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# WHY ARE THERE SO FEW CASES OF PROFESSIONAL SERVICE FIRMS?

Shiva Kumar Srinivasan\*

## **Abstract**

*Why is it that there are so few cases about professional service firms (PSFs) given their increasing dominance in the knowledge-based era? The attempt to answer this question presupposes a willingness to differentiate between what strategy professors mean by strategy and what strategy consultants mean by strategy. This perspective essay argues that the development of strategy in the business academy and in strategy consultancies has happened on parallel tracks. There has not been as much interaction between these strategists as would be desirable, albeit with some exceptions. These exceptions happen when consultancies have been spun-off from the theoretical work of top academic strategists. However, since these theoretical exchanges are few and far between, academics have focused mainly on developing general frameworks while the consultants have concentrated on building specific forms of knowledge through intense tracking of industrial segments known as 'verticals', and in presenting their findings as granular insights. The role models of strategic cognition and the outlets where results of such studies are reported using these approaches also vary considerably. The revitalization of the case method in management education however demands not only the willingness to write more cases about professional service firms on the part of academics in business schools, but also the availability and the deployment of interdisciplinary approaches to the case method analogous to those that have 'defamiliarized' the case method in the U.S. law school system.*

**Keywords:** Case Method in Law and Management, General Knowledge and Specific Knowledge, Management Consultancy, Organizational Strategy, Professional Service Firms, Theories of the Firm

## **INTRODUCTION**

Why are there so few cases about decision making in professional service firms (PSFs)? What are the demands of strategic decision making in PSFs? What are the differences between the styles of decision making in traditional firms and PSFs? What must business schools do to generate an adequate number of cases about PSFs? These then are some of the important questions that must be addressed by schools which use the case method of instruction. The significance of these pedagogical questions arises from the fact that neglecting PSFs and knowledge-based sectors of

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of the economy can lead to a serious misunderstanding on what actually constitute the effective protocols of decision making in business firms. The significance of these questions is also related to the fact that the proportional contribution of the service sector has increased considerably in relation to the traditional sectors, in most of the advanced nations, in terms of the total GDP. If the service sector dominates in the mature economies, there should be a proportional increase in the number of cases that relate to the service sector in business schools since the vast majority of business school graduates will probably wind up in PSFs in the years to come; but, this is not the case for a number of complex reasons though there are a few good casebooks on PSFs (De Long and Nanda, 2003). Not only do professional service firms not get sufficient attention in the context of the theories of decision making, they are often neglected by case writers who are trying to teach decision making.

## **STUDIES ON PROFESSIONAL SERVICE FIRMS**

Those who specialize in the study of professional service firms are so few in number that even though they are well-known, their work is seen only or mainly as a contribution to the study of PSFs (Maister, 1997), and not dynamically related to the theories of the firm as such; and, subsequently, to the generation of models of decision making in the area of strategy. There is no concerted effort to bring their work to the mainstream of general management and/or strategic management, or even to understand the implications of their studies of PSFs for these areas as a whole though they themselves have tried to work out the differential features, of, say, a theory of leadership in the context of PSFs; and, by implication, for those sectors that are related to the knowledge economy (De Long et al, 2007). This neglect of PSFs by business academics has inadvertently created a distorted notion of not only the process of decision making but also the significance of crucial sectoral differences in case writing. It is also not a good idea to assume that all firms are the same, and that decision making is merely about listing and evaluating options. Students placed in the service sector after graduating from business schools know a lot less about the firms that they will join than the students who are placed in just about any other industry. So while students keep hearing in macroeconomics courses that the service sector is where things are happening, they do not find much corroborative evidence of this assertion in functional area courses. What is happening then is quite simple: the curriculum in business schools is preoccupied with the linear model of organizations rather than with the knowledge-based model of the organization where most of the decisions are taken in terms of sheer volume. So both in terms of decision making styles and in terms of leading knowledge workers effectively it is important to understand what is happening in the knowledge-based sectors of the economy (Davenport, 2005).

## STRATEGY IN THE ACADEMY

Why, to sum up the discussion so far, are faculties in business schools shy of studying professional service firms? In order to answer this question, we must address the development of strategy as a discipline (especially the relationship between what business schools define as ‘strategy’ and what management consultancies define as ‘strategy’ since these are not necessarily the same thing). While there has been some awareness in business schools on what management consultancies are up to, research in business schools requires more involvement with the kind of work that is done by consultants. This is not because there is any problem with how consultants think about or research these questions. It has to do with the fact that the growth of strategy as a discipline has happened on parallel tracks. Those who teach in business schools do their own thing and those who formalize their findings within consultancies in the form of research papers do so mainly for fellow consultants, or in order to develop intellectual capital for themselves and their firms. The transferential genealogies of knowledge creation and transmission within academia however do not generate sufficient intellectual encounters between academics and consultants though there are some important exceptions to this rule in the form of occasional cross-overs and spin-offs. The exceptions in this context include strategy professors who set up their own consultancies like Michael Porter (Monitor), Gary Hamel (Strategos), and Clayton Christensen (Innosight). These consultancies are an attempt to actually apply the stock of knowledge and insights that have already been developed by a particular professor and the research teams with whom he is given to collaborate. Some members of these teams commute between these worlds and have done research both as academics in graduate programs in business schools and as management consultants (Kiechel III, 2010).

## STRATEGY PROFESSORS AS CONSULTANTS

These breakthroughs however are not common and most attempts by strategy professors to create independent consultancies or ‘spin-off’ a breakthrough in strategic theory don’t gain sufficient traction in the market place. Porter, Hamel, and Christensen interestingly represent the exception and not the rule since they have done work that is important both within business academia and in the context of the consultancy process (Bower and Christensen, 1995; Skarzynski and Rowan, 2008; Anthony, 2009). They however represent only a miniscule proportion of strategy professors who have either taken the trouble to set up their own firms or who have tried to engage with the stock of ideas in circulation within the area of strategy. They have done this by designing applications that can not only generate value in the market place, but also compete effectively with leading consultancy firms. So even though strategy is supposed to be an applied area, the opportunities to apply strategic insights are few and far between except for those members of faculty who have already built a strong relationship with industry, and actually understand what the

specific requirements in a given industry are. So a great deal of academic work in strategy is an attempt to develop general knowledge and theoretical frameworks in the context of business economics rather than the specific or granular knowledge that is demanded by a given industry. It is the ability to develop specific knowledge or organize teams that can build granular knowledge by tracking, if necessary, crucial sectors and verticals in the industry for years in the anticipation of consultancy-based assignments that is missing in academia. The teaching of strategy will not translate into consultancy assignments unless the specific knowledge of verticals and the determination to track all developments of consequence 'within' and 'across' related verticals is firmly in place, along with the hard and soft infrastructure necessary to do so in the form of consulting teams and a range of cognitive tools. It is the absence then of such specific forms of knowledge that makes even the writing of occasional cases difficult for strategy faculty despite the availability of case leads through managerial development programs. There is then, to put it simply, an important difference between doing company analysis and industry analysis as a form of general knowledge and as an instance of specific, granular knowledge. While both are important, strategy academics specialize in the former, and consultants in the latter. The high revenues that consultants can generate for their firms are related to their ability to translate general knowledge of strategy into granular insights depending on the empirical specificities of a given assignment.

## **GENERAL KNOWLEDGE AND SPECIFIC KNOWLEDGE**

The differences then between general knowledge and specific knowledge that Jensen and his academic collaborators have developed in their work on the 'foundations of organizational strategy' is an important clue to what is at stake in the parallel development of the discourse of strategy (Jensen & Meckling, 1992, 1998; Wruck and Jensen, 1994, 1998). Here is a specific instance of how this parallel structure plays out in practice. A student who is well-versed in the academic discourse of strategy will, when he makes a transition to a leading strategy firm, encounter for the first time the specific articulation of the kind of knowledge and skill-sets that characterize the consultancy process. He will also start reading journals like the McKinsey Quarterly or strategy + business for the first time as a potential source of problem solving in consultancy-based situations. In course of time, he will learn to place and situate instances of a range of solutions in the context of strategy by learning to navigate the neural networks, expert systems, and the record of previous client-based assignments that are already in place in knowledge management systems within the network of offices to which his consultancy belongs. The knowledge management architecture within which he will learn to search for solutions will help him to make the transition to the domain of specific knowledge. The courses that he has already done in business school will serve as the general knowledge that is needed to get started. And, interestingly enough, he will find that there is a tradition of vibrant knowledge generation and transmission within management consultancies that is as rigorous and interesting as in business academia.

## BOWER AND HENDERSON AS ROLE MODELS

In course of time then these associates learn that the stock of intellectual capital within the space of consultancy is rich enough to generate both general knowledge and specific knowledge of the strategy process. It is at this point that the student-turned-associate in a consultancy firm has made a transition to a parallel tradition that he has heard about in passing but not actually experienced in person. It is also at this point that these associates in training internalize the transferential traditions within the firm whether it takes the form of learning to revere Marvin Bower at McKinsey or Bruce Henderson at BCG (Rasiel, 1999; Rasiel and Friga, 2001; Friga, 2009). This is true in law firms as well where the transferential matrix of knowledge transfer is even more deeply-rooted; that is why Bower wanted McKinsey to invoke a professional law firm with well-entrenched traditions of client servicing as a professional role model (Edersheim, 2006). While there is not sufficient time to examine the relationship between what law firms mean by strategy and management consultancies mean by strategy, suffice it to note at this juncture that having at least a desire to understand the similarities-and-differences between professional service firms is important for anybody who wants to incorporate the insights from such an attempt in the academic literature on strategy. The pioneering attempts made by Jensen and Meckling and a whole host of scholars in the area of law and economics, for instance, to open up theories of the firm to the complex dynamics of organizational strategy, rather than through the invocation of reductive models has made it possible to deconstruct the differences between a traditional model of the firm and a knowledge-based model of the firm. Why are business academics holding on then to traditional forms of decision-making and organization when industry itself has made the transition to knowledge-based forms of social organization and strategic cognition (McGahan, 2004)?

## CONCLUSION

What are the new possibilities of case writing then in the aftermath of the law and economics movement which business school academics can emulate? What are its implications for the notion of strategic decision-making and the attempt to teach its modalities through the case method? I think that the revitalization of the case method in business studies must take a cue from theoretical innovations in legal studies such as law and economics, law and literature, law and psychoanalysis, and law and psychiatry (Posner, 1993; Fish, 1989; Fish, 1994; Posner 2009; Katz, 1967) since that will make it possible to rethink the fundamental theoretical posits of strategic management as the organizing discipline in business studies. While strategy, like law, does use business economics as a source discipline, the aspect of the source discipline itself is seen only as a way of thinking through the traditional problems of production and consumption in the aftermath of the industrial revolution. What is needed now however is a serious attempt to dig out the theoretical potential in using microeconomic and macroeconomic representations of the service sector and

theories of innovation to make sense of how to define the emerging value chains in the knowledge-based sectors and emerging economies (Porter, 1985, 2004; Khanna et al, 2010; Kumar and Purnam, 2012). The basic cognitive units and categories of these areas have to be rethought from the point of view of the 'economics of information' rather than in terms of the production and consumption functions (Evans, 1999). And, again, since the microeconomic notion of 'efficiency' in Posner's work helped to address some of the residual quandaries of the common law, and thereby made it possible for theorists to rethink how economic notions settle into the culture of firms in the form of social arrangements; so, likewise, will the notion of strategy if redefined from the point of view of services where information, knowledge, and experience not only converge on to the locus of decision making in professional service firms, but return to 'de-familiarize' what was initially meant by strategic decision making in the wake of the industrial revolution.

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