Int. Studies of Mgt. & Org., Vol. 26, No. 2, pp. 59–79
M.E. Sharpe, Inc., 1996

JOHN L. BROWN, DAVID J. COOPER,
ROYSTON GREENWOOD, AND C.R. HININGS

Strategic Alliances within a Big-Six Accounting Firm

A Case Study

The major accounting firms represent an important industry worth studying because they provide a significant knowledge base for changes in management practice and, as such, are often a catalyst for change. Their raw economic importance is impossible to ignore: In 1994, the worldwide fee income of the Big Six reached $33.5 billion (*Economist*, 1995, p. 62).

This paper examines the changing international organizational arrangements within one of the Big-Six accounting firms. We argue that many of the transborder changes now in effect bear a direct relation to what are usually referred to as strategic alliances and may be fruitfully analyzed from that perspective. Further, we suggest that the genesis of such change is based in our rapidly changing international business environment.

This analysis opens with a review of some of the literature on strategic alliances, joint ventures, and networks, including a discussion of how such a perspective relates to organizational arrangements within one of the Big-Six firms. The following section discusses the internationalization of a major accounting firm, which lays the groundwork for our analysis of the forces of change now at play in the industry. Our case study of one of the Big-Six firms examines its responses to such changes through more formal organizational arrangements, meant to strengthen and solidify what have been in the past (despite a common firm) loose strategic alliances. The paper concludes with a discussion of how the case study informs our knowledge of the changing nature of the management of professional service firms specifically and, in so doing, how it relates to the developing literature on strategic alliances.

The authors are at the Centre for Professional Service Firm Management of the Faculty of Business, University of Alberta, Edmonton, Alberta, Canada, T6G 2R6. They wish to acknowledge the financial support of the Canadian Social Science and Humanities Research Council.

Strategic-alliance literature

Strategic alliances are intended to be relatively enduring relationships among one or more autonomous organizations that seek to achieve greater benefit by acting jointly than they would singly. Given, however, that one is dealing with autonomous organizations that retain their own identity and independence, and with variability in resources, the possibility of instability regarding the future of an alliance is ever present (Parkhe, 1993).

The increasing importance of strategic alliances in a variety of fields has motivated a wide range of empirical and theoretical studies. Earlier studies examined mainly the existence, frequency, and viability of alliances among organizations that would normally be competitors (Harrigan, 1985, 1986, 1988; Kogut, 1988; Larson, 1991; Parkhe, 1993). Later research extended the theoretical and empirical perspective to consider the application of strategic alliances inside a single industry where symbiosis was an outstanding characteristic of firms in the alliance (Nohria and Garcia-Pont, 1991; Porter and Fuller, 1986).

As strategic alliances became more commonplace, a variety of normative prescriptions were developed to guide managers in the conduct of their affairs, since mortality rates of up to 70 percent had been estimated for such partnerships (Parkhe, 1993). One major threat has been identified as being "deskilled" or "hollowed out" as firms lose a competitive advantage when they become excessively dependent upon alliance partners (Lei and Slocum, 1992). A variety of propositions and guidelines are in the development process to help managers avoid past mistakes and to ensure that the strategic alliance is one of mutual benefit to all parties involved (Bleeke and Ernst, 1992; Culpan, 1993; Newman, 1992; Parkhe, 1993).

An expanding body of inquiry is taking as its central interest the precursors and supporting frames that will develop and sustain a longer-term cooperative relationship between alliance partners (Borys and Jemison, 1989; Hedlund, 1994; Malnight, 1995; Nielsen, 1988; Oliver, 1990; Thorelli, 1986). It is to this body of strategic alliance literature that we look for an interpretation and extension of the results of the case study presented below. At this point, we merely provide a brief introduction to these authors' relevant key ideas.

Malnight (1995) demonstrated, through his model of the evolution of an ethnocentric firm, that change often takes place through a series of stages. As a firm moves through these stages, one must remember that "[a]t any time, an organization may be comprised of a mix of centralized, decentralized, and network structures" (Malnight, 1995, p. 134). The work of Hedlund is most appropriate in the study of firms where knowledge is a key resource. What he typifies as the N-form organization involves a combination of knowledge rather than its division, which is basic to the M-form, and offers an innovative and viable alternative for a number of organizational circumstances (Hedlund, 1994). Nielsen (1988) emphasizes a variety of cooperative strategies, including pooling, exchanging, de-escalation, and contingency as possible means to organize strategic alliances. The present paper applies these strategies to a variety of environmental conditions. Oliver (1990) makes an important contribution to the field and assists our analysis by demonstrating some of the critical contingencies of joint ventures and the conditions of relationship formation for each contingency. Of the alternatives presented in her paper, clearly the one most applicable here is the joint venture. Finally, the work of Borys and Jemison (1989) has relevance to the maintenance of strategic alliances through two of their main concepts: value creation and stability.

Before proceeding, it is important to clearly identify the type of strategic alliance being considered. To our knowledge, all strategic alliances examined up to this time have been referred to as either horizontal or vertical alliances. The former refers to alliances among competitors, and the latter to relationships of a supplier–buyer nature. Both examples may well be thought of as confrontational in nature, where traditional agency problems are always in attendance (Parkhe, 1993). The interesting aspect in the case we studied is that it is an alliance between quasi-independent national units of an international accounting firm. Granted they are part of a single firm, but, because of the nature of the firm, the profession, and the industry, they have always operated as a loose strategic alliance and now, in the face of major change, they are trying to adapt the form of their alliance accordingly. This particular type of alliance, one that takes place between quasi-independent units, we refer to as one between *complementary equals.*

The following sections present the context of how a large accounting firm has grown beyond its native shores. This is followed by a section on external changes that have forced it out of the traditional mold. These two sections are preparatory to presentation of the transborder organizational changes in one of the Big-Six firms.

The internationalized accounting firm

Members of the Big-Six accounting firms have been involved in the international business arena for a number of years. This involvement grew out of their desire to follow important clients overseas. In seeking to serve these clients, a variety of arrangements were developed across and within firms. Seven major types of arrangement have been utilized, usually varying "according to the relationship between the 'international firm' and the 'local' practices" (Daniels, Thrift, and Leyshon, 1989). These seven types are identified as:

1. The firm operates under its own *international name*—for example, Arthur Andersen.
2. A *combined name* is used where an international firm affiliates with a local firm.

3. A *local name* is used where the local firm is totally affiliated with the international firm.
4. An *association or federation* may be relied on to coordinate activity among member firms.
5. *Correspondents* may be used if an international firm does not have an office in a locale and exclusively refers clients to a single local firm.
6. On rare occasions, a local firm may have *multiple affiliations* with several international firms.
7. A final case is when *two or more names* occur—where an international firm practices under two or more national firm names.

The first alternative, that of a common international name, is the one usually preferred by members of the Big Six, although there are still cases where the affiliate will use an alternate name or a hyphenated one. However, the general trend has been a move to a single name and a single identity.

The internationalization of the major accounting firms has been going on for many years. Two distinct periods of expansion have been identified by Daniels, Thrift, and Leyshon (1989). The first period began in the 1890s and lasted until the start of World War II in 1939. This period was entirely demand-driven, as accounting firms in the United Kingdom supported the movement of U.K. firms setting up branches in overseas markets. The latter period, which started in 1945, had a more structured configuration as international accounting partnerships began to form. Again, the large accounting firms were following clients who were further internationalizing their activity and moving outside their home country through foreign direct investment. However, in this case, the move by accounting firms was to provide auditing and advisory services to multinational clients.

The usual form of international expansion was via merger with national practices in a local country. Arthur Andersen was one exception to the rule, as it tried to establish its own offices, but even it has changed its approach in recent years by engaging in merger activity. If mergers are deemed impossible, the large firms may rely on one of the other alternatives listed above. On occasion, when such alternatives have been unavailable or unfeasible, firms have set up entirely new practices under the name of the parent firm. Once they become viable, the firm operates as a separate profit center, like any other national firm, rather than as a mere branch of the parent firm sending profits back to the head office.

Whatever pattern was followed, the Big-Six firms now have offices in virtually every country in the world. These national firms are the building blocks of the international organization. Furthermore, each of the national firms has developed to the point where it maintains a high degree of independence. With the single exception of Arthur Andersen, which is centrally directed worldwide, the Big-Six national firms direct their own affairs, allocate profits on a national basis, and independently decide on promotion to partnership.

While each of the Big Six will refer to the presence of an international organization, it is not an organization in the traditional sense, with central direction, defined decision-making mechanisms, and a hierarchy of authority operating from an easily located central, or even physical location. What one really has is an alliance of national firms that agree to work together under a common name. And, as has happened on occasion, a national firm may choose to drop out of the alliance—a major recent example being the decision of the United Kingdom office of Deloitte, Haskins & Sells to join Coopers & Lybrand, rather than the newly merged firm of Deloitte & Touche.

The usual arrangement in directing the alliance of national firms is to form a coordinating committee with membership from the largest countries in the international organization. A number of specialized subcommittees may also be formed to handle specific functional areas, such as taxation. However, concerted action for the alliance of firms is normally based on a desire to project a common identity and on the ample exercise of suasion. It is only very recently that the international firm has had a staff and funds under its own control. Even such a minimal organizational infrastructure does not exist in all of the Big Six.

A key factor for maintenance of the primacy of the national firm is that profit sharing and partnership can only be achieved within a national firm. With the exception of Arthur Andersen, it is not possible in the Big-Six firms to be a partner of the international firm. The result is that professional staff hold their primary allegiance to the national firm. In attempting to understand the international firm, it is therefore crucial to understand the organization of the national firm and how this affects what happens at the international level.

The basic and traditional structure of the national professional service firm has been referred to as the P^2 archetype, based on the research of Greenwood, Hinings, and Brown (1990), which describes the organizational archetype for large professional accounting firms. The term P^2 is used because of the twin components of partnership and professionalism. The emphasis on *partnership* stresses a view of ownership and governance that values partnership, autonomy, and democracy. The ideology of *professionalism* draws on the use of specialized knowledge and skills in the public interest, such as organizational accountability through the audit, or the provision of justice and the maintenance of property rights (Johnson, 1972; Robson and Cooper, 1990). These values are related and mutually constitutive in that the public interest of accountants is preferably organized through the medium of partnerships. Ideology is used as a referent here because a partnership is seen as the historical and "proper" way to organize and manage the work of professionals. Thus, in the P^2 archetype, the interpretive scheme of professionalism and partnership both generates and shapes, as well as itself being reinforced and given form by, the concrete managerial practices and systems that characterize the archetype. A detailed account of the P^2 form is presented in Greenwood, Hinings, and Brown (1990), and a summary is shown in Table 1.

An international firm that is largely constituted of a set of national firms

Table 1
Elements of the P² form

Interpretive scheme	
Governance	Fusion of ownership and control A form of representative democracy Revolving managerial tasks among the owners Local office as the center of commitment
Primary task	Professional knowledge Peer control Work responsibility as indivisible Strong links with clients Widely distributed authority Minimum hierarchy
Systems	
Strategic control	Rationality: low analytical emphasis Interaction: consensus decision making
Marketing–financial control	Specificity of targets: precise financial targets Tolerance of accountability: high tolerance Time orientation: short term
Operating control	Range of involvement: low Primary focus of involvement: professional standards and quality of service Decentralization–centralization: decentralized
Structure	
Differentiation	Level of specialization: low Criteria of specialization: professional divisions and personal interest
Integration	Use of interactive devices: low Use of rules and procedures: generally low

Source: Hinings et al. (1994).

organized on a P² basis, emphasizing local autonomy and democracy, will be strongly inclined to maintain a loose federation. The transborder exchanges that occur will then be initiated and conducted on a personal and *ad hoc* basis.

Change: Big change, little change—But always change

This section identifies the major forces that have pressured and are pressuring the large international accounting firms to reconsider how they conduct business.

The intention is also to show how pressures that are pushing for changes at the level of the national firm call for and are supportive of changes at the international level. The result will be a change from what is really akin to a loose strategic alliance of quasi-autonomous firms to one where the alliance is bound together through a set of exchanges and more formal restrictions that will be described in the following sections.

Our general position is that most initial pressures for change in a sector or an organization start externally. However, these pressures do not suddenly appear and transform the organization; rather, a set of forces develops over time. In responding to events, decision makers must assess the meaning of such events. In doing so, historical background has two important effects. First is the history of sectoral events, and second is the history of the firm relative to those events. We describe the temporal context to show how the result is likely to be stability or change in the organization.

The analysis is initiated by changes that have occurred in markets and in the profitability of major accounting firms. All writers, both academics and journalists, have pointed to the increasingly competitive nature of markets for accounting services over the past several years. The pressure occurs not from new entrants, but from a restructuring of existing markets. The tradition of the accounting profession growing faster than the economy is now seen as a thing of the past. Rather, Coopers & Lybrand's chairman, Peter Smith, sees growth more similar to the current rate of 3 percent (*European Accounting Focus*, 1994b, p. 3). The results of these pressures are well summarized by the United Kingdom senior partner of Price Waterhouse, Ian Brindle, who stated that "[t]he intense battle for the ever decreasing client base has resulted in a strong competitive environment, where for the first time on a wide scale, cut-backs, redundancies, and tighter efficiencies became crucial and a daily vocabulary" (*European Accounting Focus*, 1994b, p. 3).

Central to this change has been the transference of the audit into a commodity. Now such questions as "Are the Big Six indistinguishable?" are being asked (*European Accounting Focus*, 1992, p. 7). Prior to the 1980s, auditing and associated accounting services were the centerpiece of activity, producing up to 70 percent of fee volume. Since then, audit revenue has been decreasing, as has profitability, to the point where it is now less than 50 percent of the fee volume in some firms. Clients are also more disposed to threaten to switch auditors, even if in practice they rarely do so (Greenwood et al., 1993).

According to Wootton, Tonge, and Wolk (1990), the growing maturity of the audit industry internationally, together with the removal of strictures against advertising by accounting firms, has made competition among accounting firms more vigorous. This is echoed by Russell Palmer, former CEO of Touche Ross International, when he notes: "As a profession, [accounting] exhibits slow growth, intense price competition, lower profit margins, a lack of product differentiation on the part of customers and shakeout of marginal competitors" (1989,

p. 85). Along with this goes a commercialization of the relationship between the client and the accounting firm. In our own research, one of the firms was asked by a long-standing client to produce a short (three-page) statement outlining the value added by an audit, and why the client should retain this firm as the auditor. Again, this would have been unheard of a decade ago.

Changes in mergers and acquisitions have shrunk the market even further. For the audit core, this means fewer large clients, more competition, and even lower profit margins. While such restructurings have produced a decline in audits, they have increased the market for alternate services such as valuations, insolvency, and handling of consulting.

The demand for extensions and additions to traditional audit and accounting services is now well recognized (*Business Week*, 1988, pp. 24, 34; *Economist*, 1992, pp. 89–90). The basis of the change is clients desiring more general business advice on strategy, restructuring, and new organizational innovations such as total quality management (TQM) and reengineering. The result has been a rapid growth in management consulting and associated work in information technology. Similarly, clients are requiring more accounting work of a business-advice nature, such as corporate restructuring, insolvency, valuation, and tax advice, thereby further extending their range of traditional auditing services.

Accompanying declining demand for audit services has been the globalization in services of the 1980s and 1990s (Aharoni, 1993). The major accounting firms have always prided themselves on their ability to provide consistent quality of auditing service worldwide; however, the service must be extended as the largest corporations have moved to a truly international position without a close tie to a specific country, such as Philips and ASEA Brown Boveri. Such international clients will demand a wide range of services deliverable anywhere in the world. In Canada, when Thorne, Ernst & Whinney was created in the mid-1980s, it stated: "International strength is increasingly important. . . . To serve its clients effectively, wherever their operations are located, any major CA firm must be able to draw upon a strong network of associated professionals around the globe" (Thorne, Ernst & Whinney, 1986, p. 1). Accounting firms are repeatedly stressing this growing internationalization of business, and the need to follow suit.

As the international dimension develops and companies move from national to multinational to global, accounting firms follow. A large part of the history of the expansion of accounting firms worldwide has been to follow clients as they expand (Cypert, 1991; Stevens, 1981). The worldwide spread of accounting firms is nothing short of enormous; for example, KPMG operates in 129 countries with 750 offices. But with large, important clients demanding seamless service, the international accounting firm has to become more of a reality. There is pressure on individual countries and offices to become more and more integrated in this international reality. What new archetype is emerging at the international level?

Structural response

To meet these new demands, international accounting firms need a response through structures that meet local needs but still allow for the maintenance of a worldwide practice (Hanson, 1989). The essence of many of the issues is well captured in the comments of David McDonnell, managing partner of Grant Thornton in the United Kingdom (*European Accounting Focus*, 1994a, p. 13):

> With an increasing number of businesses expanding into international markets, ability to provide services across national frontiers has become a key factor in the development of the modern accountancy practice.
>
> To maximize the opportunities and minimize the risks of international expansion, companies need the support of advisors in different countries who are used to working closely together, and are mutually committed to the relationship.
>
> The genuinely integrated network must be harnessed and coordinated through an organization with clearly defined strategic objectives. This central organization must ensure that all member firms share these objectives.
>
> To a large extent, their ability to do this will be determined by their strategic priorities domestically—a product of the existing client base, and the type of clients they wish to serve in the future.

We have argued elsewhere that, on the domestic front, some national firms are moving to a new organizational form referred to as the Managerial Professional Bureaucracy (MPB) (Hinings et al., 1994), as shown in Table 2. The developing underlying common orientation is to see the accounting firm as primarily a business. Of course, professional service firms have always been businesses in the sense that they are economic units that sell services to clients and make profits from those services. However, the partners and other professionals have usually defined themselves as being in a special kind of business. This new orientation tends to be exemplified by statements such as, "We are a business like any other business," namely, *it de-emphasizes difference*. This represents the importation of the language and style of business and would be unusual in the P^2 form. To have a strategy and to emphasize marketing would still be regarded as unnecessary and even as "unprofessional" by some accountants.

To some extent, this description of the MPB may seem like an incremental step from the P^2 form. This is not the case, and it highlights the importance of the rationale for an organizational form and the emphasis on the underpinning nature of the interpretive scheme for a particular form. Some of the differences on the systemic and structural elements are expressed in terms of a move from "low" to "medium," but this movement represents a strong break from existing values and practices. The initial introduction of marketing into a professional service firm is not "just" adding a function; instead, it has to be undergirded with a new way of conceptualizing the relationship of the firm to its clients and to its environment

Table 2
Elements of the managerial professional bureaucracy (MPB)

	Interpretive scheme
Effectiveness	Management
Efficiency	Client service Competition Market and growth strategies Rationalization Productivity
	Systems
Strategic control	Rationality: moderate analytical emphasis Interaction: more directive decision making
Marketing–financial control	Specificity of targets: precise financial and market targets Tolerance of accountability: low Time orientation: short term and long term
Operating control	Range of involvement: medium Primary focus of involvement: professional standards, quality of service, planning, marketing and compensation Decentralization–centralization: more centralization
	Structure
Differentiation	Level of specialization: medium Criteria of specialization: professional divisions and functional differences—tax, insolvency, etc.
Integration	Use of integrative devices: medium, development of hierarchy and cross-functional teams Use of rules and procedures: still emphasis on standards and quality but more rules generally

Source: Hinings et al. (1994).

generally. Similarly, introducing a partner in charge of other partners is a crucial break with the value of equity in governance, and it has to be led by a change in the interpretive scheme. Hinings et al. (1991) showed how the introduction of what could seem like quite minor managerial changes from a corporate perspective failed in an accounting firm because they were seen as radical in the way they challenged existing interpretations of governance and professionalism. So the MPB organizational form represents a real break with past practice.

Of course, we are talking at a generic level for the industry as a whole. The extent to which a given accounting firm will embrace a new type of organization initially depends on its own organizational history—for example, what was embraced in the past, and whether it has a history of innovation and change or inertia. The interpretive scheme of the MPB is likely to be embraced by those with responsibility for management. It is particularly those in support and managerial positions and with national and international responsibilities who interpret the organizational context as requiring more strategic direction, marketing expertise, and central direction.

Hinings et al. (1991) and Blau (1984) have shown how, in the P^2 firm, the partnership form of ownership makes strategic change difficult because of the individualized, autonomous nature of power. But increasingly, in the Big-Six accounting firms, attempts are made to change this dispersed power structure toward a more concentrated one. The attempts are to concentrate more power in the hands of managers, namely, those with formal responsibility for running the firm: the managing partners, chief operating officers, national partners, and so on. Again, success varies. An important value accepted by everyone is that all partners, no matter what their responsibilities, must have direct client responsibilities.

Some of the structural and system changes entailed in the interpretive schemes of the MPB are technically difficult to accomplish. Setting up international teams to manage major clients is difficult, especially when there is little teamwork experience. Bringing together partners from Canada, the United States, the United Kingdom, South Africa, the Philippines, and Brazil to manage the Coca-Cola relationship brings together high levels of diverse backgrounds and cultures in a situation where past practice has been to work independently. Similarly, installing an information system that turns up material on the work that has been done on a particular client regardless of which specialty has carried it out, be it tax or audit, is difficult and requires a lot of investment in hardware and software. However, it is just this sort of effort that has transformed many national organizations and is now being extended to the international level of the Big-Six firms.

An attempt to move: The west European experience

The changes that are being made to forge new alliances within the large accounting firms will be examined via the case of a single international firm. The time period considered is from 1989 to 1995. Such a short time period is dictated by the events that precipitated these important transformations. It clearly goes without saying that any such changes are, for the most part, still in the intentional or embryonic form. The ultimate result will await time and further buffeting of events as yet unforeseen. However, we are still able to present the precipitating events, how they were interpreted, and subsequent initiatives. It should also be noted that we are not considering what Kobrin (1991) refers to as "transnational integration," but the cross-border coordination of like activities. That is, "in an integrated firm, subunits are incomplete economic entities and their value is, in large part, derived from relationships with others" (Kobrin, 1991, p. 19). However, cross-border activities, structures, and systems are established to coordinate similar types of work.

In presenting the results, the emphasis has a west European focus. The basis for the choice is that this aspect of the firm has the most fully developed infrastructure to incorporate many of the intended changes. In other words, it affords the most fully developed case available to the researchers. In gaining the cooperation of the firm under examination, it was necessary and desirable that the researchers agree to maintain as high a level of anonymity as possible to protect the firm and participating individuals. Therefore, neither the firm nor any individual will be identified. Still, the members of the firm who agreed to participate in the interviews were extremely cooperative and generous with their time. In addition, the firm made available a number of sensitive and confidential documents to which we may refer in a relatively general fashion. In all cases, the information presented here is considered as accurate as could be determined by the researchers. A copy of the paper has been read by members of the firm, and they attest to the accuracy of the contents.

Past organization

The firm used to operate with a relatively loose international organization overseen by a board made up of the heads of the major countries. When the international firm was established, there were fewer than twenty member firms. They operated without any strong formal structure and for the most part acted as a very loose agglomeration of national firms. A variety of committees existed to exchange information and provide an overall common image. In addition, the world was divided into a number of fiefdoms (subregions), with general supervisory responsibility given to one of the larger countries over those that were smaller and whose practice was less well developed. The role of the lead country was to provide aid and guidance and to ensure that an acceptable level of quality was maintained when dealing with international clients operating abroad. Once a national firm in a region reached an acceptable stage of growth and maturity, it was split off as an independent entity but remained within the sphere of influence of the major country.

If a major new initiative was to be undertaken, it required the development of an alliance between two or more national firms. A primary case in point for this particular firm was a decision to become established in Russia (Cooper et al., 1994). This was not done through central direction by the international body or a headquarters unit; rather, it required one of the major countries to take a lead role and develop support among other national firms. Along the way, some countries tried to "muscle in" against opposition from the original firms, while other countries would have a change of heart and drop out. In other words, it was a very fluid process, to say the least—not one where someone at the top made the decisions, marshalled the resources, and assembled the troops to march ahead. The international firm, as a set of independent firms, has recognized the necessity of developing means and structures that allow the assembly of resources and personnel movement across borders if it is to be successful in today's global marketplace. It wishes to develop a "one firm" attitude, regardless of the legal structure adopted.

The specific changes that have taken place are best exemplified by the European members of the organization. The European firms account for about half the international firm's revenue and therefore are seen as a major single group. This section briefly states what were seen as the reasons for change, and states in more detail the changes that resulted. Finally, this section gives an indication of the results to date, despite the short time frame. Prior to the change one could state, following Aharoni (1993, p. 138), that the European network operated according to the following five points:

1. To work (and charge fees, but also pay referral fees) on cases referred by other organizations in the network;
2. To refer work in other countries to sister organizations in the network;
3. To maintain minimum standards of professional work;
4. To be subject to periodical reviews to maintain quality; and
5. To send partners or professional workers to be trained in certain methods by other parts of the organization.

Braces & Boots Europe (B&BE) was established in 1989, three years before the international firm produced its first strategic document.[1] It was established by the European member firms, who recognized that changes in the European market required a move away from the old-style approach and the adoption of a more proactive and formalized approach aimed at ensuring consistent service capability. All firms recognized that they shared a similar client base. To service such a set of clients, the European firms agreed they should strive to achieve a one-firm infrastructure, a common strategy, mechanisms for cross-border coordination, a common image across Europe, and systems for transfer of partners and staff. In 1989, the European member firms signed what they called the Braces & Boots Europe agreement, where they agreed to have a common strategy, to recognize shared clients, and to invest in a dedicated administrative team to pull the activity together.

Until that time, international activity across the firm had been referred to by the expression "an army of volunteers." Essentially, it has been partners that had a particular interest; or they might have an international client and therefore be involved in international travel; or they had a sectoral interest. Such a group would then agree to meet. They would form an industry group, find funding somewhere for a joint activity, and work together for a short period of time.

However, there was never any form of structure or dedicated staff to back it up. The work force and the interest were all found in the "volunteers." It was seen as a nineteenth-century approach to operating or developing new ventures.

One precipitating factor to the change was the merger activity that took place in 1988 and 1989. B&BE grew significantly when the national affiliates in three separate firms in three different countries decided to join B&BE rather than go with newly merged firms in their home countries. No longer is the international firm composed of fewer than twenty national firms: it now numbers in the mid-130s with a total staff of over 60,000 people, half of whom are in Europe. The magnitude of the change, and/or the size and type of client, called for a new approach. For nearly all of the practices in the major countries, there is no longer any need for aid and supervision from a fellow country member, and having an overseer on your national firm's board is especially unnecessary.

The initial steps that B&BE followed to achieve the goal of a one-firm infrastructure, and therefore a tighter strategic alliance across Europe, was to develop a strategic plan and a governing structure and to establish a dedicated support staff. Developing a strategic plan took place in B&BE two years prior to a similar initiative for the international firm as a whole. However, the fact that many of the national firms in Europe, in moving toward a more MPB form of organization, had already conducted similar planning activity, helped at the level of the European firm. The launching of the strategic-planning activity then led to the consideration of a new governance structure. In this instance, at least as reported by the informants, structure really has followed strategy. The indication of clear commitment to the new strategic direction was the agreement to provide staff and resources to support a number of functional areas, especially marketing and human resources. For this particular organization, it was seen as a radical shift in structure from one that was based strictly on voluntarism to one that was more formal. In other words, the European firms were developing a new collective interpretive scheme. They were seeing themselves as a more unified group with a shared destiny and a common culture, rather than a loose federation of independent entities. However, the alliance was still composed of national member firms that did not share profits.

Governance

To oversee B&BE, the firm established a council of senior partners who meet twice a year, in January and June. The January meeting reviews the firm's progress and looks to the future, including a brainstorming session and scenario building. The June meeting is shorter and more formal, with an emphasis on funding approval and election of a board that meets five times a year and has eight members. One position is reserved for a smaller country such as Cyprus. The remainder attain membership by virtue of their size and rank within the firm. Board meetings last for a day and rotate around member countries. The agenda includes various topics on progress in service lines and markets. The executive partner is appointed by the board under a five-year contract. In accepting the position, the incumbent must resign his partnership from his national firm to minimize any conflicts of interest. B&BE has just recently appointed its third executive partner. The west European initiative is funded by a special levy in addition to what is paid to the main international firm for administrative support and investment in new ventures. The amount is based upon turnover of the previous year. The funds are then used to finance projects of special interest in Europe that are not funded by the international firm. In approaching the structural changes, the original executive partner chose a strategy of building the infrastructure, getting it in place, and obtaining broad agreement for where he was going before approaching senior partners and saying: "These are the priorities of the year: how are you going to approach these objectives?" Before the executive partner could do so, events in the firm dictated what would happen.

When the international firm developed a strategic plan in 1992, two initiatives were adopted that affected events in Europe as well as throughout the entire firm. First was that member firms should produce a report to the international firm outlining how they had performed in implementing the strategy in their country. This was considered a "tremendous step forward." Second, there was to be a series of "country visits" whereby members of the International Executive Committee were to visit with the senior management of a local country to brainstorm for two or three days. These visits have been seen as useful in filling in the gaps between the intended strategy and what is actually happening. A further benefit has been in revealing what are seen as the important and real objectives at the local level. The result of the strategic planning activity is that the firm, at the international and European levels, believes it has a coherent strategy and a mechanism for implementation.

Support staff

Despite such broad, sweeping changes as strategy documents and an overall governing structure, the firm has recognized the need for at least minimal changes at the functional level and in staff support. The expectation is that the dedicated support staff group will consist of the following complement: strategy support (3 members), taxation (2), management consulting (3), auditing (1), human resources (1), corporate finance (1), and marketing (2). At the time of this writing, the only areas with staff were strategy support, taxation, management consulting, and marketing. It was expected that the remaining staff would be added in the near future. In addition, the Brussels office assists in the secondment of people throughout Europe, of which there are now about 1,200 on six-month to two-year assignments. Such arrangements are a top priority in the firm since they seek to improve cross-border business development capacity by delivering the most capable resources and skills, regardless of origin. At the core of this strategy is the mobility of the most capable staff.

The work of the taxation staff support group in B&BE is focused mainly on developing and managing the tax training program. B&BE, with board approval, is moving to a firm-wide training program for reasons of quality and consistency. To mount these programs throughout Europe takes up the majority of the time of one person in the tax area. This approach to training is in support of the European board's decision to have a common human resource approach. In addition to training of staff, the program has conducted a number of new-partner seminars throughout Europe.

The firm has also developed a set of forms and a procedure for a more formalized Client Service Approach program. The forms are to be used to get feedback on services provided to the firm's top 300 clients. The use of this approach is now considered mandatory in Europe, and it is intended to help the European practices to work together on a common discipline for providing clients with consistent high-quality service.

The marketing function is staffed by a single person whose role is largely one of coordinating marketing activity across Europe, and providing information to local firms. The main vehicle for doing so to date has been a newsletter for partners in Europe. Coordinating marketing is complicated by varying levels of commitment and resources available across member firms, as well as by variation in country laws concerning which marketing professional services are allowed. For example, German law is very restrictive on what a firm may do. A second marketing initiative is to develop a common image for the firm across Europe. This requires in part the use of the same name across all countries. To do so, the firm is developing for the first time a common logo and set of letterheads; and the marketing director is conducting image and performance surveys to assess the firm's place in markets across Europe.

To carry out projects, the executive partner appoints a team consisting of firm partners—dedicated staff who work full time for the European organization. The result is that B&BE has a series of projects funded by B&BE and delivered by people in the European network. One project that is under way is an examination of the human resource consulting market in Europe. The executive office is hiring the firm's consultants at special rates to do the work. The result is considered more cost effective and allows for maintenance of a minimum staff in the Brussels office. However, as one can see, it retains the old system of "an army of volunteers" to ensure that work is completed.

The most important initiative of B&BE is investment in central Europe with member firms in each of the eleven central European countries. This is seen as a joint investment by member firms and is managed as an operating subsidiary. One of the issues being debated is what to do in the longer term in central Europe. The old-guard approach was: "Well, eventually, you know, we'll send it up to the local partners." However, the preferred conclusion now is not to send it up to the local partners, but to continue to run it as a joint-venture subsidiary of the B&BE firms. As one partner said, "Why should we reinvent the problem of national member firms?"

A common problem for the individuals who have not yet reached partner status is a disincentive to stay beyond a couple of years. The tax manager, for example, has an agreement that he will be in Brussels for only two years and then return to his home country. The reason goes back to the idea of the national firm as the basis of the international organization. Partnership, which is a goal for nearly all young people in such firms, must be attained at a national level—in other words, for example, one is a partner either of the United Kingdom firm or of the German firm. Therefore, it is necessary to be working and known within a home country. This problem extends itself to secondment of staff. Since it is impossible to have a full complement of all forms of expertise in a country, it is desirable to be able to transfer professional staff as needed. Again, the national firm focus of partnership and profit hinders this process.

B&BE as a strategic alliance

The individual country firms that make up B&BE have made a significant change in how they see the intent and operation of what may well be termed their strategic alliance under a common umbrella. They have moved from a loose federation of quasi-independent firms to attempting a one-firm infrastructure. To do so, they have developed a common strategy and a beginning at mechanisms of cross-border coordination through development of a common image, the secondment of personnel, and a small central support staff, as was seen before.

It was argued earlier that a variety of alternative cooperatively based frameworks may help in analyzing the results. The work mentioned included Malnight (1995), emphasizing development stages as an organization approaches a stage of integration. Another relevant work was Nielsen (1988), who identified a variety of cooperative strategies. Similarly, Oliver (1990) set out a range of critical contingencies and conditions in establishing interorganizational relationships. Finally, Borys and Jemison (1989) contributed conditions that would ensure the maintenance of joint activities. It would be possible to find relevant applications from each of these contributions to the literature in analyzing the case at hand. However, the most relevant one in itself appears to be Hedlund's (1994) N-Form organization.

Hedlund's N-form

Hedlund's N-form organization has the following main identifying themes:

1. Combination of knowledge, not division.
2. Temporary constellations of people.

3. Importance of personnel at lower levels.
4. Lateral communication.
5. Catalytic and architectural role at the top.
6. Strategies aimed at focusing and at economies of depth.
7. Heterarchy as the basic structure.[2]

One might argue that the attempts at forming an alliance among the independent national firms of B&BE are best described via this N-form organization. There are a variety of attempts to share and combine knowledge across borders. The idea of temporary constellations of people is at the heart of the firm's strategy to bring the best possible talent to bear across national borders and to generate new business, irrespective of borders. Movement of personnel takes place at lower levels in the organization because that is often where one finds the necessary expertise. In general, communication is lateral through newly developed technology and recently installed e-mail systems, as well as through newly developed networks of professional staff. The new governance structure and relatively small support staff mean that the top personnel have little time left to function other than in a catalytic fashion to generate new directions and initiatives. Given a common and professional background with similar experience and training, it is likely that the firm will have a good chance of developing economies of depth where there is an extremely high level of expertise in relevant accounting areas. Finally, given that one is considering an organization that is really an alliance of independent firms, a heterarchy that involves knowledge combination rather than division seems a logical structural outcome.

The above discussion indicates that, since 1989, B&BE has made a promising beginning at developing a degree of unification among the national firms of western Europe. The intellectual foundation has been established, and the structure has been put in place. However, it is now at the level of implementation that the final outcome will be determined. This is especially true for the actual systems and structures that are just now being put in place.

Conclusions

We have argued in this paper that large international accounting firms may be seen as a form of strategic alliance. The form and nature of such alliances are changing in the face of a variety of external pressures as markets become more competitive and global.

As we have argued elsewhere (Cooper et al., 1994), organizational change may be seen as a layering of a new form of organization upon a previous form. The result is competitive commitments within the firm that will affect the final form of the change as individuals retain a loyalty to the national firm, rather than the newly formed international entity. Such is certainly the case in B&BE. While there has been a move and a commitment to change, each of the national firms still exists as an independent entity. And most important, each national firm retains and shares profits on a national basis; and it is on a national basis that one attains the exalted rank of partner. The result is the staff of B&BE will retain their primary loyalty to the national firm. The final resolution of loyalty and whether or not the new and the old layers will mesh and hold are still to be determined.

Notes

1. Braces & Boots Europe is a pseudonym that has been agreed upon by the participating firm.
2. A much more complete description than is possible here may be found in Hedlund (1986, 1994).

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