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Internationalization and Professionalization in Accounting Services

The Cases of BDO Binder and BDO CampsObers

Often, at the urging of domestic clients, professional service firms have been more likely than other firms to go abroad, typically through owned subsidiaries. For Anderson and Gatignon (1986), this occurs because clients want to preserve and extend the intimate knowledge and working relationship already built up with their service firms. The internationalization of accounting firms can be traced to British investments in North America in the eighteenth and nineteenth centuries. Accountants initially followed the exports and foreign investments of home-country clients and subsequently provided services to host-country clients (Bindenga, 1973; Buckley and O'Sullivan, 1981; Post, 1993, 1995).

In the economic literature, the multinational enterprise (MNE) or multinational corporation (MNC) is a dominant mode of internationalization (see Boddewyn, Halbrich, and Perry, 1986; Buckley and Casson, 1976, 1991; Caves, 1982; Dunning, 1988; Hennart, 1982; Rugman, 1981; Teece, 1986). The management literature pays a lot of attention to the structuring of the MNC (Bartlett and Ghoshal, 1989, 1992; Hedlund, 1986; Humes, 1993; Prahalad and Doz, 1987). Large international accounting organizations such as BDO Binder (BDO), Coopers and Lybrand, Deloitte Touche Tohmatsu, Ernst & Young, and KPMG are not multinational corporations but multinational networks. In some respects, they can be compared with a "normal" MNC. Yet in several important respects they are different. For example, they have no common equity base and, thus, are hybrid structures (Williamson, 1991). The international organizations consist of

The author is Director of Research and Partnership Development at Baan Business IT School, a division of Baan Company N.V., P.O. Box 250, 6710 BG Ede, Netherlands. The case study was carried out while he was Associate Professor of International Management at Tilburg University. The author is grateful to BDO Binder and BDO CampsObers for the opportunity to carry out this case study and for their willingness to share proprietary information and valuable time.

independent national firms. They can also be characterized as federations or networks (Mintzberg, 1979, 1989; Ouchi, 1980; Powell, 1990). Besides, they are professional organizations (see Mintzberg, 1979, 1989). These five international accounting organizations are all financed by a cost-contribution system. Each has its own specific management structure.

Internationalization—that is, working for international clients and joining an international organization of accounting firms—has an impact on the practice and management of member firms. I interpret this impact as professionalism. Professionalism is aimed at the control (and quality assurance) of the accounting firm's production or service-delivery process, including its management and support processes (van Kollenburg, 1991). The impact of internationalization may appear from the evolution of the system of norms, standards, and procedures. This influences professional practice. In the Dutch context, this theme has not been studied, in spite of its great relevance.

Problems and methodology

One of the top six Dutch accounting firms with an international practice and membership in an international accounting organization is BDO CampsObers. This accounting firm is a relatively young firm (only just over twenty-five years old now), and it has been characterized by strong growth since its inception. In 1988, the firm joined the BDO network, seventh in size of all accounting firm networks in the world, with a fee income of \$1.15 billion in 1993. The firm was originally a member of DRM (Dunwoody Robson McGladrey & Pullen). The impact of internationalization on professionalism will be studied for BDO CampsObers. The main research questions are:

- What are the characteristics of a professional organization?
- How is the federative type of international organization to be explained?
- How has BDO evolved since its start?
- What significance does the internationalization of accounting services have for the professionalism of the Dutch practice?

The case study methodology is used to shed light on questions surrounding the theme of internationalization and professionalism. In addition to structured interviews with management representatives of both BDO Binder and BDO CampsObers—the international office and the local office practice—and of the department for professional and technical knowledge and skills of the Dutch firm, various written sources have been used, such as recent annual reports and proprietary documents of the BDO CampsObers firm and of BDO, documents such as lectures, memoranda, manuals, directives, minutes, and correspondence. Case study is an accepted methodology in the field of management and organizational studies (Eisenhardt, 1989; Yin, 1989). “It is particularly suitable when . . .

the unit of analysis is the organization, when a broad range of conditions is of interest, and when an experimental design is impossible or otherwise fails to capture situations relevant to managerial practice” (Larsson, 1993, p. 1516). The interviews were partly structured to ensure coverage of key topics and of the availability of ratings of professionalism characteristics. The format of interviews was partly open-ended, allowing the interviewer to explore areas that came to light during the course of the interviews. In order to achieve case validity, draft reports were reviewed by the case study’s informants.

The public accounting profession

The public accounting profession is personal—the profession is practiced by someone who has acquired the competence to act as a certified public accountant. An accountant, according to the *Random House* dictionary, is “a person whose profession is inspecting and auditing personal or commercial accounts.” An accountant does his or her work with a certain freedom, prescribing for himself or herself the ways in which he or she will execute the task of meeting technical-reliability requirements. In many cases, the actual practice of the profession takes place in cooperation with other practitioners. The accountant generally employs professional staff to execute the work. The firms within which accountants and their staff operate draw on specific organizational structures and procedures. Within an accounting firm, a horizontal and a vertical division of labor can be distinguished. Tasks are distributed at the same organizational level, allowing some degree of specialization, and some hierarchy is created whereby the higher level supervises the lower. This division of labor gives rise to the need for procedures, directives, instructions, norms, and controls. The starting point for carrying out assignments ought to be standard guidelines and procedures defined by the (central) department for professional knowledge and skills. These relate to the acceptance, execution, and signing off of all assignments. Standards create the opportunity for assurance of work quality (Frielink and de Heer, 1985) and imply professionalism. Characteristics of professionalism are (see Bindenga, 1973):

- The existence of a body of knowledge (both theoretical and practical in nature);
- The presence of a code of ethics (written or unwritten);
- Attendance to vital information needs.

The basic form of the professional organization is the individual private practice; it was, thus, the growth of individual practices that engendered the group practice (see Haig and Sussman, 1971, p. 528). Strong motivations for growth have been expansion of the clientele—accounting firms wanting to avoid too much dependence on any one particular client—and cost-advantage considera-

tions—the striving for economies of scale and scope. Scale enlargement was in some respect required to retain the ability to service large clients, which, in turn, stimulated the internationalization of services. This was accompanied by the widening of services and increasing specialization. The accounting firm anxious to grow along with its clients strove to grow in size, offered full service, and did all this in an international context.

The practice of public accountants in developed countries has been institutionalized—it has been governed by legislation, regulations, and codes of behavior and practice. The internationalization of business has brought on cooperation among national organizations within the profession. The most comprehensive international organization is the International Federation of Accountants (IFAC). The Dutch Institute of Certified Accountants (NIVRA) participates in this organization. As a member of NIVRA, the Dutch accountant is committed to abide by the organization's regulations in its technical as well as its ethical aspects. As a professional, the accountant should have enough freedom to behave in accordance with these rules (Moret, 1991; Soeting, 1982). The work of the International Accounting Standards Committee (with its publication of "statements") and of the International Federation of Accountants (with its "international standards on auditing"), the directives of the European Union, and the regulations of NIVRA have led to an international harmonization of accounting and auditing principles and rules.

IFAC has issued a series of international standards on auditing (ISAs). The purpose of ISA 7, Quality Control for Audit Work, is to establish standards and provide guidance on quality control by defining the policies and procedures of an audit firm regarding audit work in general, and procedures regarding the work delegated to assistants (personnel other than the auditor) in individual audits. ISA 7 states that the auditing firm should implement quality-control policies and procedures designed to ensure that all audits are conducted in accordance with its own or with relevant national standards or practices. Policies and procedures should ordinarily incorporate the areas of professional requirements, skills and competence, assignment, delegation, consultation, acceptance and retention of clients, and monitoring.

With regard to cooperation with practitioners of other professions, IFAC has set certain guidelines. From these guidelines criteria have been derived with regard to the choice of consultancy services to be offered by an accounting firm. Offering consultancy services should not lead to a conflict of interest (with the public or with a client) or to a compromise of principles in executing the services, principles such as independence, objectivity, expertise, integrity, confidentiality, and fellowship (Gortemaker, 1991, p. 9).

The implementation of norms may enhance professionalism. These norms may be presented in a framework. A schematic representation of a normative framework for the profession of the public accountant is presented in figure 1. This normative framework consists of process, product, organizational, func-

tional, and agreement norms. Dominant are the product norms, which are defined in dialogue with the users. Different forms of services are defined, as well as the specific characteristics the services have to meet. Principally, process norms are aimed at the internal quality assurance of the accountant's work. Functional norms aim at the person delivering the service. Organizational norms relate to the requirements with regard to forms of cooperation among accountants. Agreement norms concern the assignments of clients. The assignment acceptance plays a central role herein (van Kollenburg, 1991, pp. 22–23).

In the past, accounting and auditing firms have taken the legal form of a partnership, which was well suited to the individual professional practice. Nowadays, large firms exhibit considerable similarities (as well as distinct differences) with large enterprises. The organizational structures, which were originally rather weakly developed, have been strengthened. Management capabilities have been enlarged and improved, and members of the executive committees have been freed up to a large extent to focus on management affairs instead of client and professional affairs.

Internationalization of accounting services

After World War II, internationalization assumed significant importance for the accountancy profession and the delivery of its services. In the 1960s, especially, the Big-Eight firms strived for an international breakthrough of their service delivery systems. In the early 1970s, international federations of accounting firms—dominated by European firms—were formed to counterbalance the large, internationalizing U.S. or British firms. The added value of these international organizations was to develop technical procedures, marketing programs, and audit standards for integrated operations all over the world. These organizations became the vehicle whereby members could offer the same services across borders that they provided to clients in the home country. Cooperation would thus result in a cohesive international practice. One of the federations formed in those years was BDO Binder (originally called Binder Dijker Otte and Co.).

Herbert (1984, pp. 261–262) defined four generic internationalization strategies that are also relevant for the (international) accounting organizations:

1. Volume expansion—to achieve economies of scale and to improve international list ranking;
2. Resource acquisition—“to assure reliable availability of needed resources” to deliver services;
3. Reciprocity—the flow of benefits has to be two-way to strengthen the international organization;
4. Integration—to conduct fully integrated operations to be carried out by national self-contained firms.

The choice of entry mode by accounting firms diverges from the typical

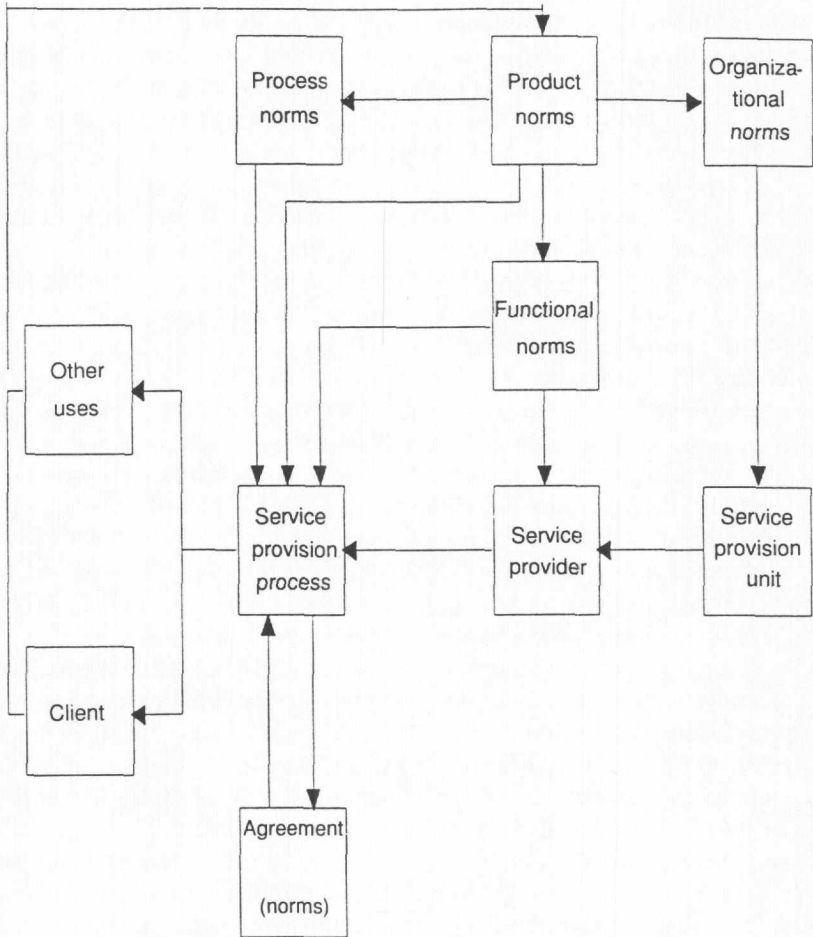


Figure 1 Normative Framework for the Profession of the Public Accountant (van Kollenburg, 1991, p. 22)

processes of internationalization that apply to goods-producing companies (Li and Guisinger, 1992). Accounting firms appear to feel a strong need to maintain their own tradition and image. Thus, among most of the large international accounting organizations, one can find evidence of a strong preference for the hybrid (nonequity) or federative structure. This implies that, nowadays, hardly any firm owns an office abroad and hardly any uses market transactions for delivery of services abroad.

In the 1980s, multinationals that had initially been content to have their audits executed by a group of accounting firms without cohesion began to insist on keeping the international audit within a single “family” of accountants. The

accounting firm had to assure a high level of quality and uniformity of the international audit. This made demands on the international organizational structure of the cooperating accounting firms. In the midst of the competition among internationalizing accounting firms, the pressing question became which international organization of accounting firms was professionally stronger, had a larger geographic reach, and was subject to more rigid quality assurance.

Every organizational structure aimed at multinational competition has to balance two factors: coordination of activities or integration, on the one hand, and configuration of activities (Porter, 1986) or local responsiveness (Prahalad and Doz, 1987), on the other. Bartlett and Ghoshal (1989) developed their grand design, the transnational company. This organizational type enables a combination of global competitiveness and multinational flexibility. Porter (1986) distinguishes between a multidomestic and a global market (or industry): In a strictly multidomestic market, a firm must choose between remaining a local firm and expanding internationally. It may organize its international operations as a portfolio. In a global market, the competitive position in one country is influenced significantly by the position in other countries, and vice versa. In such a market, the management of international operations as a portfolio will undermine achieving competitive advantages. A firm in a global market has to develop a global scale for its operations and must integrate these operations.

This dimension of strategic management has proved critically important in the global accountancy market. In the first half of the 1980s, both U.S. and European accounting firms understood that, to maintain or reinforce their international competitiveness, they had to realize a global scale, local responsiveness, and international coordination. This is supported by the study of Morrison and Roth (1992), which indicated that, to be globally competitive, a combination of internationally integrated operations and a strong domestic core is a requisite. Since the merger activity in 1986–89, the large international accounting organizations have shouldered the challenge of building a truly global firm—a globally integrated organization—instead of a multinational organization—a loose international organization of national accounting firms. International accounting organizations share certain features with the transnational ones. Many flexible coordination processes take place. The communication lines are rich and complex. The partners work on the basis of a common vision, individual involvement, and consensus in making decisions. The development of knowledge and services is coordinated and shared within the global organization (see Bartlett and Ghoshal, 1989).

The international organization as a professional organization

The features of the international accounting organization accord in some respect with those of the professional bureaucracy. An accounting firm is a “professional bureaucracy,” in the terminology of Mintzberg (1979), and a “clan” for Ouchi

(1980). As is clear from Miner, Crane, and Vandenberg (1992, p. 5), and from Mintzberg, in a professional organization the professionals fashion their behavior from the values, norms, ethical precepts, and codes of the profession, rather than from a managerial hierarchy. Therefore, professionals use committees and voting procedures extensively to conduct their affairs. Miner (1980a, p. 507) explains that a professional organization, to be successful, should protect its members' freedom to act independently, thus meeting the need for independent action, because, in a professional system, the individual has a private and personally responsible relationship with the client. The client–professional relationship is central to the prosperity of the professional organization (Miner, 1980b, p. 276; see also Miner et al., 1992; cf. Mills, Hall, and Leidecker, 1983, p. 119, who mention as basic features of the professional a belief in self-responsibility and autonomy). So, the preference for its specific structure is clear. In a professional organization, increased structuring (i.e., the hierarchy) inhibits professional autonomy, which is necessary for task fulfillment. Within the professional structure, the operational units function as loosely coupled systems and essentially as mini-firms (Mills et al., 1983). The professional and the operational units desire to exhibit independence (Miner, 1993). Thus, the international accounting organization has a fully integrated structure (Herbert, 1984, pp. 265–267) with the following features:

- Local autonomy in decision making within broad policy parameters;
- The local firm is a stand-alone, fully operational unit;
- Communication within the network is two-way and extensive;
- Autonomous operations respond quickly to local requirements.

The international cooperation of national accounting firms can also be considered a hybrid structure, as the third mode of economic organization, next to the market and the hierarchy (Williamson, 1991). The kind of transactions that take place in an organization with a hybrid structure can be compared with what Ring and van de Ven (1992) called “relational contracting transactions,” one of four forms of transactions they distinguish. For them, relational contracts tend to involve long-term investments that stem from the groundwork laid by recurrent bargaining on the production and transfer of property rights among the legally equal and autonomous partners. Disputes are resolved through internal mechanisms designed to preserve the relationship and to ensure that both the efficiency and the equity outcomes sought in the long-term relationship are achieved. Bilateral governance—a governance created by the equal partners together—is employed in relational contracts. These require a more elaborate internal governance structure than is associated with discrete transactions, but one that is less elaborate than that which accompanies unified governance. Relational contracting rests much more on private ordering emerging from what has been described as a “state of union”—an evolving set of safeguards that are mutually

agreed upon by and for the immediate partners because they see their interests as convergent. The flexibility inherent in relational contracting creates strong incentives to become involved with partners whose trustworthiness is beyond question (Ring and van de Ven, 1992). It is particularly interesting to scrutinize the need for coordination.

Mintzberg (1989, pp. 324–326) defined six mechanisms of coordination that “describe the fundamental ways in which organizations coordinate their work. Two are ad hoc in nature; the other four involve various forms of standardization.” *Ad hoc* in nature are:

1. “Mutual adjustment achieves coordination of work by the simple process of informal communication. The people who do the work interact with one another to coordinate. Mutual adjustment is obviously used in the simplest of organizations but it is also used in the most complex, because it is the only means that can be relied upon under extremely difficult circumstances.”
2. “Direct supervision in which one person coordinates by giving orders to others, tends to come into play after a certain number of people must work together.”

The four other mechanisms imply standardization. “Coordination can also be achieved by standardization—in effect automatically—by virtue of standards that predetermine what people do and to ensure that their work is coordinated.”

3. “Standardization of work processes means the specification—that is, the programming—of the content of the work directly, the procedures to be followed (as in the case of assembly instructions).”
4. “Standardization of outputs means the specification of the results. In that way the interfaces between jobs are predetermined.”
5. “Standardization of skills as well as knowledge is a less rigid way to achieve coordination. The worker rather than the work or the output is standardized. He or she is taught a body of knowledge and a set of skills which are subsequently applied to the work. Such standardization typically takes place outside the organization. Coordination is achieved by virtue of various operators having learned what to expect of each other.”
6. “Standardization of norms means that the workers share a common set of beliefs and can achieve coordination based on it. It more generally guides the work.”

With regard to the structuring of organizations, Mintzberg distinguishes six configurations of mechanisms, one of which is the professional organization. The key coordinating mechanism of this configuration is the standardization of knowledge and skills. Professionalization generates a strong pull on the organization. The organization relies on trained professionals—people highly specialized, but with considerable control over their work—to perform its operating

tasks. Control means that the professional works relatively independently of his colleagues but closely with the clients he or she serves (Mintzberg, 1983, p. 190). The other forms of standardization are difficult to rely on. The work processes are too complex to be standardized. The output of professional work cannot easily be measured and therefore does not lend itself to standardization. Thus, Mintzberg concludes, professional organizations cannot rely extensively on the formalization of professional work or on systems to plan and control it. Direct supervision and mutual adjustment both impede the professional's close relationship with his clients. That relationship is predicated on a high degree of professional autonomy (Mintzberg, 1983, p. 192). Design parameters of this configuration are horizontal specialization, training and indoctrination, little formalization, and little planning and control (Mintzberg, 1989, pp. 344–347). The environment is complex enough to require the use of difficult procedures that can be learned only in extensive formal training programs, yet stable enough to enable these skills to become well defined—in effect, standardized (Mintzberg, 1983, p. 202). Complex, stable environments lead to structures that are decentralized and bureaucratic. By “bureaucratic,” he meant that the behavior of the workers is predetermined or predictable and, in effect, standardized. An accounting firm relies on the skills and knowledge of its operating professionals to function and produces standard products or services (Mintzberg, 1983, p. 189). When the professionals are geographically scattered, the organization can be referred to as a dispersed professional organization that has a severe problem of maintaining loyalty to the organization. This type of organization must rely extensively on training and indoctrination (Mintzberg, 1983, p. 204). Mintzberg agrees that there is no accounting firm that is purely a configuration, as he defined it. A balance has to be found continuously between conflicting dynamic powers. Soeting (1985) prefers training, indoctrination, and informal consultation as coordination mechanisms. The professional norm is the compass for daily operations. The organizational tools have to support the professional in doing his work (Soeting, 1982). Both researchers assign high priority to learning.

Characteristic of a profession—and of a professional organization—is socialization. This is “the process of ‘learning the ropes,’ the process of being indoctrinated and trained, the process of being taught what is important in an organization or some subunit thereof. This process occurs in school. It occurs again, and perhaps most dramatically, when the graduate enters an organization on his or her first job. It occurs again when the employee switches within the organization from one department to another, or from one rank level to another” (Schein, 1988, p. 54). Socialization has implications for organizational performance (Fogarty, 1992, p. 132). A professional organization seeks to reinforce the consistency of its socialization process through constant training and indoctrination of personnel. Mintzberg (1983, p. 191) noted:

There typically follows a long period of on-the-job training, such as internship in medicine and articling in accounting. Here the formal knowledge is applied and the practice of the skills perfected, under the close supervision of members of the profession. On-the-job training also completes the process of indoctrination, which began during the formal teaching. Once this process is completed, the professional association typically examines the trainee to determine whether he has the requisite knowledge, skills, and norms to enter the profession.

One is inclined to ask why professionals bother to join organizations.

For one thing, professionals can share resources, including support services, in a common organization. Organizing also brings the professionals together to learn from each other, and to train new recruits. Some professionals must join the organization to get clients. Another reason professionals band together to form organizations is that clients often need the services of more than one at the same time. The bringing together of different types of professionals allows clients to be transferred between them when the initial diagnosis proves incorrect or the needs of the client change during execution. [Mintzberg, 1983, p. 198]

Ownership of the organization by professionals is a technique for securing organizational loyalty—especially among individuals who may be capable of leaving the organization to its detriment. Mintzberg calls the professional bureaucracy a federation. In its simplest form, the federation consists of no more than a governing council of the members or their representatives, who meet periodically to make common decisions. Often, the federation requires an administrative structure to execute the council's decisions. And so, a board of directors is installed that names a chief executive officer who, in turn, establishes an organization of full-time employees. In a true federation, that organization is designed to serve the members, not vice versa. The CEO does not dictate policy; instead, he or she must secure support from the members.

BDO Binder and BDO CampsObers

It was in the early 1960s that the U.S.-based Big-Eight accounting firms started to build their international networks. This period marked the start of the forerunner of BDO (1963) as well. The leaders of some strong, but mainly national, accounting firms in North America and Europe found each other in the search to expand their service capability beyond their domestic borders, and they created a new international organization. The cooperation would ideally enable members to remain independent of each other and function autonomously. It was created in order to facilitate the provision of comprehensive international service. The founding members considered it essential to achieve a high standard of professional work throughout the group and its correspondents. The underlying philosophy was essentially defensive, namely, to be able to retain large domestic

clients with overseas operations when competing with the larger and longer-established international firms. The name of the international organization was Binder-Seidman International Group (BSI).

In the early 1970s, the first strictly European federations of accounting firms were formed to counterbalance the Big-Eight firms. The added value of these international organizations was to develop technical procedures, marketing programs, and audit standards for the operations of the member firms. These organizations would be the vehicle for members to offer the same services across borders that they provided to clients in the home country. At this time, the large Dutch firm Dijker and Doornbos—not a member firm of BSI—was looking for appropriate partners to build up a European accounting firm, especially in view of the formation of the European Economic Community. The chairman of the German member firm of BSI and the Dutch chairman of Dijker and Doornbos agreed about the concept of a European firm. The organization would be based on cooperation under one common international name, with outstanding national firms in other European countries. In addition, the firm would cooperate on a worldwide basis with firms, or groups of firms, in those other parts of the world where European clients had a significant interest. The European firm, however, would keep its autonomy in that worldwide cooperation. In early 1973, the three founding firms, Dijker and Doornbos, Deutsche Warentreuhand, and Binder Hamlyn established Binder Dijker Otte and Co. (BDO). A cooperative arrangement with BSI was also effected: BSI would cover the world, except for Europe, which was the territory of BDO. In 1979 BSI ceased to exist, and BDO became worldwide.

In the second half of the 1980s, a merger wave hit the accounting world. The Big Eight (or “Big Nine,” if one includes KPMG) became the Big Six, and many large and medium-sized domestic firms—most of which were members of some international network—merged or were absorbed. BDO suffered from this shakeup. The network lost three big European member firms, among them Dijker and Doornbos (which was succeeded by CampsObers—in 1993, number six on the Dutch ranking list). Nevertheless, BDO was determined to remain independent. It had to adapt itself, however, to new realities.

Evolution of the international organization

In 1986, BDO appointed an international secretary who became BDO’s first full-time employee. Until then, all the work on behalf of the network was performed by managing partners and senior employees of member firms. The international secretary would lend day-to-day support to the executive committee of BDO; and the international secretariat was housed at Amsterdam in the Netherlands.

In 1988, BDO introduced a new management structure, a new legal structure, and a worldwide corporate identity. From then on, all member firms used the

same house style incorporating the BDO logo and a new international name (BDO Binder). The essential feature of the new management structure was the appointment of a chief operating officer, who headed the international office established at Brussels, which also housed the international secretariat. One of the COO's tasks became maintaining the network. In this way, he took over the work of the members of the executive committee, who had until that time frequently traveled around the world to visit the network firms. In 1991, BDO appointed a third executive to professionalize the management of its international organization. This new executive, the international service coordinator, was responsible for the functioning of the international committees, including the development of international services, service delivery, and the monitoring of the quality control program. In the meantime, the executive committee was renamed the policy board. Eventually, as a result of the process by which the tasks are divided between the international office and the policy board, the policy board came to function as a board of supervisory directors, and the management of the international office as managing directors of the international organization. The international office currently maintains a staff of seven people.

In the beginning, the legal foundation of BDO was a sort of partnership agreement. The founding or partner firms agreed to carry out international work according to the directives and under the name of BDO. In 1985, these five partner firms (from Germany, the United Kingdom, the United States, France, and the Netherlands) established BDO International B.V. BDO's new corporate entity enabled it to conclude agreements with member firms and (non)exclusive correspondent firms. Until 1988, the five partner firms kept their special position. In that year, their prerogatives were abolished: All member firms were granted the same rights and obligations. One standard agreement was forthcoming, aimed at establishing a tight mutual bond between the firms in the network. The status of correspondent firm was applied for only a limited period to remove doubts about the benefits of cooperation. In that year, too, BDO Binder B.V. was established. Since then, this private company concludes contracts with member firms and correspondent firms. The board of directors of this company is the policy board of BDO. The BDO council—with representatives from all member firms—is the board of the Stichting BDO Binder, a legal entity that owns the shares of the private company BDO Binder B.V. The staff of the international office now serve this company.

The contract of the member firms with BDO is tight. This does not necessarily mean, however, that the control is tight. Originally, the control was in many respects loose, but the tendency has been to tighten it. For example, when the quality-assurance review was introduced in the 1980s, a member firm's service delivery quality was reviewed by two other member firms. The quality of these reviews differed because of this structure. Since 1991, the international service coordinator has been responsible for the quality reviews and he ensures their uniformity. The scope of the quality-assurance reviews, moreover, has been

enlarged. It now includes tax consultancy, client acceptance, and firm management.

The international office at Brussels is the center of the BDO network. A service center for the use of the member firms, it seeks to strengthen the global network and improve its qualitative coverage. For example, it is presently involved in the startup and development of offices in China and eastern Europe. To establish offices—mostly with local partners—in those countries, BDO has made its own investments. Since the beginning of 1993, BDO has at its disposal one regional office in Hong Kong for the Asia-Pacific region. The primary task of the regional coordinator is to advance work referrals among member firms within the region.

BDO is definitely not a “normal” multinational corporation. It has no formal international-business plan or international-marketing plan. The international office has no formal authority over member firms. Its role is to support and to stimulate cooperation to achieve worldwide coordination and integration of operations. It is therefore important to build consensus and commitment within the network. The international office has the task of furthering the network’s cohesion both inwardly and outwardly. For example, in March 1994, it introduced the updated version of the corporate identity manual for the network. The network has to cover a great variety of local environments of the sixty-seven members, of cultures and languages, and of size and professionalism of the firms. It is thus hard to develop an overall international business or marketing plan. Occasionally national firms cooperate on a bilateral basis to develop and execute collective international or regional business or marketing plans.

Benefits

There are both tangible and intangible benefits to the member firms of the BDO organization, regardless of whether those firms handle a lot of referred work and regardless of their size. Among the tangible benefits is access to tools that can be used by member firms to enhance the quality and efficiency of their auditing practices. Intangible benefits include the increasing harmonization of the practice, which enhances the reputation of BDO as a global firm, a standing that each member firm can draw upon to boost its own reputation.

One tool afforded by the organization is the international auditing manual. The original BDO auditing manual, issued in 1984, describes the basic principles that the member firms of BDO agree to apply to both national and international auditing work. BDO, as an international organization, follows the International Auditing Guidelines promulgated by the International Auditing Practices Committee of the International Federation of Accountants (IFAC). The BDO auditing methodology, as described in the manual, combines obligatory and permissive approaches to ensure that work is of uniform and high quality and to provide mechanisms for coping with every possible situation. Thus, the manual describes

methods, standardizes reporting, and, in some cases, offers guidance on forming necessary judgments.

The new 1993 audit manual prescribes the procedures to be followed by member firms so that they provide, throughout the world, “a consistently high quality of service.” The auditing objective is to obtain sufficient evidence to provide the auditor and his or her firm with high, though not absolute, assurance that financial statements are free from material misstatements. The approach entails an analysis of auditing risks leading to a focus on auditing efforts. A computerized system, Compass, has been developed as a tool to carry out this approach. Moreover, several other computer-assisted auditing techniques have been developed. New to the manual are the three basic principles of diligence (the work should be thorough), efficiency (the work should be carried out economically), and objectivity (the practitioner should be straightforward, honest, and sincere in his or her approach to the work, and he or she should have an impartial attitude).

The new manual has been developed primarily because, as a result of national developments in accounting and auditing standards, the uniformity among the member firms was no longer satisfying. With the introduction of the new manual, international uniformity in BDO’s accounting and auditing practice has been recovered. It contributes to heightening the international quality of work. The new manual and the auditing software that accompanies it (Compass) are not perceived by the technical department of BDO CampsObers as more coercive than the old ones. The auditing approach is coercive, however, as for instance in the assessment of risks. Documenting the work is prescribed very strictly. But in general, the manual does not describe specific steps or work. The manual does give the professional the freedom to follow his or her own judgment.

In 1993, the Accounting and Auditing Committee of BDO developed a “code of ethics” for the “conduct of professional business” that would raise the level of professionalism. The fundamental principles are integrity, objectivity, independence, professional competence and due care, confidentiality, professional behavior, and services in accordance with the relevant technical and professional standards (promulgated by BDO, IFAC, the International Accounting Standards Committee, the member’s professional body or other regulatory body, and legislation).

Bringing BDO people and BDO firms closer together is perceived as the main challenge for the future. This implies greater consistency in the delivery of core services and a stronger commitment to a certain level of worldwide quality. International training will be a key to meeting these goals. Future strategic developments, according to the chairman of the policy board, include:

- International work will be performed by truly international auditing teams headed by internationally experienced partners who have worldwide access to manpower. In setting up client service teams, the firm

will no longer pay attention to national borders. The most appropriate partner to service the client will, in fact, control the entire assignment.

- Building an international tax capability will enable the firm to offer international clients an international tax service of the highest quality. Some “centers of excellence”—at least one in each of the main geographic regions—will be created to perform specialized tax services for the network as a whole.
- Some other consultancy services, which are of increasing importance, will be built up: information technology, human resource management, environmental management, and corporate financial services, among others. These services will need a high degree of specialization and depth and member firms will have to combine their resources. Complex services will be performed by “flying squads.”

To summarize, BDO’s task is to integrate national firms into a truly internationally oriented operation, as outlined in Table 1.

Professionalism at the office

For this case study, the manager and another representative of the technical department (which furthers the professional and technical knowledge and skills), four managers of the accounting and auditing practice, representing four offices (specified A, B, C, D), and two managers of the tax advisory practice of the Dutch firm were interviewed. The questions were partly answered orally, on a scale ranging from 5 to 1 (5 = importance is very large; 4 = importance is large; 3 = importance is not large/not small; 2 = importance is small; 1 = importance is nil).

The offices have primarily a regional orientation. All of them offer the firm’s full-service package to their clients. However, some specialties are not present at all of the offices. In particular, the management advisory services have been concentrated on a few locations. The referral work is carried out at selected offices, such as offices A and D in Table 2. The same services are executed for both national and multinational clients. For both categories of clients, the firm uses the international manual of BDO, the international audit software (Compass), and other BDO tools and instructions. The execution of referral work does not require special adaptations of Dutch routines, except with regard to specific directives about form and timeliness of reporting from the foreign mother company. The firm’s branch of tax consultants has grown rapidly in the past ten years; its turnover amounts to nearly 25 percent of the firm’s total turnover in 1992. At office D, the international tax work has been concentrated.

Table 2 shows a great variety in values. Little consensus can be seen in the importance assigned to specific coordination mechanisms. Also, there is no clear influence of referral work or the presence of much tax advisory work (offices C

Table 1
The BDO International Organization

The BDO Council is the ultimate authority within the BDO organization. Every member firm is represented on the Council, which meets annually to receive the report of the BDO Policy Board.

The BDO Policy Board is the primary policy-making body of BDO and consists of ten members.

The BDO International Office, established at Brussels, has a small staff and delivers supporting services.

The International Business Committee is the operating organ of the Policy Board and supervises the technical committees.

The Accounting & Auditing Committee is the international technical committee for the accounting professionals.

The Tax Committee is the international technical committee for the tax advisers.

The Management Consultancy Services Committee is the international technical committee for the management consultants.

There are several other committees, such as Corporate Finance, Human Resources, and Professional Indemnity Insurance, and several working parties.

and D). Evidently, a substitution of coordination mechanisms is possible.

Tables 3 and 4 summarize the impact of BDO on BDO CampsObers' offering and delivery of services. It is remarkable that only office A considers that the international BDO manual has made an impact on serving the clients. It is interesting that only office D (an office that carries out a lot of referral work) of the accounting and auditing practice considers that BDO has impacted the norms. Both tax advisory departments, which do a lot of international work, recognize the impact of BDO, too.

Table 5 shows that BDO has made a clear impact on the international work of three offices (A, C, and D). Thus, membership in BDO appears to be important.

Discussion

This case study confirms the client as a major source of strategic action (Mills et al., 1983), leading to the start and development of BDO and encouraging CampsObers to become a member in BDO. The internationalization strategies defined by Herbert (1984) are pertinent here. The international network develops and executes programs to strengthen its internal structure and its global and regional competitive positions. Common operating and quality procedures have been introduced to provide an integrated worldwide service. The network promotes R&D to enhance the services delivered by national firms. The base of

Table 2
The six coordination mechanisms

	Technical	A	B	C	D	Tax 1	Tax 2
Standardization of norms	5	2	4	4	5	2	4
Standardization of knowledge/skills	3	4	5	3	5	3	3
Standardization of work processes	3	2	4	2	4	5/2	3
Standardization of output	4	2	4	3	2	5/2	3
Mutual adaptation	4	4	3	4	2	3	5
Direct supervision	2	3	3	5	5	4	4

T = department for technical and professional knowledge and skills; A = office A; B = office B; C = office C; D = office D; Tax 1 = tax department of office C; Tax 2 = tax department of office D.

accounting and auditing services is the local practice. The local offices have the practitioners, who maintain the client contacts and develop the knowledge of the clients' organization and needs.

The market segment of the multinational clients of accounting firms is characterized by an evolution from the multidomestic to the global. The internationalization of accounting services had to balance—especially in the 1980s—the coordination and the configuration of activities (see Porter, 1986). Both U.S. and European accounting firms understood that, to maintain or reinforce their international competitiveness, they had to realize global scale, local responsiveness, and international integration. This implied extending the network and improving the qualitative coverage of the network. After the merger activity in 1986–89, the large international accounting organizations had the important task of building a truly international firm. In relation to this, the chairman of a large Dutch accounting firm recently stated that a tighter structure and a clear strategy are now important.

International accounting organizations such as BDO Binder have certain features in common with the transnational corporation. This is supported by the study of Morrison and Roth (1992), which indicates that, to be globally competitive, a combination of internationally integrated operations and a strong domestic core are a requisite. Many flexible coordination processes take place. The communication lines are rich and complicated. The partners work on the basis of common vision, individual involvement, and consensus decision making. The development of knowledge, skills, and services is coordinated and shared within

Table 3
The impact of BDO manual on client services

	Client acceptance	Audit planning	Execution work	Forming opinion	Reporting
Office A	1	2	4	3	2
Office B	1	1	1	1	1
Office C	1	1	1	1	1
Office D	1	1	1	1	1

the global organization (Bartlett and Ghoshal, 1989). Contrary to the transnational firm of Bartlett and Ghoshal, however, national units (firms) do not supply (primarily) differentiated contributions to the integrated global activities, unless this is interpreted in terms of the local contributions. The development of knowledge is only partly a collective matter, and largely a local matter. Multinational flexibility is restricted considerably by the local basis of the accounting practice. Besides, in the foreseeable future, the international accounting organization will not become a true transnational firm. Every international accounting organization will retain specific features of the multinational type as defined by Bartlett and Ghoshal (1989) because of the national institutional environments within which each national firm operates.

A fundamental feature of the international accounting organization is its hybrid structure as a federation (Mintzberg, 1983). This federative type of international organization results from the local client base. The international accounting firm (with a federative or hybrid structure) is spared some of the management problems of the traditional MNC because of the loose coupling of national firms with a local client base. Dependency is different from a parent-child relationship. The purpose of the structure of the international accounting organization is to assure quality control, to channel communication, and to furnish economies of learning and of scale. The international organization has a "fully integrated" structure consisting of national self-contained firms (Herbert, 1984).

The evolution of BDO Binder has been characterized by professionalization of management and services. The structure is becoming increasingly tight. Moreover, the international organization continues to offer its members increasing levels of added value. BDO strives to integrate the operations of the national firms to achieve a uniformly high level of service for clients worldwide. The organization uses committees, working parties, conferences, professional tools and procedures, and the function of the international client-service partner (with international responsibility for carrying out the audit assignment) to realize these purposes. In this way, the international organization approaches the professional-

Table 4
The impact of BDO on set of norms

	Product norms	Process norms	Organizational norms	Functional norms	Assignment norms
Office A	1	1	1	1	1
Office B	1	1	1	1	1
Office C	1	1	1	1	1
Office D	1	5	3	4	1
Tax 1	3	2	1	3	2
Tax 2	4	4	4	4	4

Tax 1 = tax department of office C; Tax 2 = tax department of office D.

organization type defined by Mintzberg. This is relevant for the national firm, too.

The BDO international network has at its disposal an internal governance structure and a carefully developed set of coordination mechanisms. Both the autonomy of national firms and the cooperation for offering and delivering services on an international scale are guarded. Especially relevant for carrying out international work are standardization of norms, knowledge and skills, work processes, and output. Both the national and international organizations are typified as professional organizations. However, the autonomy of the local professional of the firm is more restricted than Mintzberg supposed. The strong need for quality assurance enhances professionalism and strengthens the hierarchical element of the organization while reducing the individual's professional autonomy. This is also a sought-after consequence of standardization of work processes. The standardization of work processes relates to the use of manuals, technical software, forms, questionnaires, checklists, and the observing of instructions, and directives with regard to client-file management, report classification, and control procedures, among others. Socialization at both the national and the international level, is important; it is realized by a variety of means of communication, including training courses, meetings, committees, publications, and more. It benefits organizational commitment (Fogarty, 1992).

The development of BDO CampsObers in the past five years would not have been possible without BDO. Membership in BDO and participation in its international operations have made a fundamental contribution to the firm's identity. BDO CampsObers has gone through a process of professionalization and is, moreover, stimulated by its membership in BDO. The impact of internationalization is especially strong on referral work and on the offices that handle a lot of referral or other international work. The partners and professional staff of the Dutch firm participate actively in international R&D—in the internationalization

Table 5
The impact of international services delivery on the Dutch practice

	Accounting and auditing	Tax consultancy	Management consultancy
Office A	3	2	1
Office B	2	1	1
Office C	2	4	1
Office D	3	5	1

of service delivery, in professionalism, such as norms, procedures, tools (among other things, the international audit manual and the computer audit software), and training courses.

CampsObers has achieved internationalization through its membership in an international association of accounting firms with worldwide coverage (BDO Binder). Becoming a member firm in BDO was a significant event. The firm needed this membership to maintain its competitive position. The firm's membership in BDO helped it strengthen its competitive advantages in the Dutch market, with regard to both product differentiation, economies of scope, scale, and specialization, and to the exploitation of information technology. Through its membership in BDO, the firm has acquired several high-powered assignments, which extend the professionalism of the accounting and auditing practice and of the tax advisory practice. The impact of membership is especially strong on referral work and on the offices that handle a lot of referral or other international work. A direct consequence of membership has been increased turnover. The portfolio of multinational clients has been extended considerably by BDO membership. This also has an impact on its service to domestic clients and on its domestic image (Table 5).

The Dutch member firm participates actively in BDO's international organization. For example, the chairman of the firm's executive committee also chairs BDO's policy board. But the Dutch firm also contributes to the development of professional standards and tools, such as the manual and the audit software. Last but not least, the Dutch firm participates in the relevant committees and working groups.

BDO CampsObers observes professionalism primarily as an autonomous development—apart from its membership in BDO. Professionalism is a national and an international development, instigated and coordinated partly by professional organizations such as NIVRA and IFAC, both of which promote international harmonization of accounting and auditing practices. The normative framework of the Dutch public accountant has been marked by continuous heightening of norms since the inception of the profession in the last century. This is not just a national evolution, but an international one. International har-

monization of norms has raised Dutch norms.

The meaning of BDO membership for the coordination mechanisms is not uniform, partly because dominance of coordination mechanisms is lacking, and partly because of the development of Dutch professionalism. The importance of quality assurance has increased, which means more attention for procedures, knowledge, and skills, and direct supervision. The importance of BDO membership for the norms practiced by the firm is small. Thus, we may also see autonomous development of professionalism in the Netherlands. Nevertheless, as argued above, internationalization has contributed to the professionalism of the Dutch firm.

It is striking that, since the late 1980s, the dominant organization form among international accounting firms has been the hybrid or federative structure, rather than a structure based on common ownership, which economic theory might predict. One explanation for this preference lies in the lack of necessity for a smooth transfer of knowledge. Another important reason is the presence of an institutional environment (Zucker, 1987).

The economic theory of the MNE does not pay much attention to service firms. Boddewyn et al. (1986) and Dunning (1989, 1993) are among the few exceptions. There is a vast body of literature about service firms, but this literature underexposes internationalization. Authors in the field of international management, such as Prahalad and Doz (1987) and Bartlett and Ghoshal (1989), focus on manufacturing firms. Because of the strongly increasing impact of service firms and of internationalization on society and business, much more research is needed in the field of internationalization of service firms. Different strands of theory might be brought together.

Personal observation (Post, 1995) suggests that the origin and development of international accounting firms such as BDO Binder are very interesting for further multidisciplinary research. It calls for thorough reevaluation of current theoretical concepts and insights. Important research questions are: What are the reasons for internationalization and for the development of the international organization? What are the characteristics of the international organization (is the transnational type of organization a relevant concept)? What are the specific characteristics of this type of service firm? And what are the specific characteristics of this type of professional organization?

Note

1. Big-Six firms Arthur Andersen (AA) and Price Waterhouse (PW) have a different international equity structure: AA is a worldwide firm (partnership) while PW consists of several regional firms (partnerships).

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