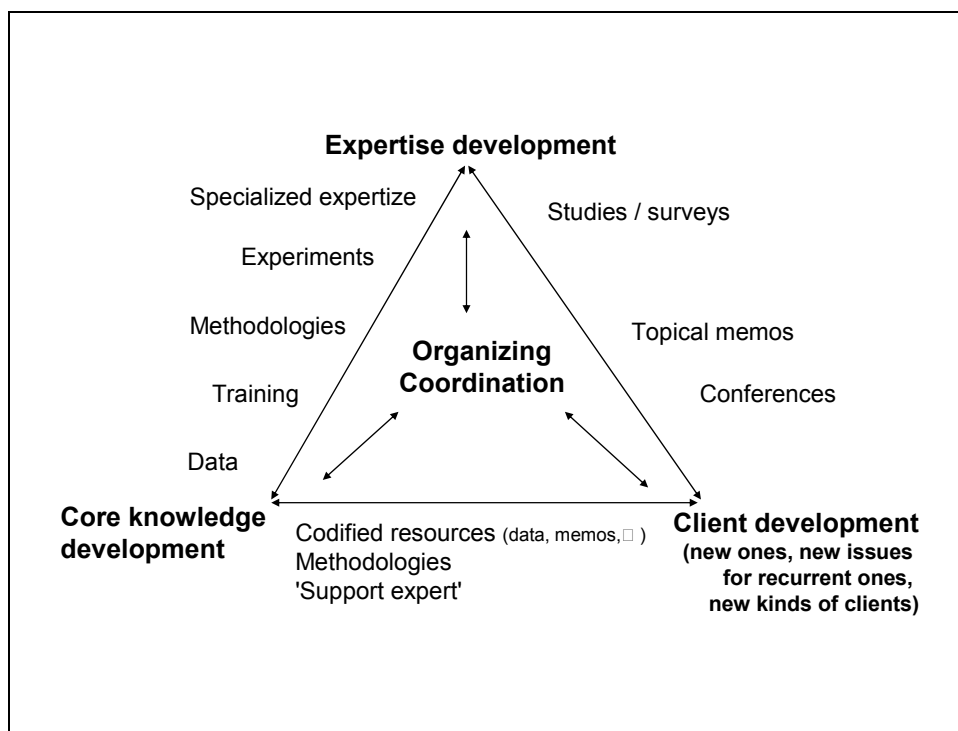


Figure 2: A knowledge field management model in CF's α group

There are **several consultants assigned to each knowledge field**. The management of the three aims has to be organized between them. In the α group, the number of consultants involved in a knowledge field ranges from 3 to 15. Even if this leads to differences in their functioning, the main management principles are the same. **Roles and task assignments are related to each goal of a knowledge field**. Along with their partial specialization, consultants

are in charge of the management of at least one core task in the knowledge fields, namely expertise development, core knowledge development or client development. They are in charge of contributing to the development of a core task but this does not mean that they do all the work. Apart from their contributions, consultants are also in charge of organizing and coordinating the work required to accomplish the task, e.g. allocating budgets for research or capitalization, organizing meetings, seminars, etc. Additionally, one or two persons are also in charge of the overall organization and coordination between the different tasks, to ensure a consistent development between them.

The last point is on the **democratic legitimacy of these knowledge fields**. This is a tricky issue due to the original context of peer democracy. Our proposition is that the assignment to a knowledge field gives rights and duties to the group as a collective. The rights are about differentiation through partial specialization and career development in a given knowledge field. This allows the consultants to ask for funds to develop expertise and capitalize when they are not directly working for clients. But there are also duties: developments on each type of knowledge should be evaluated every year, so that the group is informed of actions, difficulties and utilization of the budget. Concerning the access to responsibilities, we argue that a 6-year rotation may be too short, as competence and expertise development do not follow the same pace of development as the management functions. Each knowledge field has to determine who is in charge of what (by voting if necessary). The elected manager of the group can then legitimately demand changes if failures are observed.

To conclude with the case study, we show that it may be possible to design democratic management devices for ‘creative problem-solving’ PSFs. This necessitates management of the integration of individuals with organizational issues on the three critical dimensions of a PSF, namely, strategic management, HRM and KM. In the next section we discuss the contributions and limitations of this case study.

III. Discussion and further research

3.1. Managerial and theoretical contributions

3.1.1. ‘Creative problem-solving’ and democracy: a coherent approach?

Our research questions were on the possibility for a ‘CPS’ PSF to function democratically. More precisely, we investigated the issue of managing differentiation of knowledge and competences of consultants, with the need for a dynamics of collective core knowledge development. Taking into account the tensions that are inherent in such kinds of activity (see Figure 3 below), we propose a model that integrates the three interrelated dimensions, namely strategic management, HRM and knowledge field management.

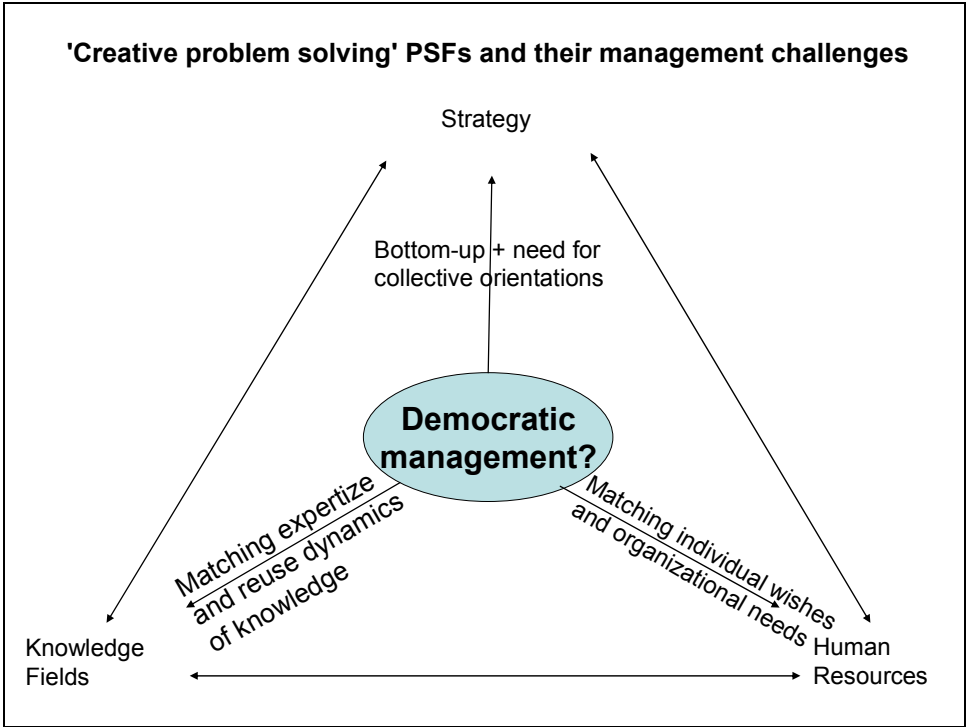


Table 3: The SHK management challenges for 'CPS' PSFs

Democracy may be an interesting perspective as **it incorporates the legitimacy issue** for professionals in the design of the organization: delegations, partial specializations and responsibilities have to be approved by the group members. This may be a first step to treat the tricky problems of evaluation and legitimacy of the knowledge developed in PSFs (Annand et al., 2007; Empson, 2001). In particular, it may facilitate dealing with the ‘property rights’ issue (Morris, 2001) by recognizing rights and duties in the development and diffusion of knowledge. Lastly, the need for collective agreement is also a way of sharing knowledge. The fact that the consultants have less blurred visions on what exactly their colleagues do may

help to facilitate the recognition of their differences, not just considered as ‘right’ or ‘wrong’ assessments.

Our proposals also shift the potential **meaning of democracy**. Beyond formal aspects – such as equality in rights, voting processes and elections –, we argue that democracy may be a coherent perspective when it designs the content of the processes preceding votes, and clearly specifies the delegations, with rights and duties, in connection with a collective purpose. This democratic vision is close to Mary Parker Follett’s, since she argued that democracy was not ‘consent through voting’ (Follett, 1924) but a way of organizing collective action through mutual learning and innovations, issues that are at the core of the ‘CPS’ PSFs.

3.1.2. The design of suitable KM devices for ‘CPS’ PSFs

Another contribution of the case study and of our proposals may be on the management of knowledge in this kind of firm. The knowledge context of production is close to the ‘mode2’ of (Gibbons et al., 1994): the need for mobilizing heterogeneous knowledge fields, the steady dynamics of production and renewal of relevant knowledge, and the need for collective modes of production and appropriation are tough challenges that cannot be managed individually.

In this paper we propose a model of KM, firstly based on a knowledge field mapping as a strategic need for the group. We then refer to the nature of the developed knowledge to differentiate it in 2 ways: does it represent an enrichment of the knowledge for the core activities? Can it be codified or not? This helps to understand that, beyond dichotomous approaches at the strategic level (‘codification’ vs ‘personalization’, (Hansen et al., 1999)), in-depth and longitudinal analyses show that combinations of both may be possible, as soon as limitations of both KM options are clarified (Morris, 2001).

From our proposals, we also argue that ‘communities of practice’ (Wenger, 1998) have limitations for the development of such complex knowledge and its sharing. Our model is based on the idea that, for such expertise to be developed and disseminated, communities have to be structured and managed through assigned roles and tasks (Lefebvre, Roos, & Sardas, 2004).

3.2. Difficulties and contingencies

3.2.1. Difficulties in transforming a peer democracy into a collective democratic functioning

The case-study shows a transformation of the organizing and management of the α group of CF due to the evolution of the business activity. Using the types of Lowendahl (2005), it can be characterized as a change in the SHK model: from a democratic 'client relation' model to a democratic 'creative problem-solving' model. This change is difficult to manage (Lowendahl, 2005). From the case study, three main reasons can be identified.

First, there is a move from an individual regulation to a more collective regulation: the original model was based on large autonomy and collective issues were rather limited, the main ones being the assignments. The legitimacy issue related to differentiation, has to be treated through both the strategy-building and career management. For this purpose we have proposed a 3-step approach, namely interviews, argued proposition from the elected manager, that is discussed, and finally a vote. This process aims to create mutual learning between consultants in order to develop a shared vision on the strategic perspectives and the associated partial specializations. But a shared vision is not always possible; the members may have different opinions, different visions of the strategy and possibly even different interests. These conflicting views may not always be synthesized in a coherent manner. As a consequence, there are still underlying conflicts (Scarbrough, 1999) and the management of the tensions requires relational skills from the elected manager. Arguments can also emerge from the assignments and the career orientations if a consultant's wish is not taken into account. But they can be limited thanks to the yearly interviews.

Second, the most challenging evolution is actually the organization of the processes. A shift has to be made from an aggregation of individuals to more collective knowledge production, sharing and utilization. This transformation deeply challenges the consultants' habits, especially the extensive autonomy that they experience in their work. At the same time, this autonomy may be difficult to enjoy if it is associated with cognitive difficulties and limitations for the achievement of the work. This is why differentiations in expertises and collective knowledge management are necessary. But this perspective raises difficulties: self-management reflexes relative to the defence of autonomy, the difficult acknowledgement of a peer's superior expertise in some knowledge fields, and the individual pay model, take time to overcome. It is then necessary to manage the knowledge fields over time, according to their maturity. Knowledge fields may be more or less exploratory. Consequently the knowledge production and its differentiation from the core and common knowledge base is not always

obvious. In a development phase, the important point is to allow future potential experts to develop this expertise through partial specialization, experiments and studies. Once the expertise is consistent, it is then more easily valuable to the other consultants since it can be a source of productivity and enrichment of their core knowledge. Eventually, it may become more acceptable.

A last point in the difficulties concerns the content of the democracy since its features have to evolve. We have explained in the case study that the evolution of the management devices necessitates an enhanced role for the elected manager, that becomes pivotal. Coming from a peer democracy, this can be perceived as a shrinking from direct democracy to representation and wide delegation. We argue that, on the contrary, the devices that we have proposed may be an **enrichment of the democratic content**. It comprises knowledge sharing and discussions on the business activity that were not present in the preceding model and caused unmanaged differentiations between individuals. This design of democracy integrates delegation of a different nature, namely ‘delegation of investigation’ for the manager (Gand & Béjean, 2007). That is to say, on open questions such as strategy, evolutions in the activity and in the knowledge fields, the elected manager is not in charge of elaborating a single orientation and putting it to the vote. He or she is rather in charge of investigation, by collecting disseminated knowledge and proposing argued visions to the members. In this way management delegations are closely related to ‘spaces of participation’ (Gand et al., 2007) that precede voting processes. This enriches the content of the democratic design, putting the collective issues at the centre of the firm.

3.2.2. Contingencies of the case study

In reasoning on democracy in the PSFs, two contingencies have to be taken into account. First, CF is not a ‘conversion’ from a hierarchical functioning to a democratic functioning. The historical foundation is self-management in the seventies. This seems to be an important feature, even if it raises other problems such as a lack of emphasis on collective issues. In hierarchical organizations, status and division of work tend to give the managers a pivotal role, due to their skills or their position in the knowledge flows (Gospel & Pendleton, 2003).

As experienced in industrial domains with ESOPs², conversions are difficult to implement (Pendleton, 2001). But the situation may be different for PSFs.

Additionally, the nature of the business activity of CF is not neutral in the acceptability of their democratic model. CF's consultants work for works councils and not for general management. Their way of organizing is well accepted by the clients, relative to the position of the CF in industrial relations. There is also a social commitment of the consultants to the business activity that is partly based on the rejection of hierarchical management.

3.3. Further research

As a conclusion, we can draw some future research. First, our collaborative research will continue and we may develop a more comprehensive model integrating the relations between the different groups of CF. Moreover, we are currently working on aspects of corporate governance and this could lead to insights into this topic for PSFs. We will also assess the coherence of our proposals in a democratic PSF in the long run.

Concerning research on PSFs as a whole, there are still needs for working on more activity-based approaches that can capture the complexity of the phenomenon of knowledge flows in such firms. This could help to further the understanding of the transformation in the professional service activities and the associated governance and management devices. In addition, the devices that have been designed for a democratic context may help to manage PSFs facing the same kinds of issues, where neither 'hierarchical' management nor self-management is appropriate.

² ESOP: Employee Stock Ownership Plan. It consists of the ownership of a substantial amount of capital by the employees.

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