



Herding cats

A holistic study of management control in the context of a
professional service firm

Abstract

Professional service firms (PSFs) make up an increasingly important part of the global economy. The knowledge-intensive nature of these firms does however contribute to management control challenges. Conducting a single-case study on a law-firm, the contextual challenges' impact on the management control package was examined. It was found that the professionalized staff, in combination with allowed autonomy and an equity-based remuneration system, led to directional issues. More specifically, control on a partner level was hard to achieve regarding tasks outside the role demarked by the profession. It was further found, in contrast to previous literature, that cultural controls were used to disguise more enforcing elements of control rather than to act as a directional tool in itself, which also helped empower the CEO. Finally, the reward system within the firm was found to be dominant, affecting cultural and cybernetic controls.

Our thesis is structured around the management control framework of Malmi & Brown (2008) to which three challenges facing PSFs (Nordenflycht, 2010) have been added to better systematize the empirics and analysis.

Keywords: Professional service firm, Knowledge-intensive firm, Management control as a package, Management control systems, MCS.

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1. Introduction.

More than thirty years have passed since the idea of management control as a package was introduced and since then the concept has been expanded upon by numerous researchers (Otley, 1980; Dent, 1990; Fisher, 1995; Malmi & Brown, 2008; Merchant & Van der Stede, 2007; Simons, 1995). The development of more holistic studies of management control systems (MCS) can be viewed as a reaction to the tendency of previous research to analyze elements of management control in isolation, which some researchers argued would lead to omission of important interlinkages (Chenhall, 2003; Merchant & Van der Stede, 2007; Otley, 2016). An illustration of this is that even though the importance of both socio-ideological controls¹ (Alvesson, 1995; Schein, 1985; Ouchi, 1979) and technocratic controls² (Edwards, 1979; Govindarajan, 1988; Spekle, 2001) has been recognized, the relation between the two has not been fully explored (Alvesson & Willmott, 2002; Alvesson & Kärreman, 2004; Ditillo, 2004; Ditillo 2012). Based on such reasoning, the necessity of studying management control as a package has been highlighted (Chenhall, 2003; Malmi & Brown, 2008). Furthermore, scholars have recently called for more research investigating how the design of the management control-package is affected by contextual factors (Bedford & Malmi, 2015; Malmi & Brown, 2008; Sandelin, 2008).

Further, as firms have been found to not be decoupled from their environment, the internal and external factors, such as company size (Child & Mansfield, 1972) and the nature of the competition (Khandwalla, 1972) have been studied in relation to the MCS. By examining how the context, such as a growth-setting, impacts the management control package, a deeper understanding of the interdependencies has been sought (Collier, 2005; Sandelin, 2008; Malmi & Brown, 2008). This thesis will study management control as a package in the context of a professional service firm (PSF).

As the world has grown more complex, the importance of PSFs has increased (Ditillo, 2004; Greenwood et. al., 2006; Hinings & Leblebici, 2003). Researchers have taken interest in understanding how the nature of the industry, with a skilled workforce that has high bargaining power and a preference for autonomy, may lead to several complications in applying management control (Abernethy & Brownell, 1999; Abernethy & Stoelwinder, 1995; Alvesson, 2003; Alvesson, 2004; Alvesson & Kärreman, 2004; Ditillo, 2004; Ditillo 2005; Ditillo, 2012; Homburg & Stebel, 2009; Maister, 2003; Nordenflycht, 2010). In regard to studies within PSFs, the importance of linkages between elements has been underscored, but the effects of the knowledge-intensive context on management control has mostly been studied from a singular approach (Alvesson & Kärreman, 2004; Ditillo, 2004; Ditillo, 2012). While there have been studies in a PSF-context investigating more holistic topics such as the balance between socio-ideological and technocratic controls (Alvesson & Kärreman, 2004; Ditillo, 2004) or what management control tools are the most suitable (Abernethy & Brownell, 1997), the research field has not been exhausted (Abernethy et. al., 1997; Ditillo, 2004; Ditillo, 2012; Homburg & Stebel, 2009).

¹ Socio-ideological tools are used to “persuade employees to adapt to certain values, norms and ideas” (Alvesson & Kärreman, 2004) and are largely informal.

² Technocratic tools are more enforcing and formalized in nature and meant to measure output and control behaviour directly (Alvesson & Kärreman, 2004).

The guiding research question will be:

How does the contextual challenges of a PSF affect the formulation of their management control package?

For the purposes of this thesis, a single-case study has been chosen. Multiple-case studies have the advantage that there is a larger ability to generalize the findings obtained (Yin, 2014). At the same time a single-case study allows the researchers to go more in-depth into the specifics of a certain firm. This thesis aims to address the gap within literature in regard to the studies of holistic MCS in the PSF's context (Ditillo, 2012; Ditillo, 2004). The Malmi & Brown (2008) framework will be used as a bedrock to structure the different control elements. This framework will in turn be combined with three contextual challenges that have been found to be relevant in a PSF-setting: *trusteeship norm*, *opaque quality* and *cat-herding* (Nordenflycht, 2010). Using this adapted framework and delineating three challenges that affect PSFs, variations between various types of PSFs can be more clearly seen which is something that has been requested in research (Nordenflycht, 2010). In doing so, the call of Malmi & Brown (2008) for considering how contingencies will affect the formulation of the control package is additionally responded to.

The structure of this paper is as follows. In section 2, previous research of management control as a package will be presented, and both the framework of Malmi & Brown (2008), and our adaption of it will be shown. Additionally, research in regard to management control in PSFs will be reviewed. In section 3, our choice of research method and data collection will be explained and our process of analysis elaborated upon. In section 4, the empirics will be presented based on the structure of our adapted framework. In section 5, an analysis of the empirics will be conducted to answer the research question. In section 6, the final section, our conclusions will be presented and our contributions will be shown and expanded upon.

2. Previous research

In the following sections we will present management control research that has been considered relevant to this study. In 2.1 previous research regarding management control as a package, that will form the anchor for our contribution, will be described. In section (2.1.1) the idea of linkages between control elements, which is important in the MCS package literature, will be further expanded upon. Lastly in (2.1.2), contextual variables and how they may affect the interdependencies between control elements will be developed.

Adding to this discussion, the contextual aspects (2.2) facing a PSF will be further elaborated upon. This will be followed by an introduction of research regarding interdependencies between control elements in a PSF-context (2.2.4). Thereafter (2.3), we will introduce the MCS-framework of Malmi & Brown (2008). Finally, the Malmi & Brown framework (2008) will be combined with the specific contextual PSF-challenges from (2.2) into one framework which will be used in this analysis (2.4).

2.1 Management control as a package

There have been several attempts to define exactly what constitutes a MCS (Otley 1980; Simons, 1995). As we have chosen to analyze the MCSs of a PSF through the framework of Malmi & Brown (2008) their definition will be used in this paper and it states that MCSs are built upon: “systems, rules, practices, values and other activities management put in place in order to direct employee behavior”. From this perspective it constitutes an arrangement of tools that together form a mechanism that directs behavior within the organization.

One of the first authors to use the term management control package was Otley (1980). According to the author, a MC-package refers to a range of MCSs used in an organization, which might or might not be intentionally designed and coordinated. Otley (1980) discusses how accounting based information systems (AIS) not only need to be adapted to the external context, but to internal considerations as well, asserting that: “There are extensive interdependencies between AIS design and each of the other components of the package”. Following Otley (1980), there have been several attempts to systematize the analysis of different control aspects and several frameworks have been developed (Merchant, 1985; Simons, 1995; Malmi & Brown, 2008). While some of the frameworks omit certain aspects of control, such as informal control (Simons, 1995), the aim has partly been to help researchers in systematizing the analysis of linkages between control elements (Merchant & Van der Stede, 2007). Applying different frameworks, a deeper understanding has been developed in regard to both the relationship between different elements of control (such as the balance between formal and informal elements) and how contextual variables may impact the formulation of MCSs. These aspects will be discussed in the following sections.

2.1.1 Interdependencies between control elements within a MC-package

In regard to management control as a package, the importance of balance and internal consistency between different elements of control has been confirmed by several scholars (Collier, 2005; Mundy, 2010; Sandelin, 2008; It has been emphasized that control elements do not operate in isolation and that the interdependencies within a control system are important to take into account (Ahrens & Chapman, 2004; Flamholtz, 1983; Huikku 2007; Malmi & Brown, 2008; Sandelin, 2008; Simons, 1995; Widener, 2007). Flamholtz (1983) maintained that if a consistent message is not

conveyed through the control elements, employees will try to create a connection between values and controls on their own, which could lead to suboptimization.

In relation to these interdependencies, Tuomela (2005) analyzed how a certain performance measurement system (PMS) impacts other elements of control, using the Simons' framework (1995), combining it with the Otley (1999) framework. It was found that there were strong linkages between the PMS and all four levers of control. This research thus highlights the importance of studying elements of control in connections to other elements of control rather than in isolation. Sandelin (2008) maintained that to achieve internal consistency within a MC-package, the "primary mode of control shapes the design of the control package, whereas the use of the secondary modes of control complements the primary one". This means that a dominant control can shape the system with a more submissive control acting as support and through their alignment balance and internal consistency is achieved.

The linkages between levers of control was expanded upon and systematized by Mundy (2010) who used the Simons (1995) levers of control-framework. Rather than trying to "optimize" each lever on a stand-alone basis, it was argued that a competitive advantage largely stems from understanding and managing the balancing act between the levers. It was concluded that five factors within the control elements were deemed necessary when balancing the controlling and enabling functions of the levers: Dominance of a lever; Internal Consistency among levers; Suppression of a lever; Logical Progression of levers and the Importance of Interactive Controls in stabilizing or destabilizing current configurations. These five aspects of interdependencies between elements were found to have a significant impact the MC-package applied.

Another area that has been studied to some extent in regard to MCSs is the relationship between formal and informal control (Kennedy and Widener, 2008). Much of the original research in regard to MCSs emphasized more formal and harder elements of control as opposed to informal controls (Otley and Berry, 1980; Green and Welsh, 1988). Formal tools have been found to be easier to measure and thus study (Ayers et. al, 2001) and often necessary to control employee behavior. However, over time scholars have become increasingly concerned with incorporating informal and social controls as they should partly grant larger independence among employees (Malmi & Brown, 2008; Sitkin & George, 2005) and may allow for more creativity (Henri, 2006).

One criticism in regard to literature focusing on formal and/or informal controls is the tendency to adopt an "either-or view", meaning a focus on one of the aspects of control rather than the relation between them (Alvesson & Willmott, 2002; Collier, 2005; Sandelin, 2008). This means that either socio-ideological controls (Schein, 1985) or technocratic controls (Jones, 1992) have generally been in focus. Alvesson & Kärreman (2004) found that technocratic tools that were not directly meant to support the company culture sent vital signals about expectations and were more important than social-ideological controls in shaping culture. In the framework of Malmi & Brown (2008) this balancing act could be viewed to be closely related to the relationship between cultural controls and cybernetic controls while Simons (1995) does not address informal control. In a study on an Indian call center D'Cruz and Noronha (2006) expanded upon the interaction between formality and informality. They found that employees identified themselves as professionals which made the staff accept enforcing technocratic controls. The notion of a professional workforce was

strengthened by socio-ideological tools such as training and introduction. The results obtained in these more holistic studies stand in slight contrast to the view put forward by Ouchi (1979) in which clan controls are viewed as largely opposite, rather than a complement, to more bureaucratic forms of control. The research highlights the often ambiguous linkage between formal and informal control mechanisms.

2.1.2 Recognizing the need for a contextual approach

Studies have identified numerous contextual aspects that may impact how the MCS should be designed (Chenhall, 2003; Dent, 1991; Granlund & Taipaleenmäki, 2005). As recognized in contingency-based research, firms are not decoupled from their environment which means that the MCS adopted will be heavily influenced by internal and external factors (Otley, 2016). One setting where the context and its impact on the MC-package has been recognized is fast-growing and/or smaller firms. These firms have been found interesting as they often have a lesser need for formalized management control and the time perspective has been found to help explain how a holistic MCS package develops (Sandelin, 2008). There are some similarities with knowledge-intensive firms since they often operate in smaller project-teams (Ditillo, 2004) and usually have large informality (Nordenflycht, 2010). Sandelin (2008) analyzed how MC-packages in a firm varied when they were applied in two different points in time. In the case-study, the dominant controls used in the growth phase and after the IPO were radically different, but both were deemed to produce an equally good outcome, which was labeled equifinality. This result was found despite external contingencies which were relatively similar. One could see that this partly contrasts the contingency approach, where the external environment is assumed to induce similar changes to a firm's MCS (Gerdin, 2005; Spekle, 2001). Another typical characteristic is the often pronounced role of an entrepreneurial owner as studied by Collier (2005). In the study, social controls were found to be critical and decreased the need for other types of controls. Empowerment of the employees was not deemed necessary, in contrast to the view held by Simons (1995) that the MCSs have to manage the balance between empowerment and control. Within this context the importance of informal controls was thus emphasized. Further, Davila (2005) investigated how different control elements were balanced in a growth firm and described how the formalization of control elements increased over time. Research combine to highlight the importance of context when understanding the balancing act between control elements.

In the next chapter the context and challenges facing PSFs will be expanded upon and discussed. The section will contain elements of previous research that will help us create the theoretical framework that will form the basis of our analysis.

2.2 Theoretical concept - Contextual factors within a PSF

Within this section a definition of PSFs will be provided (2.2.1) after which a narrower classification will be made in regard to the firm we have chosen to study (2.2.2). This will be followed by an elaboration of the contextual issues of the professional service industry (2.2.3), and finally previous research in regard to more holistic research within PSFs will be explored (2.2.4).

2.2.1 Definition of characteristics pertaining to Professional service firms

Firms characterized by knowledgeable workers that are educated to deliver advanced services have been labeled in an assortment of ways by authors (Lowendahl, 2000; Maister, 2003). Terms such as knowledge-intensive firms, knowledge organizations, knowledge-based organizations or professional service firms among others have been used to describe these types of firms (Robertson & Swan, 2003). Furthermore, the characteristics of PSFs, have been defined in a number of ways (Alvesson, 2004; Lowendahl, 2000; Maister, 2003). Lowendahl (2000) for example defined PSFs by focusing on professionals active within the firm. This view highlights highly educated employees carrying out knowledge intensive work with both allowed discretion and strong professional norms that guide them in their work. Maister (2003) expands on this definition and adds two main characteristics to PSFs; close face-to-face interactions with customers as well as highly customized solutions. Adhering to this view, Alvesson (2004) highlights the commonalities within the profession, a shared knowledge base and strict norms and regulations which are important for identification. Nevertheless, Nordenflycht (2010) argues that there exists a large confusion among scholars on which firms to include under the term PSF apart from the “usual suspects” such as accounting firms and universities. For this reason Nordenflycht (2010) has developed a systematic definition that captures many of the aspects mentioned above, and classifies firms according to their characteristics. In this thesis the PSF-definition of Nordenflycht (2010) will be applied. He argues that rather than focusing the definition on a specific industry, an approach based on characteristics is more inclusive. He proposes three defining qualities of a PSF, where knowledge-intensity is a must and the other two are helpful for further, more specific, classifications:

- Knowledge Intensity;
- Low Capital Intensity;
- Professionalized Workforce.

In summary, the aspects described expand on the idea of a professional, highly educated staff, guided by professional norms producing intangible output. Whereas there seems to be a large amount of ambiguity among scholars in terms of definitions, there is also large commonalities which Nordenflycht (2010) draws upon, these characteristics as mentioned by Nordenflycht (2010) will be used to define PSFs in this paper.

2.2.2 Classifications of PSFs

Whereas professional service firms at a first glance might seem to form a homogenous mass of companies that are relatively similar, Nordenflycht (2010) argues that there are many contrasts between different types of PSFs. There are distinguishing factors that explain variation and differences in how PSFs apply management control. The MCS used in a hospital might not be suitable for an accounting firm etc. In research, a few different ways of classifying PSFs into

categories has therefore been developed, notably by Maister (2003) and Nordenflycht (2010). Maister classifies firms into three separate categories based on the spectrum of practices and procedures. On one end are the “Brain-firms” that are highly innovative and operate on a mostly ad-hoc basis with low procedural structure. On the opposing end are the “Procedural-firms” that have more established practices and relative more standardized output. Finally, in the borderland of both these archetypes are the “Grey-hair” firms that have characteristics from both archetypes. The underlying assumption in Maister’s (2003) classification is that firms with similar procedures should be classified according to the same standards, which excludes the possibility that companies operating in the same industry with similar clients use different forms of control. Therefore, intra-industry variation in operational strategy between firms can be lost.

Based on the three characteristics mentioned in the previous section (2.2.1) - knowledge intensity, low capital intensity and a professionalized³ workforce - Nordenflycht (2010) creates four categories of different types of PSFs:

- Classic PSFs” (e.g. law firms) - characterized by a high knowledge intensity, a professionalized workforce and low capital intensity
- Professional campuses (e.g. hospitals) - characterized by a high knowledge intensity, a professionalized workforce and high capital intensity
- Neo-PSFs (e.g. management consultants) - characterized by a high knowledge intensity, a low capital intensity and not a professionalized workforce.
- Technology developers (e.g. R&D firms) - characterized by a high knowledge intensity and a high capital intensity without a professionalized workforce.

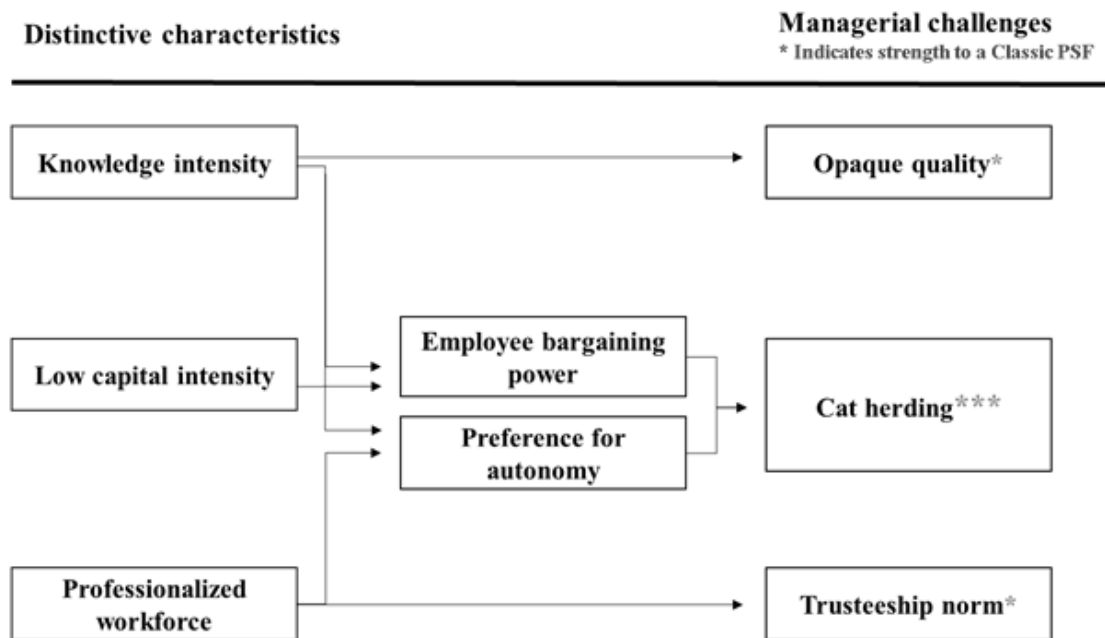
2.2.3 Context of PSFs

The specific firm this thesis aims to analyze is a law firm and thus falls under the first category of Classic PSFs. It is categorized by having all the three characteristics described by Nordenflycht (2010), namely knowledge-intensity, low capital intensity and a professionalized workforce. In figure 1 below, described in Nordenflycht (2010), the main managerial challenges of PSFs, and the relative strength of each issue in a classical PSF are mapped out.⁴

³ “Professionalized” does in this case refer to the existence of a fixed profession, such as among lawyers or doctors, rather than the employees having heterogeneous backgrounds.

⁴ In the framework of Nordenflycht (2010) apart from the three challenges, there are two opportunities that have been excluded as three factors were deemed to give a more focused approach.

Figure 1
Relationships Among Distinctive characteristics,
Managerial Implications and Organizational
Responses



A Classical PSF possesses all the three distinctive characteristics of PSFs in general; *knowledge intensity*, *low capital intensity* and a *professionalized workforce* which leads to three managerial challenges. First, knowledge intensity implies a knowledge-centric focus of the firm where both managers and front-line employees are highly skilled. This leads to reputational- and signaling-challenges due to the *opaque quality* of work. It also contributes to the aspect of *cat-herding* among the employees, since they are more likely to be keen to determine their own direction due to both their high bargaining power and preference for autonomy (Starbuck 1992). Second, with low capital intensity comes lower entry barriers which contributes to larger employee bargaining power, as it is possible for them to leave and start their own firm, which compounds the issue of *cat-herding*. Finally, a professionalized workforce leads to a further increased desire of autonomy among the employees. This is due to the fact that they seek discretion, which further contributes to *cat-herding*. Furthermore, the profession-specific norms and ethics affect managers' ability to direct employees since they are partly guided by the profession in itself. At the same time the professional workforce implies that employees are trained to follow professional standards, which in turn creates a *trusteeship norm* that influences which types of ownership structures are suitable to align the interests of different stakeholders.

Opaque quality

Opaque quality of the work performed stems from the knowledge intensity of the workers involved (Nordenflycht, 2010). The quality of the work performed is equivocal and it is therefore difficult for non-experts, for example clients, to benchmark and assess (Broschak, 2004; Empson, 2001).

This ambiguity becomes more problematic as the complexity of the services offered is increased. The implication of this is that managers might need to develop alternative mechanisms to signal quality. Among these, researchers deem four factors to be relevant: *Bonding*, *Reputation*, *Appearance* and *Ethical Codes*. *Bonding* is concerned with creating penalties for producing low quality for instance by creating unlimited liability for all partners, thus pressuring them to monitor each other (Greenwood & Empson, 2003); *Reputation* is a key factor in customer acquisition and retention, since there are few ways to determine quality directly by observing the output (Nanda, 2003); *Appearance* regards the distinct characteristics of the employees, what they show outwards towards clients and acts as a superficial signal of quality (Alvesson, 2001); Finally, *ethical codes* are concerned with signaling trustworthiness through, for example, codes of conduct and strict procedural restrictions (Leicht & Lyman, 2006).

Trusteeship norm

An important characteristic of a classic PSF is the notion of a professionalized workforce. The implication of this is the development of a trusteeship-norm, i.e. that the employees have to attend to interests of other parties such as clients or society in general. Often this focus is contrasted against a relentless hunt for maximizing firm profits (Greenwood et al; 2006). In order to balance this tension, prohibitions against norms that run the risk of threatening the trusteeship behaviour are in many cases needed. For instance there is often a reluctance to let non-professionals be involved as owners, because it could impact the trusteeship norm. In some industries, such as hospitals, an overly commercial focus can be avoided by organizing as a non-profit organization (Hansmann; 1996).

Cat-herding

Cat-herding refers to the phenomenon that skilled workers with great bargaining power and a preference for autonomy want to avoid control, much like cats. Research has found that professionals often require a great deal of discretion in order to come up with creative solutions (DeLong & Nanda, 2003; Lorsch & Tierney, 2002; Winch & Schneider, 1993). Furthermore, they tend to resist micromanagement (Starbuck, 1992) and they have the ability to start their own firm (Teece, 2003) which makes control difficult.

To overcome cat-herding it is usually argued that more informal control systems need to be combined with a relatively high amount of autonomy for the employees (Malhotra et al, 2006). Harlacher (2010) argued that informal peer-control coupled with up-or-out promotion structures were suitable for relatively small professional partnerships. These ideas were described by Mintzberg already in 1968, when he put forward the view that more creative organizations should put a larger emphasis on informal control mechanisms compared to other firms. Alvesson (2006) agrees with the view that a large amount of autonomy is necessary when it comes to knowledge professionals.

Another, perhaps more direct approach, has also been suggested in order to bridge to solve or manage cat-herding, which is alternative compensation mechanisms (Nordenflycht, 2010). For example the issue of retention can be reduced by offering deferred compensation, encouraging employees to stay. The issue of direction can instead be carefully managed by developing incentive systems and variable payment in order to encourage the desired behaviour (Roberts 2004).

2.2.4 Holistic management control research in PSFs

Even though management control systems in PSFs have been studied, in regard to the effect of the contextual aspects on linkages between different elements of control, literature is scarce (Ditillo, 2012; Nordenflycht, 2010). Articles in the area of accounting that have been deemed relevant to our case study will be presented below. There are two overarching themes that are interrelated. First, on the one hand, the strong relationship between hard and soft elements of control has been highlighted. Second, the dominance of certain modes of control is another area that has been expanded upon.

First, the relationship between formal and informal aspects of control have been studied in a PSF context. Dirsmith et. al. (1997) studied the, “Big 6”-accounting firms and analyzed the “exercise, resistance and transformation of control”. It was concluded that mentoring was an important form of social control within the professionalized context and that the mentoring in turn partly was shaped by formal controls. Further, due to the “mentor’s” relative autonomy the shaping of the formal controls that guided behavior was to some extent developed by them, rather than being forced upon them by top-down. Connected to this, Ditillo (2004) studied the process of software development, and separated socio-ideological controls from technocratic controls. Due to the notion that within a knowledge-intensive industry there needs to be both knowledge integration at the same time as coordination, some interesting findings were observed. It was found that the need for flexibility demanded both formal and informal controls, that could be used for both ex-post and ex-ante adaptation to the environment. He thus concluded that both control elements need to be balanced and that they were found to be complements rather than substitutes. Alvesson & Kärreman (2004) concluded in their research within a large management consultancy firm that it was the technocratic controls which were the main driver behind the culture, rather than socio-ideological tools built for this purpose. The implication found was that even though the culture could play an important role, it was largely created by the signals conveyed by technocratic controls. These findings underscore the notion that a holistic approach to management control might be needed in order to not focus too heavily on either socio-ideological controls (Schein, 1985, Alvesson, 1995) or technocratic controls (Jones, 1992; Granlund, 2003) but instead understanding both aspects in combination in a PSF-context.

Second, the relative importance of different elements of control have been studied in handling the characteristics of knowledge-intensive work and complex tasks. Already in 1979, Mintzberg warned of the potential dire effects that may arise when professionals are monitored too strictly with output controls, as it would both go against their desire for autonomy and limit their creativity. Abernethy & Stoelwinder (1995) reinforced this notion by stating that output forms of control are found offensive by professionals and that when superiors impose targets to be achieved, great resistance is to be expected. Studies in knowledge-intensive settings have concluded that cybernetic controls are of limited use if the tasks to be performed are not routine and standardized (Ditillo, 2004; Abernethy & Brownell, 1997). Abernethy & Brownell (1997) investigated the usage of different types of controls in the context of R&D. The main result was that non-accounting controls such as personal control were especially well-suited when the environment is unstable and the number of exceptions in the work performed is high. Furthermore it was stated that behavioral control did not contribute positively to performance in any situation. Ditillo (2004) argued that depending on

the tasks to be performed, there is a differing need of distinct types of control, such as socio-ideological controls when innovation is required. This was supported by Bisbe & Otley (2005) who concluded that in firms relying on innovation, use of cybernetic and largely formal tools such as budgets or balanced scorecards can diminish creativity. The types of controls required for different types of tasks have also been analyzed by Kirch (1996) through a quantitative study. It was found that the type of control necessary correlated highly with the amount of experience and knowledge of the workers as well the ability to measure the outcome. A high measurability and knowledge about the task was seen to increase the amount of self-control among the employees and outcome control. Behavioral control in turn was mostly directly connected to the amount of monitoring undertaken during the tasks. In summary, the control elements used in a PSF have been found to be generally skewed towards cultural controls, which should allow for a greater autonomy.

Overall, research in regard to MCS in PSFs has found that it is important to achieve balance and internal consistency and understand which factors are at work to achieve this outcome (Alvesson & Kärreman, 2004; Ditillo 2004). Thus internal consistency between control elements is a key characteristic which has also been noted in other contexts (Collier, 2005; Sandelin, 2008; Mundy, 2010). One important theme related to this is the relationship between socio-ideological and technocratic controls (Alvesson & Kärreman, 2004). As both archetypical types of control impact each other, it is vital to understand the linkages. Furthermore, dominance of certain types of control has been highlighted in PSF-literature, with usually more emphasis towards soft and less enforcing tools (Abernethy & Brownell, 1997; Abernethy & Stoelwinder, 1995). The dominance of a certain part of the package has also been established in other contexts. For instance Sandelin (2008) concluded that internal consistency was achieved when the primary mode of control fitted the secondary mode of control, while Mundy (2010) specifically emphasized dominance as a key factor when it comes to how dynamic tensions can be balanced.

From the perspective of Malmi & Brown framework (2008) the research summarized above implies that within the context of a PSF, there should be strong connections between the soft elements, in for instance cultural controls on the one hand, and the harder elements, such as cybernetic controls and planning controls, on the other hand. Additionally it would be reasonable to think that culture, being a largely informal control tool, would be dominant in a PSF context characterized by complex tasks and professional employees. The culture could, however, be created by technocratic tools not specifically designed for this purpose as well (Alvesson & Kärreman, 2004).

2.3. Theoretical framework.

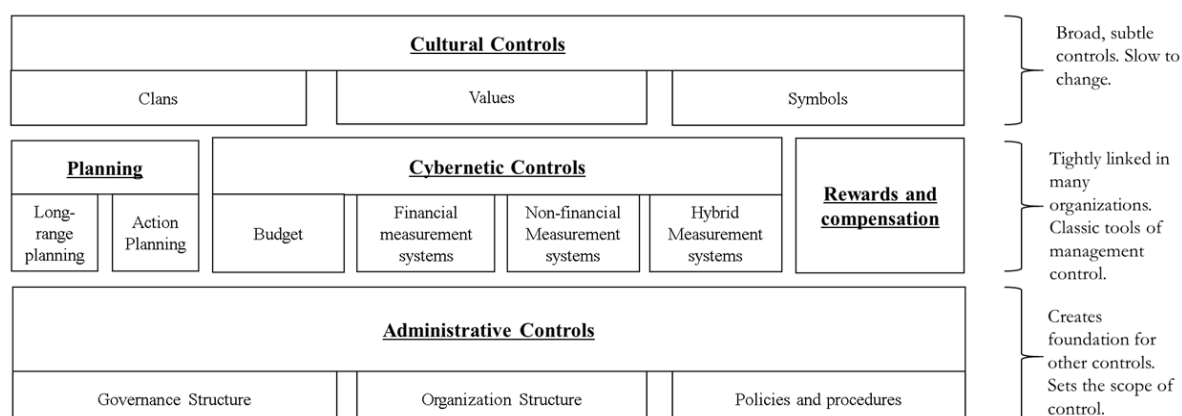
2.3.1 Rationale for using Malmi & Brown-framework

We have chosen to use the Malmi & Brown (2008) framework in order to analyze the effects of the PSF's context on the interdependencies between control elements for several reasons. First, in a PSF's context, informal mechanisms have been found to be more significant than in traditional firms and thus there is a need for a framework that takes into account more subtle and informal controls such as cultural control (Starbuck, 1992). Frameworks such as Simons' (1995) "Levers of control-framework" does only look at the formal elements of control which makes it less suitable in this context. Second, the top-down perspective adopted by such a framework could be an issue within a PSF since their structure is often flat and non-hierarchical, and the line between manager and employee becomes muddled to some extent (Mintzberg, 1979). Finally, other frameworks such as the object-control framework created by Merchant & Van der Stede (2007) often do no separation between cybernetic controls and rewards which can become problematic within this context, since PSFs often have distinct reward systems (Alvesson & Kärreman, 2004). The framework of Malmi & Brown (2008) captures both informal aspects and separates rewards from other often financially related controls and does not adopt a top-down perspective in regard to management of the firm. For these reasons it has been deemed suitable given our research question.

2.3.2 Malmi and Brown's framework for control

The Malmi & Brown (2008) framework consists of five aspects of control that together paint a broad picture of the firm's tools of management control as a holistic package. The five aspects are: cultural controls, cybernetic controls, rewards & compensation, planning and administrative controls. These will in turn be described in the following sections. In figure 2, the framework of Malmi and Brown (2008) has been reconstructed. At the very top is cultural controls which are broad and slow to change, often incorporating large amounts of informal control mechanisms which push employees in the right direction. In the middle are many of the typical tools that are most commonly analyzed in literature when viewing traditional firms; planning, cybernetic controls and rewards and compensation. From left to right they go from forward- to backward-looking. Administrative controls set the structure and scope in which the three previously mentioned can act together in harmony.

Figure 2
Adapted Framework of Management Control by Malmi & Brown



Cultural controls

One aspect that has been neglected to some extent in research on management control systems is culture. A reason might be that some authors have argued that culture is very hard to control and could in many cases be beyond the influence of managers (Clegg 2005). In the framework by Malmi and Brown (2008), however, cultural controls are at the very top, indicating that they are wide but at the same time subtle. Drawing on research from several authors, cultural controls are grouped into three distinct categories; value-based controls, symbol-based controls and clan controls (Ouchi, 1979; Schein, 1995; Simons, 1995). Simons (1995) in his levers of control framework brought forward a systematic way to describe and characterize value-based controls in the lever “belief systems”. Values which are formally managed through belief systems influence behaviour in three ways. First, people with the right set of values can be recruited. Second, individuals can be socialized and may slowly change their own values in the direction of the company’s values. Third, when values are written down for example in the form of credos or mission statements, it might encourage people to behave in a certain way, even if they do not agree with the values personally. Symbol-based controls focus around creating explicit and tangible symbols such as designing the working place in an open fashion if teamwork is emphasized (Schein 2010). The last control mechanism is clan controls (Dent, 1991; Ouchi, 1979). There are micro-groups and subcultures within any organization and individuals can slowly be socialized. This can for instance take place on the unit-level where rituals and ceremonies induce individuals to accept certain values or to the profession. Other authors such as Collier (2005) argued that cultural controls in the form of social controls would allow for less empowerment and rather more top-down control within an organization.

Cybernetic controls

Cybernetic controls are the classical tools, typically financial and formal in nature, in a manager's toolbox. Green and Welsh (1988) defined these controls as: *“a process in which a feedback loop is represented by using standards of performance, measuring system performance, comparing that performance to standards, feeding back information about unwanted variances in the systems, and modifying the system's comportment”* These control mechanisms are backward-looking and meant to measure performance using standards. By observing the actual outcomes and comparing to standards, unwanted deviations can be solved. It is critical to set the right targets and create accountability in such systems. There are four archetypes of cybernetic systems that are considered the most critical; budgets, financial measures, non-financial measures and hybrid measurement systems.

Rewards and compensation

Rewards and compensation can have a huge impact on behavior within organizations. The old adage “what gets measured gets done” is often true, but in order to get the employees to act in a desired way, rewards are often crucial (Bonner & Sprinkle, 2002). For instance in the principal-agent framework the issue is to align the interests of both parties and one proposed solution is to give monetary incentives in order to bridge the gap. Rewards and compensation are usually in literature seen as a subset or tool used in cybernetic controls as they are tightly linked. In Malmi and Brown (2008) this control is regarded separate in its own right, however. One reason is that

the concept is broader and for instance group-based rewards can be used as a way to bolster cultural controls. It is important to note that the rewards can be both intrinsic as well as extrinsic. Nevertheless, extrinsic monetary rewards have been the most widely discussed in literature, but in a PSF intrinsic motivation is critical. To be able to let creativity flourish the knowledge workers of the firm need to be internally motivated (Muo 2013). The fact that rewards are separate allows us to more systematically analyze the impact of the remuneration system employed within the firm.

Planning

Planning can be characterized as an ex-ante form of control (Flamholtz et al 1985). By setting goals and linking them to standards and targets necessary, behavior of employees can be impacted. At a first glance, planning might sound relatively similar to budgeting and this is the case in the Van der Stede framework from 2007. They are both viewed as the financial results control system. The key difference according to Malmi and Brown (2008), then, is that planning can be decoupled from finance to a large extent in areas such as financial planning. Planning can in the framework be further subdivided into action-planning and long-range planning. What separates the two approaches is that action-planning is more tactical in nature and refers to a time span of usually 12 months or less. Long-range planning on the other hand is more strategic and describes the plans for the medium- and long-term.

Administrative controls

Administrative controls are at the bottom of the framework as they are the outer limit and set the scope for the planning controls, cybernetic controls and reward systems. They are about organizing individuals as well as groups, monitoring behaviour and specifying how tasks should be carried out (Malmi and Brown 2008). Included in these controls are three sub-categories: organizational design and structure, governance structures and procedures and policies.

2.4 Adapted theoretical framework

As stated in the introduction, our research question is:

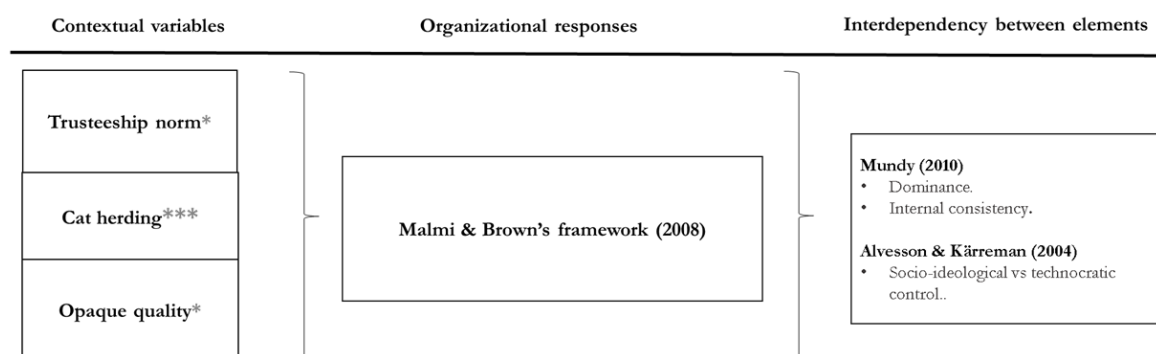
How does the contextual challenges of a PSF affect the formulation of their management control package?

To answer this question there is a need to draw upon the literature and systematize the research presented. In terms of research on management control in PSF-settings, there is a gap in regard to holistic management control studies (Ditillo, 2012; Ditillo, 2004). We aim to fill that gap by systematizing the analysis of these contextual factors' effect on the formulation of a management control system. While some researchers have touched upon management control within this context, less has been done in developing a frame in which to analyze the contextual consequences in a holistic manner. Based on this reasoning we have developed a modified framework related to Malmi & Brown (2008) that strive to overcome and help fill this gap.

From previous literature summarized by Nordenflycht (2010), and described in 2.2, it is clear that there are challenges facing the industry, namely: *Opaque Quality*, *Trusteeship Norm* and *Cat-herding*.

These three challenges will form the basis for understanding the context and will be analyzed in relation to the framework of Malmi & Brown (2008) to answer how the firm responds to each of these challenges separately. On this foundation our framework, figure 3 below, has been developed:

Figure 3. Adapted Framework of Management Control by Malmi & Brown



The rationale for combining the contextual variables with interdependencies between control elements is twofold. First, the thesis aims to answer the specific call by Malmi & Brown (2008) for more research investigating how contingency factors impact the form of the control package applied. As the context is likely to have an impact on the MC-package, it is interesting to study a classic PSF in contrast to Neo-PSFs or R&D-firms which have been studied more extensively (Alvesson & Kärreman, 2004; Abernethy et al, 1997). By breaking down the contextual challenges, which to varying degrees affect different types of PSFs, intra-industry variation within PSFs can be captured more easily (Nordenflycht, 2010). For example it could be questioned which part of the interdependencies is driven by cat-herding, trusteeship norm and opaque quality, respectively.

Second, the PSF-research which have been more holistic has tended to focus on formal and informal mechanisms for control as substitutes or complements (Abernethy & Stoelwinder, 1995; Dent, 1991; Ditillo, 2004; Ouchi, 1979). It is usually maintained that in providing direction informal tools and culture is vital. The role of softer forms of control used to create acceptance for more strict control rather than guiding employees directly has, however, not been studied widely. This thesis aims to contribute to the field of research by expanding upon this notion and analyzing subtle ways that cultural controls can be used. To better be able to understand this balance, socio-ideological versus technocratic tools as described by Alvesson & Kärreman (2004) has been used to better distinguish what factors shape the culture. While culture is often deemed relevant in a PSF-context (Alvesson, 2006), it is often ambiguous what shapes it (Clegg, 2005). Closely related to this balance is dominance and internal consistency which Mundy assessed to be relevant in balancing the tensions of an organization. In a PSF-context all these aspects are closely related (Abernethy et al, 1997; Abernethy & Stoelwinder, 1995) and dominant cultural as well as informal controls have often been found. Based on this we will match our analysis against previous research in order enhance our contribution using the adapted framework (figure 3).

3. Method

3.1 Design

3.1.1 Choice of method - Case-study

There are several ways to conduct qualitative research, among others: experiments, observations, documents and questionnaires studies. Our thesis will employ a case-study methodology which is suitable for open-ended questions like “how” and where an observable phenomena is researched (Yin, 2013). The value of a case-study is asserted as helping to better get an in-depth understanding of the studied object (Merriam, 1994; Silverman, 2013). There are however contrasting literature that claims that the main value of case studies is to bring up new ideas for future research rather than contribute directly to the formation of conclusions (Abercrombie et al., 1994). As the field we aim to explore, in regard to holistic MCS, remains relatively uncharted a case-study is deemed to be suited (Yin, 2013).

3.1.2 Rationale of choosing a single-case study

In order to connect the empirics from the case-company to an analysis, it is important to design a study that gives weight to the empirics and provides help towards understanding the research question. There is a clear divide within qualitative research on the path of research design, and that is the choice between a multiple- or single-case study. A multiple-case study adds weight to research by allowing more room for generalizations, since more observations have been taken into account, and also makes it possible to exclude idiosyncratic effects that can otherwise affect the research (Yin, 2014; Lundahl & Skärvad, 1999). However, there are limitations to these types of studies since it is often difficult to study multiple companies in-depth. In this thesis we have chosen to do a single-case study because it will both allow us a deeper understanding of the case-company and also allow us to understand all levels of the organization given the resources at hand.

3.1.3 Case selection process

There are several reasons why LawCo was chosen as our object of study. Firstly, access was a main consideration and because interviews had been conducted with some employees in the organization earlier, access to further interviews was deemed easier to get, and this was during an early part of the process established to be true. Secondly, LawCo possesses many of the main characteristics of a professional service firm and has experienced some unexpected developments during recent years which makes an analysis of MCS within such a context more interesting (Nordenflycht, 2010). For example, during the last four years the revenue has experienced a slight decrease, while the net-margin during the same time period has almost doubled. This implies managerial initiatives that within a PSF context in literature are viewed as quite rare (Maister, 2003). Thirdly, it was decided that an added benefit of having one of the largest Scandinavian law-firms is that the sheer company size increases the need for formal management control (Flamholtz, 1996). This in turn creates interesting tensions as the required level of informality in PSFs is often deemed to be significantly higher than in other firms (Nordenflycht, 2010). Finally, in order to better understand the workings of a MCS within a PSF, we wanted to analyze a company that seemingly was quite successful. The reasoning was that this implies that they have managed to formulate a MCS that works fairly well

given their context. This in turn would better help us understand how they deal with the challenges inherent in a PSF, since they seemingly do not succumb to them.

3.1.4 Development of research idea

The first general idea was to research intellectual capital since there has been a significant interest from scholars in understanding how intellectual capital is measured, defined and used in companies. Furthermore, it was deemed to be vital in a PSF as monitoring the employees should be at the top of the agenda in such a firm. After a couple of interviews, however, it was realized that intellectual capital is a concept which is not particularly used in LawCo. Thus, it was decided that the focus of the thesis had to be changed and directional and retentional issues was something literature had highlighted to be among the most pressing issues in PSFs and especially in law firms (Nordenflycht, 2010).

3.1.5 Research approach

Generally, two distinct research approaches are widely used within qualitative; inductive and deductive. The inductive approach is used to craft new theory from empirics whereas in the deductive approach data is used to test theory (Eisenhardt & Graebner, 2007). A hybrid of these approaches, abductive research combined elements from both. In this case an abductive approach has been chosen to collect data and contrast the findings to theory. There exists theory and research on both professional service firms and when it comes to holistic analysis of management control. However, by building on existing theory in the analysis, but in related fields, the analysis can be made more thorough and developed which is why an abductive approach was deemed suitable.

Our research process began with a mapping of existing literature within PSFs, that laid the foundation that we could use within the interview processes. After that we categorized the different streams of previous research within management control in order to structure the questions accordingly, after already confirmed phenomenon that could be either confirmed or discarded.

3.2 Data collection process

3.2.1 Interviews

In order to gain a broad understanding of the management control system implemented within the firm, the decision was made to interview employees from all levels in the organizations. The multi-layered interview approach also served to eliminate potential data collection biases (Eisenhardt and Graebner, 2007). There does however exist a few necessary considerations that need to be taken into consideration in both formulating the questions and conducting the interviews.

It was decided that by not sending questions beforehand to interviewees it was easier to grasp a more natural picture and allow for ad-hoc questions. In the first meeting with each interviewee, the Malmi & Brown framework (2008) was explained to set the tone and so it was understood what empirics were the most relevant to the study. Furthermore it was emphasized that the interviewees will remain anonymous to be able to get more honest opinions. A semi-structured interview approach was used because by having prepared questions beforehand while not being constrained

by the questions interesting paths can be followed up on directly (Merriam, 1994). Furthermore, the specific characteristics of each individual, their management group etc., could be taken into account when asking questions. The prepared questions or themes to ask about were relatively broad and used as a checklist in order to never overlook important aspects. To further bolster this ability in the practical interview situation, one person was responsible for asking most of the questions, while the other was focused on taking notes and ensuring that the questions did not deviate from the overall idea and aim of the study. After each interview the emerging themes and points brought forward were discussed among the authors and thereafter the most relevant parts were written down to be able to compare different interview answers with each other. The length of the interviews varied between 25-120 minutes with an average of around 70 minutes. In total 21 interviews, consisting of 19 face-to-face interviews and 2 phone interviews, were held with 10 partners (including the CEO) and 7 associates. All face-to-face interviews were held in the office in Stockholm, which represents over half of all the employed staff in the company. In four instances, follow-up interviews were conducted and in these cases questions were sent in beforehand, because a good picture of what we wanted to ask had been received in the first interview.

It was deemed important to capture the entire picture and to avoid potential biases (Eisenhardt & Graebner, 2007). Therefore which persons to interview was considered critical. For instance it was noted that a key differentiator between management groups within LawCo was the ratio of associates to partners, which has a large impact on profitability. For example litigation and M&A were regarded as cash cows as many associates are able to work in any given project whereas environmental law is more specialized in nature and scale is harder to achieve. For this reasons employees within various different management groups were actively selected.

Further, Kvale & Brinkmann (2009) argued that interviewing people in a relative elite-position can provide additional challenges to the interview process due to the apparent power asymmetry. Additionally it is argued that those in that power position might follow a clear script in regard to communication. In order to counteract this we studied the organization beforehand, and went through the collected data to in part reduce this asymmetry.

3.2.2 Additional sources of data

In addition to the interviews conducted, we had other sources of data, mainly consisting of documents. For example we were given documents detailing the company's internal procedures, and an organizational chart was provided by the company. Annual meeting agendas and points for discussion were provided. One important purpose of the additional sources of data was to be able to triangulate statements received in interviews and identify potential mismatches. (Holtzhausen, 2001).

3.3 Data analysis

Based on the collected empirics the analysis was conducted on the basis of Eisenhardt's (1989) cross-case search for patterns methodology. After each interview, data was written down in a table that was structured after Malmi & Brown (2008) control framework. This helped bring forth structure in the material provided, and relevant quotes were added to each box. Between

the interviews, the tables between different interviewees were cross-referenced in order to notice discrepancies that needed to be cleared out in coming interviews. In four cases we called the interview subject back in order to clear up something that had developed during following interviews. After the cross-reference, as we gained a deeper understanding of the organization, the questions were further developed.

Another realization early on when conducting interviews was that it was difficult to get an nuanced picture of the firm, since many partners used the same expressions and formulations, in line with what was suggested by Kvale & Brinkmann (2009), when describing concepts and answering questions. Associates on the other hand, especially those having not worked many years in LawCo, nevertheless gave a slightly broader picture. To combat this issue it was decided that an iterative process should be used where statements from different interviewees were written down. When further conducting interviews the compiled material from the interview was used to see which aspects needed to be highlighted and where inconsistencies arose. This reasoning is in line with (Kreiner & Mouritsen, 2005) who argues that flexibility in interviews is important to get the complete picture. This notion stems from potential biases related to those who have worked in the organization for a long term forget things or have become socialized into a specific mindset and that no one has an overview of all parts of a company.

3.4 Reliability and validity

Reliability is concerned with ensuring that other researchers repeating the study could arrive at similar conclusions, keeping all factors constant (Fidel, 1984). The impact of this issue has been reduced by several precautions. The most important themes in the questions asked have been documented in an appendix to this thesis and all interviews have been recorded and quotes put in the paper have been carefully double-checked. Even though the interviews were semi-structured, which generally decreases the reliability, follow-up questions of extra weight have been presented in the appendix which should increase the ability to repeat the study with similar conclusions. Furthermore the research process has been described in detail. Validity measures to what extent the study depicts reality and can be subdivided into inner, outer and construct-validity (Merriam, 1994). These three components will be addressed below.

First, inner validity is related to the necessity of researchers to interpret data, which is a fundamental characteristic in all qualitative research studies. When conducting interviews questions were to some extent prepared beforehand and notes were taken. Even though persons were asked different questions, given the semi-structured approach the same basic structure was applied in order to be able to verify statements where possible. Furthermore when available, other sources such as company documents were used to triangulate the data and ensure a truthful presentation of reality. A decision was made to keep the company and employees anonymous in order to increase the likelihood that interviewees did not feel pressure to respond in a certain way. Second, external validity is about to what extent the results of the study can be generalized. One potential shortcoming inherent of a case-study as a method is that generalizations are difficult to make due to the firm-specific factors and the environment in which the company operates (Dubois & Gibbert, 2010). In this paper we have thus presented a clear elaboration of the case, so the reader should be able to judge the generalizability of the results. Finally, construct validity is concerned

with studying the research question properly and using appropriate measures in order to study a given phenomenon. According to Yin (2009) two important factors to enhance this aspect is triangulation of data and letting relevant parties assess the data and interpretations. As described in section 3.2.2 several data sources have been used to triangulate data, such as internal documents and to get a broad perspective people at several levels and in different groups have been interviewed. The second consideration has been taken into account by letting interviewees review quotes from them which have been used in the thesis. We have had a contact person at LawCo who has been able to channel our questions and who has been able to read through the thesis to ensure a proper view.

4. Empirics

In this section the empirics will be presented. First (4.1), a general overview of the company and its organizational structure will be presented. Thereafter (4.2), an overview of the empirical findings is presented, structured according to Nordenflycht's (2010) three managerial challenges in combination with the Malmi & Brown (2008) framework. In (4.3), the control elements most heavily impacted by opaque quality will be described which will be followed (4.4) by the impact of trusteeship norm on the control elements. Lastly in (4.5) two themes related to cat-herding will be elaborated upon.

4.1 Introduction

In the 1980s law firms in Sweden experienced their halcyon days; marginal competition and a buoyant transaction-market had led to a time of prosperity and serenity. However, at the end of the decade, a crude awakening was to follow. Due to uncertainty in the financial markets, increasing price pressure and diminishing demand, firms were forced to adapt. A merger of two smaller firms in the 1990s, contingent on these developments, formed the bedrock for what was to become LawCo.

In the years following the merger, LawCo had to acclimatize to the new dynamics of the market and expanded both domestically and internationally in order to strengthen its competitive status. The developments propelled LawCo from its relatively small and modest heritage into a position as one of Sweden's largest law firms, with revenues, in the last few years, north of one billion Swedish crowns. Nevertheless, new challenges have emerged, with new players entering the market and increased client knowledge has reduced transparency, resulting in further price pressure on the services provided. However, during the last four years revenues have experienced a slight decrease, while at the same time net profit has almost doubled, hinting at internal developments.

The structure of LawCo is flat with a CEO, often called managing partner, holding the de jure-leadership position. Below him in the hierarchy are 100 partners, specializing in a wide spectrum of legal areas. The majority of the equity-partners have been associates within LawCo for a long time, complemented by few outside hires that have both proven their legal acumen and their ability to bring in new business. Forming the foundation of the organizational step-pyramid are around 300 associates that have been within the firm for 1- up to 10-years. An up-or-out culture is prevalent, where those not able to advance in hierarchy are asked to leave, creating a relatively skewed age-structure within the firm. Further, there is also a support staff consisting of slightly more than 100 employees in areas such as accounting, HR, external communication and risk & compliance (LawCo Annual report, 2015). As there is great depth and thus specialization within the law, the firm has structured itself into several different, larger management groups. Each is specialized within a certain area of the law, such as Tax, Bank & Finance, Litigation and M&A (LawCo Annual report, 2015).

4.2 Overview of contextual implications for the MCS

To be able to in a systematic and structured way present the empirics, the section has been divided into three themes; opaque quality (4.3), trusteeship norm (4.4) and cat-herding (4.5). In table 1, the overall empirics according to each theme are described. In the table the most relevant control elements from the Malmi & Brown (2008) framework have been highlighted.

Table 1. Compilation of empirical findings within LawCo

	Opaque Quality	Trusteeship Norm	Cat-herding
Administrative Controls	Strict policies in regard to behaviour. Enforcing controls.	<i>Non-applicable</i>	Loosely coupled process teams with allowance for informality. CEO's and board's role continuously toned down.
Planning Controls	<i>Non-applicable.</i>	<i>Non-applicable</i>	<u>Short-term planning:</u> Loose structure with allowance for autonomy within the management groups. <u>Long-term planning:</u> Ambiguous structure, CEO's and board's role hidden through numerous board meetings, where an aura of inevitability surrounding decisions exists. Little acknowledgement of top-down planning controls.
Rewards and Compensation	<i>Non-applicable.</i>	No outside ownership, as regulated by law.	Lock-step remuneration help align individuals self-interest with the firm. However, this creates directional problems regarding menial tasks.
Cybernetic Controls	<i>Non-applicable.</i>	<i>Non-applicable</i>	<u>Financial measurement:</u> Used to monitor behaviour, but in an on the surface, non-enforcing way. <u>Non-financial measurement:</u> Used to complement cultural controls to monitor behaviour.
Cultural Controls	Permeating socialization process to align behaviour to adapt and ignore enforcing controls.	<i>Non-applicable</i>	Cultural controls complement harder forms of control, it is mainly formed around technocratic, harder forms of control.

4.3 Opaque quality - Piles of policies supported by cultural signaling

Opaque quality is concerned with the difficulty of judging the quality of the work performed for outside-parties such as clients. From interviews, two forms of control acted together to ensure consistency and quality. First, from an *administrative control*-perspective a myriad of documents, rules and policies exists within LawCo to ensure that ethical rules and guidelines are followed, and second, the idea of enacting these policies are supported by *cultural controls* that strive to create social acceptance for the hefty amount of rules and mitigate the employees' perception of their strictness. In regard to policies and procedures that strive to ensure a consistency in the services and protect the firm's brand there are a few disparate perspectives between the firm's different hierarchical layers.

From the partners' perspectives it was described that few things are formalized and there exist a large freedom. Instead a trodden path of doing things was emphasized and in the words of a partner:

“We are balancing between chaos and order and we are definitely more skewed toward the chaotic side. We have, however, managed to find structure in this chaos without a lot of policies or formalized structures. Basically we can do what we want as long as we do not hurt the company”.

Asking a senior associate, this view was to a certain extent confirmed as it was claimed that the existence of policies were a marginal matter. The senior associate did still claim that consistency was important, and there was a value in regard to the consistency provided by what he called “the upbringing” within the firm. This view was supported by another more senior associate who added that over time as policies are learnt they become less and less noticeable.

However, asking a young associate currently working at the M&A department, the view was contrasted with descriptions of “piles of documents”. The young associate described in solemn words the difficulties of adhering to and remembering the mountains of protocols that new employees are expected to acclimate themselves to. The company has many different policies such as a policy regarding: social media; the formatting of documents and emails sent to clients; physical security and work environment etc.

These policies are partly in place as many areas of the profession are regulated by law, which creates a need for strict guidelines as confirmed by several partners. If someone steps outside these policies the consequences might be severe for the firm, since the brand and reputation of the company is at stake. Some of the most critical issues, for instance regarding money-laundering, insider issues and conflicts of interests have especially strict guidelines and monitoring of employee behavior. The CEO elaborated:

“We have built up a centralized division regarding money-laundering of 11-12 people. When we take on a new client we do thorough background checks and investigate

conflicts of interest and so forth. There are sophisticated databases where everything is stored.”

Even though it was claimed that most of these policies and standard operating procedures were a self-evident part of the business, a significant amount of policies were asserted, by young associates, to be more enforcing, especially those regarding lawyer-client relations, including a policy regarding behavior toward clients and a policy regarding interactions with clients outside a work-context.

In relation to the administrative controls the *cultural controls* were described to function as a counterbalance. The legal restriction of the business necessitates policies and standard operating procedures, while at the same time many employees wanted to maintain their autonomy. However, as mentioned above, in regard to policies regarding behavior, there can still be discerned an acceptance among employees that have been in the firm a longer time in comparison to those that have stayed for a short while. What can be distinguished to be at work within LawCo is a socialization process in regard to the employees, that endeavor to make them accept the rules of the trade without feeling impacted by, what otherwise can be conceived to be, enforcing forms of control.

First, in regard to clan controls, most attorneys, i.e. lawyers that have been within the trade for more than 5 years, are part of the bar-association. In addition, all lawyers, i.e. associates that do not yet have the title of attorney, are a part of the legal-trade, and must thus learn certain professional norms and ways of doing work. As explained by a partner this helps ensure consistency in regard to the ethical codes upheld within the firm.

Second, within the profession there was still described to be differences in how firms operate. One partner maintained that being educated to become a lawyer is not enough to be an efficient lawyer, since there are many other aspects than the law that one needs to adapt to such as client-handling in a specific way. As mentioned by a partner within dispute resolution:

“.. in the end it boils down to learning by doing. It doesn't matter how good of a student you were, because no one learns how to fight by going to school and reading books.”

The implication was maintained to be that there is a socialization process supporting the non-enforcing ideas of policies and standards that adapted new employees to the standards of the firm. As claimed by an associate:

“In the beginning you are never left alone with clients. It just doesn't happen. Most clients that come to the firm has had previous contact with the responsible partner so they are their responsibility. Step by step, however, you get more responsibility, you learn by doing, it becomes ingrained in you.”

Overall many employees claim that there is a culture of learning by doing rather than an outspoken form of policy that guides you and that socialization processes work both for associates to become better lawyers and adapt to the specific way of doing business in LawCo.

4.4 Trusteeship norm - A reward system mainly enforced by law

From the context of the PSF, the trusteeship norm has implications in regard to both legal and operational factors. Within LawCo, the issue of trusteeship is handled through a reward system that aims to counteract stakeholder conflicts that could induce the firm to not act in the best interests of the clients, which for instance could be the case if there was a short-term owner wanting to make a profit at the expense of clients. Law-firms in Sweden are regulated by law to not include outside owners who are not lawyers (Advokatsamfundet)⁵. This means that there are no outside owners within the firm, and it is owned collectively between lawyers in the firm. The required legal adherence means that LawCo are obliged to have a reward system that is restricted to inside-ownership.

In regard to the trusteeship norm, one partner explained that the choice of reward system was somewhat limited due to legal pressure, but the individual choice came down to two archetypes: Either a lock-step remuneration model⁶ or an “eat-what-you-kill”-model (there are also hybrids between the two models). LawCo has chosen to employ a lock-step remuneration system⁷.

4.5 Cat-herding

In regard to cat-herding, two important themes emerged in the interviews. First, when it comes to staking out the general direction and agenda of the company on a broad level, an interesting relationship between long- and short-term planning and administrative control could be noted. The role of top-down governance within the firm was diminished in order to be able to provide direction. Second, the reward system both helps and hurts direction within the company. It helps reduce intra-firm competition within the firm while it at the same time increases difficulties with directing employees to do menial tasks. Also it was found the reward system had important linkages to cybernetic- and cultural controls.

4.5.1 Cat-herding: Dampening directional issues on an operational and strategic level

In regard to *short-term planning*, an allowed autonomy in regard to how the organization’s planning controls function, on an operational level, was confirmed. According to a range of partners, the business has innate demand-volatility, due to the fact that at a moment’s notice a new client might appear and require assistance in a wide-ranging spectrum of issues. This in turn is claimed to necessitate sophisticated short-term planning controls performed by partners with relatively large autonomy, as the partners have close interactions with clients, and therefore are able to assess their requirements on a consistent basis. A partner within the Dispute Resolution-department explained:

⁵ The only exception to this rule is that in some instances an outside CEO is allowed to own up to 10 percent of the shares of a company.

⁶ A lock-step system means that the remuneration is gradually increased for associates, based on seniority. For partners profits are shared equally after a ramp-up period of 7 years from the point that a partner is accepted.

⁷ In an eat-what-you-kill-system partners generally get the revenues that they bill to clients after paying for some overhead-costs.

“Planning is maybe not the word we use, but we look at it more as coordination. We need to coordinate the troops in the case-teams so that capacity needs are met continuously. Staffing efficiently is key.”

Due to this challenge, management groups have weekly planning meetings where staffing is always at the top of the agenda. In order to assess and anticipate staffing demands meetings where trends in the market and expected developments are discussed, are held. Interviewees emphasized that management groups have some autonomy in deciding on procedures and for example the formality level differs between groups. The M&A-group for instance has largely informal meetings and no fixed agenda, as a partner within the division maintains that the ad-hoc nature of the business requires it. He further joked that this creates excitement and an incentive to participate, because you never know what topics will be discussed on the next meeting so there is always gossip going around. A partner within the tax department on the other hand argued that their use of an agenda has helped them in not overlooking important issues.

While there seems to be a large autonomy regarding the short-term planning controls, when it comes to *long-range planning* in regard to more strategic decisions, a disparate picture emerges through the interviews.

Within LawCo, three annual meetings take place which represent the highest form of governance within the firm. Strategic decisions are both proposed and voted for at these meetings and the process behind how these proposals are formed and passed within the firm suggest that there might exist a form of control within the firm that is not expected.

When partners were asked how the general direction were staked out, some interesting observations could be discerned. The *administrative controls* in terms of organizational structure and governance were described as allowing for collegial governance. Metaphors such as “anthill” were used to describe the machinery of the firm, highlighting the perceived notion of the ambiguous nature of exercise of control and leadership within the company. Some partners claimed that everyone is leading to some extent, but, at the same time, the same people when asked if they themselves were leaders, downplayed their own role. Also, when discussing the position of the CEO, many described the role as not one of elevation, but rather as an administrative role that some people feel an urge to try out in order to do something different for a while. Furthermore, it was described that the most prominent or senior partner would not be elected as that would risk leaving the position too much status and power within the company.

However, there are inconsistencies between the partners’ view of long-term planning and the actual workings within the firm when it comes to developing proposals, as asserted by interviewees. Ideas and proposals to the partnership-meetings are mainly developed by the CEO with the help of the board. The board of directors at LawCo consists of five partners that are appointed to serve at the board with a 2-year mandate. Every three weeks, an entire day is devoted to a board meeting where strategic matters are discussed, and also proposals to the annual meeting are prepared. The CEO described that there is a fine balance between controlling and allowing freedom:

“Everyone can’t just do whatever they want, but at the same time, you can’t always point with your whole hand. There are some boundaries that can’t be overstepped, because if I did, I would be put on the bench”.

In addition to the fact that it is mainly the CEO’s responsibility to develop proposals, the annual meetings prove that a resounding majority of the proposals are passed. A partner described that during his soon to be 9th year as a partner he has never voted no to anything proposed at the meetings. He states that he feels like “it’s not [‘his’] responsibility to go against the proposals”. This willingness not to go against the perceived mainstream opinion was confirmed by several partners. This showcases the general feeling towards the meetings, as there seemingly exists an aura of inevitability surrounding the proposals made.

The explanation by the CEO of the fact that most proposals are voted through was that there is a process surrounding them that involves anchoring the decisions within the firm before they are proposed. It is confirmed by partners that discussions are partly held between the CEO and the partners in different departments, and that the CEO does have his “ear to the ground”. There does however exist some examples where this anchoring of decisions had not been done beforehand, and there has been outspoken resistance against proposals that were still passed. For example, around three years ago, the current CEO proposed that much of the administrative staff, such as secretaries, in the company should be cut and partly replaced by younger interns. This upset many of the older partners that had for a long time worked in a climate where having a secretary had become a natural part of the profession. They first voiced their resistance to some extent but nonetheless fell in line when they noticed that there existed a tangible support for the idea among the younger partners.

4.5.2 Cat-herding: A dominant reward system

In LawCo *Cultural controls* are consistently stressed, and are maintained by many partners to be a “guiding light” in regard to the operational aspects within the firm, providing direction for all employees. Core values such as “quality”, “team-spirit” and “business focus” are communicated externally and internally. These values are stated to be reinforced by the partnership-contract where seven principles are formulated and all partners have to agree to. These principles include "Firm first, last and always", "Let your conscience be your guide" and "All clients are clients of all partners". In connection to this a partner asserted that:

“We can afford financial underperformance, but never cultural underperformance.”

Further, a view held by most partners was that even if individuals are socialized into the culture, recruitment of people with the right mindset to begin with is of utmost importance in order to ensure the right direction. Recruitment takes place during an extensive process and is handled mainly by the partners themselves. Humility and a preference for internal, rather than monetary incentives, are important characteristics looked for among potential employees.

However, interviews with a partner who has been recruited from a competing firm, rather than having been brought up internally, provides a picture that goes partly against the one maintained by internally raised partners:

“In the firm I came from we had pretty much the same values and credos as [‘LawCo’] for instance regarding team-spirit but there was a completely different culture. Everyone was much more out for themselves than what I’ve experienced here.”

When the above mentioned partner was further asked to explain how LawCo communicated and supported direction within the firm as related to culture he had a hard time explaining how the actual processes worked, but pointed instead toward the reward system:

“Lock-step means that everyone feels like a part of the team, since we all contribute toward the firm. Many firms go with an “eat-what-you-kill-system”, but I don’t think that produces the right culture. There is too much individualism, and I think that partly explains why so many other law-firms have split up. For us it is easier to give away cases to the partner with the best expertise.”

Another outside hire also confirmed this view and mentioned that the reward system is probably one of the most important factors behind the workings of the firm. Partners brought up within the firm, however, when asked if the reward system is what provides direction rather than the culture, preferred to downplay its role and instead provided reasons why LawCo differs from other firms using lock-step compensation.

Reward system

The lock-step *reward system* with sharing profit equally on the partner-level used by LawCo can be seen to serve directional functions. One of the advantages maintained by essentially all interviewees was that it decreases intra firm competition and provides an atmosphere of cooperation, as there is less incentive to hold onto clients.

A younger associate, who has a fixed salary, also confirmed this view:

“I think a part of what attracted me to [‘LawCo’] was their culture, and I think that is partly based on their incentive system. Compared to other, more competitive firms, there is much more of a belonging to [‘LawCo’], it is like a family.”

In general the partners seemed to support the idea behind the reward system, and much of the concepts brought up during the interviews, e.g. “collegial governance”, “true partnership” and “one for all, all for one”, that were claimed to be related to the culture, were also maintained by some to be clearly connected to the reward system.

Nevertheless one issue that was highlighted by many interviewees was that it also creates a system where if you don’t deliver, you disappoint others than yourself. The main idea behind the system can be seen to rest upon the idea underlying the culture of “team-spirit” (as stressed by the cultural

credos). Some partners expressed a certain degree of negativity towards the idea of the lock-step model. Mainly the idea of slack, and the lack of other incentives to contribute was criticized. One partner elaborated:

“Our system implies that everyone contributes to the firm. But it also creates some problems. For example, the problem is not the people that contributes the normal amount. And the problem is not only the underachievers but also the overachievers, the ones that stick out. Our system implies a certain amount of slack, and if you overperform you will always have the pull to go somewhere else.”

The view that there are some inherent issues created by the incentive system was confirmed by multiple partners. Mainly the issue of free-riding was highlighted and it was pointed out that some partners were underachieving because there were few enforcing tools in place.

This, according the partners created the need for some cybernetic tools. The current system was largely enforced to avoid free-riding as one partner within M&A commented:

“Previously we had no targets or evaluation at all. The problem was however that the lack of transparency within the system as we have had it then allowed some people to abuse it due to the shared profit. Therefore the CPD (committee of partner development) was developed to ensure that everyone at least filled their quota.”

Cybernetic control

When it comes to *cybernetic control*, there is a financial-measurement system in place within LawCo. Every year the CPD evaluates partners on a relative basis, and marks their performance in relation to each other. Responsible for this evaluation is a committee of four partners that have taken on the long-term responsibility of controlling partners' performance, meeting every six weeks. Many interviewees described the position of being in the committee as honorable as only they know how much individual partners bill. In evaluation meetings individual partners are shown an anonymous chart of the distribution of all partners' billed hours and revenues generated. That way their own performance can be measured against the average within the firm. If negative deviations are detected, partners that have underperformed are called in to a meeting, and possible actions are discussed. The partner is then in turn put on notice, and his behavior is followed up next year. If the behavior subsists, a further evaluation is performed to assess whether the person in question is fit to remain within the firm. In concrete terms, partners are evaluated on two financial targets: the number of billed hours by each partner and total revenue billed.⁸ It was maintained by many partners that the firm is upheld with soft cultural values and a sense of community, and non-enforcing control are continuously stressed:

“At [‘LawCo’] we have soft norms, it's not about performance it's rather about creating an atmosphere that we all are comfortable with. At the end of the day it's not only about making money, you have to enjoy what you do as well”

⁸ Partners are able to count revenues billed by themselves and associates working on cases where that partner is responsible into this figure.

It could however, be noted that during the last two years several partners have been let go from the firm due to underperformance. It was pointed out by the CEO that while there is a budget, it is seen as a relatively meaningless exercise as business inflows are hard to predict and that the company has considered removing it. By having a relative evaluation instead of an absolute evaluation with enforced target levels such as a budget, the perception of strictness is decreased. One partner with the tax-department, however, confirmed the view that the financial measurement performed by the CPD has enforcing elements:

“The CPD-evaluation is probably more important than we want to convey to outside parties. If I underperform one year I might be able to explain it away. If it happens two or three times, however, I would not expect to be allowed to continue in the firm for long.”

Further, another mechanism related to directional issues is at work in regard to the measurement and evaluation of employees that works on both an associate and partner level. In addition to the financial measurement system, LawCo has implemented a *non-financial measurement system* called the 360-evaluation which is performed on an annual basis. Everyone within the firm, ranging from administrative staff up to partners are evaluated anonymously by other employees that have worked closely with that individual (source: internal documents). Examples of measures could be how well a person co-operates and if the person shares their knowledge and acts in a way that matches the values of the company.

For associates, the different partners within the management groups draft, in collaboration, individual action plans related to them and have follow-up meetings every quarter to track their progress. It is also discussed whether the partners' views of individual associates match the views of fellow associates. Because associates might be able to capture behavior not seen by partners this is deemed to be a valuable exercise. A concrete example was provided by a partner in regard to how aspects not captured by partners was brought forward in one evaluation:

“One time I remember we had this guy who was outstanding in every way. Good associate, good with clients. [...] But through his evaluation it was brought forth that he had been treating the younger associates like they were his personal henchmen. They didn't like it. And that approach doesn't work here. That is not us. So we had a talk with him and made that clear. ”

One partner asserted that an important aspect of the 360-evaluation is its function as a signaling tool. The questions can act to guide the behavior of associates since it shows what they are being evaluated on. Previously the evaluation included hundreds of questions, but due to complaints of the time it took to fill in the form, the structure was changed and much less questions are asked currently. It was also decided that some cultural values should specifically become more emphasized in the questionnaire to better guide the organization and the staff. For partners, the committee of partner development maps out areas to be improved for individuals if there are deviations from the expected levels.

There does also, to some degree, exist problems with self-interest since it might in one associate's interest to not write a favorable review of another associate in the same year-group since they in the future will compete for the same job. The generally held view among partners was that egoistic behavior has been avoided however:

“If everyone answers honestly, the 360-evaluation is probably one of the best tools we have. If not, well, garbage in, garbage out, as they say. So far I think we have managed to avoid that to a large extent.”

More general directional issues

Regarding the direction provided by the MCS, the widely held view was that things work well and recent financial results were brought up as a foundation for the statement. When further probed, some interviewees did however maintain that there exists some issues in regard to certain types of tasks. An example asserted was the lack of a knowledge-management system that managed explicit knowledge. The current knowledge-management system was described by a partner:

“We have a data-base in regard to cases that functions in the sense that employees can look up old cases and see which partners and associates who were attached to them”.

The underlying implication asserted was that it mainly functions as a telephone register that attaches names to cases, and in order to actually get an understanding on how cases previously were solved, the answer was a phone-call away rather than within the system. Furthermore it was pointed out that when an employee quits, that knowledge is in some ways lost and that a database would enhance the ability of the organization to synthesize and systematize information and knowledge.

When asked why the system of knowledge management functioned only on a face-to-face basis, the explanations varied between “it works well as it is” to “it's been getting better, and we have an extensive process behind knowledge-sharing within the firm”. From the interviews it did however become clear that there was an underlying reason behind the lack of knowledge-management. By many interviewees it was maintained that it was hard to get someone to contribute to the system, since it was outside anyone's real area of expertise, and was by many deemed to be a menial task. The implication of the reward system was stated to be that everyone felt like their “own boss”, and less interesting tasks were hard to get someone to implement. It was claimed that it was mainly the associates' task to put in data in the system as it is. Competitors are able to financially reward such incentives by specific bonuses, but for LawCo it was described that mirroring such a system would go against the values the company stands for and thus cannot be done easily.

5. Analysis

Our analysis will be based on the main contextual challenges facing the PSF as brought up in the empirics. A few themes were highlighted in the empirics and will be expanded upon in the analysis. Most prominent was the cloak of ambiguity that surrounded the management control system as a whole and had consequences on several different levels. First (5.1), an analysis will be made of how clan controls were used to reduce the perceived strictness of administrative controls which were in place to provide direction. Second (5.2), the issue of cat-herding as it relates to the short-term and long-term planning controls and administrative controls in creating a “consensus-culture” to empower the CEO is elaborated upon. Third (5.3), a discussion of the forced upon demand of a reward system due to the trusteeship norm will be analyzed as an important factor in creating the culture via its impact on socio-ideological controls. Finally (5.4), the implications of the contextual challenges will be discussed and the issue of direction in regard to menial tasks will be analyzed.

5.1 Unravelling the veil of culture

A veil of cultural controls could be seen to permeate the entire management control system within LawCo. Its presence was found at all layers of the organization and it could be viewed to mask the enforcing, more controlling elements of the MCS. This finding contradicts literature that find cultural controls to be a driving force, providing direction (Dent, 1991; Ouchi, 1979). From this it can be concluded that rather than act as a supplement to other controls, cultural controls have, within LawCo, a disguising effect on the other aspects of the control system, which partly diverts from other findings where culture had a dominating or supplemental role (Abernethy et. al., 1997; Sandelin, 2008). From the perspective of opaque quality, this use of cultural controls mainly took the shape of socialization processes enhanced by clan control that concealed the enforcing nature of policies and procedures that provided directional boundaries.

As customers have a hard time of assessing the quality of the work performed, there is a need to signal quality in other ways. In the legal profession, reputation can be strengthened via policies and guidelines which ensure that boundaries are not overstepped. The need for administrative rules related to providing direction can be viewed to stand in contrast to the willingness among employees not to be controlled (Abernethy & Stoelwinder, 1995). Abernethy & Stoelwinder (1995) describe that when bureaucratic controls are imposed upon professionals a “clash of cultures” can arise, because the bureaucratic logic often conflicts with the demand for autonomy among the employees. Many authors point towards the importance of self-control (Kirsch 1996) and clan controls (Ouchi, 1980) as a way of ensuring that employees are striving in the right direction without feeling suffocated by red tape and rules. The importance of cultural control has been stressed in this regard, which indicates that cultural controls would be the dominant and primary mode of control (Mundy, 2010; Sandelin, 2008). However, within LawCo, even though cultural controls are found to have an important use within the firm, it is not used primarily as a directional mechanism.

In regard to providing direction and guidance, administrative controls were used to ensure adherence to standards and achieve consistency. Administrative controls demark the role of the employees through mountains of policies and partly help ensure quality. However, those who had been with the firm for a longer time, did not clearly acknowledge the vast amount of rules imposed

upon them. It can be problematized that when people remain within a firm for a longer time, natural adaptations are made. However, within LawCo it is mainly the forced upon behavioural standards that are of interest, as these in many aspects differ from those found in a regular company due to the close client interactions. The skewed views of administrative controls indicate that there are socialization processes at work, that over time induce employees to change their values and accept the rules. Partly this process could be viewed as professional control (Orlikowsky, 1991) which has similarities with the concept of clan control (Ouchi, 1979). Professional control is, however, imposed from the outside to a large extent and by the demands and sense of belonging to the profession. Whether professionals identify themselves as lawyer first and as a part of the firm second is debated (Copur, 1990). The results of D'Cruz and Noronha (2006) however indicate that if employees in fact do identify themselves as professionals, there is a larger acceptance of enforcing rules. This seems to be close to the case in LawCo as policies and rules imposed were generally motivated by a legal need to adhere to the strict ethical standards of the profession. By using socio-ideological tools such as continuous training in the profession and a large emphasis on learning by doing, LawCo created an acceptance for the rules imposed. Ditillo (2004) supports this and found that when the tasks to be performed require innovative capabilities and are not standardized, socio-ideological controls such as values and beliefs are critical and self-control is vital. The importance of the view that employees have is stressed by Kirsch and Cummings (1996) who noted that the *perception* of self-control is the strongest when employees have a vast working experience. Thus, a veil of social controls can be created over time which makes the rules and policies so ingrained in the staff that the enforcing nature of said policies is disregarded.

Apart from becoming socialized into the lawyer community, the distinct LawCo-culture was underscored. As noted by Copur (1990) the professional clan (such as lawyers) and the specific clan that the firm represents have sometimes been seen as substitutes with different logics. In contrast Ouchi (1979) brings forward that both the professional clan (lawyers) and that the clan of the specific company are important. It was argued by interviewees that reading books was not enough and that associates have to behave in a “LawCo-way”. Arguably the willingness to stress the company-specific culture rests upon the idea that the concept of the profession and the firm as clans are complements. In LawCo however, enforcing tools were used to direct employees to some extent, while social controls to a larger extent were in place to *create acceptance* for the rules rather than guide the employees *directly* which mirrors the findings of Collier (2005).

Overall it was found that opaque quality creates a need for rules and policies to maintain the reputation of the firm intact. In a PSF-setting, however, because the staff does not want to feel top-down controlled, cultural controls were used partly as a counter-balance and to create acceptance for rules to avoid a “clash of cultures” rather than providing direction directly.

5.2 The Trojan horse of strategic control.

An important theme that was identified regarding cat-herding in the empirics is concerned with staking out the general direction and how it relates to control on a more operational level. The large preference for autonomy which has been found among highly professional employees is vital to manage for PSFs, but how this should be done in practice is seldom discussed. Among the



proposed solutions to manage the requirement for autonomy in literature is to allow more autonomy (Nordenflycht, 2010) or use clan-control in a setting where it is more difficult to monitor employees (Ouchi, 1979), but it could be questioned how a PSF is led in practice with these solutions. While, in regard to the short-term planning controls, large autonomy was given to the respective management groups to staff their own teams, in relation to long-term planning controls a somewhat altered picture emerged. In this sense a form of diverting use of the management control tools were found to be at work that enabled direction to be formed while at the same time obscuring it in autonomy.

The short-term planning mechanism with the regular staffing meetings was often brought forward to exemplify that there is large autonomy within the firm. In having a collegial governance through these short-term planning systems there is a sense of peer-control created, which is in line with what has been found to be suitable in a PSF-context (Harlacher, 2010). By highlighting the importance of these meetings and allowing autonomy there is thus seemingly a match with literature that argues that large autonomy is needed to adapt to the issue of cat-herding (Nordenflycht, 2010).

Turning to long-term planning controls and how the general direction is staked out, some contrasting observations could however be noted. Within LawCo, long-term direction and control is mainly exercised at the three yearly partnership meetings. While interviewees maintained that no one is in charge a picture emerged of a CEO with more power than acknowledged. Cultural and social controls were an important enabling factor to achieve this result. Collier (2005) found that social controls were used to enable the power of a CEO because his legitimacy could not be questioned. In contrast to this, an allowed autonomy within LawCo helps create a social climate and an aura of inevitability around proposals. As one partner highlighted, there is a sense of not wanting to go against the company culture. Literature in a PSF-context underscores the importance of more soft controls that are not seen as enforcing (Abernethy & Brownell, 1997; Abernethy & Stoelwinder, 1995). In this regard there are rules such as the requirement of having 90 percent of the votes on a general meeting for a new partner to be accepted to ensure that everyone feels involved. By having this structure a picture of self-control and autonomy is cultivated while social controls in combination with how administrative controls are set up, in terms of structuring of board meetings, also creates a consensus-culture. Proposals are seldom turned down as there is a presumption of acceptance if a proposal is up for vote. The fact that the current CEO was able to drive through the plan of cutting staff which faced outspoken resistance among more senior partners highlights the ambiguous way in which directional difficulties on a strategic level are handled in the company.

In table 2 the difference highlighted by this mechanism is shown. Espoused beliefs which are commonly held in the organization were found to not match the theories-in-use that are implemented in practice in terms of long-term planning control. When it comes to short-term planning controls the belief held matched the actual practices to a much larger extent. The emphasized role of this short-term planning and allowed autonomy could be seen to set the scene for more enforcing strategic control.

Table 2. Difference in perception and practice between short- and long-term planning controls.

Short-term planning controls	Long-term planning controls
Espoused belief Autonomy on an operational level. Great discretion is left to partners to plan their own staffing and client handling.	Perceived notion of autonomy, every decision is up for a vote. Annual meetings are held three times, and a large majority is needed to pass decisions.
	
Theories-in-use Autonomy on an operational level. Great discretion is left to partners to plan their own staffing and client handling.	CEO's and Board's role important in forming proposals. A consensus culture has developed that in practice implies that proposals brought up at the annual meetings are always passed. CEO has relatively large discretion in regard to long-term planning controls.

Overall, the issues highlighted show the delicate balancing act in the organization. By using short-term planning controls in an autonomous manner (Simons, 1995), the employees' preference for autonomy is adhered to and the notion of clan-control (Ouchi, 1979) is reinforced. At the same time several processes are at work to ensure the view of long-term planning controls as autonomous even though many aspects of them do not function autonomously. In regard to these forms of controls it can thus also be noted that the enforcing controls are disguised by other softer forms of controls, and are formulated in a way as to conform to the idea of autonomy.

5.3 The battle between technocratic and socio-ideological controls in shaping culture

While the importance of culture have been asserted, especially when employees are difficult to monitor (Ouchi, 1979), it is less clear what creates culture. Scholars have long debated what drives culture and some have argued that it is to a large extent not controllable by management (Clegg et al, 2005) while others hold a contrary view (Malmi & Brown, 2008). Whether it is shaped by socio-ideological or technocratic controls has also been discussed in a PSF-context (Alvesson & Kärreman, 2004; Abernethy & Stoelwinder 1995; Dittilo, 2004). While Alvesson and Kärreman (2004) noted that technocratic controls in a positive way can bolster the culture, Abernethy and Stoelwinder (1995) instead argued that technocratic controls imposed can face great resistance from professionals in a "clash of cultures". It would be reasonable to accept that socio-ideological tools are important, as self-control and clan control in a PSF-context has been emphasized (Dirsmith, 1997; Kirsch & Cummings, 1996). However, within LawCo, contradicting findings are shown as we find a case where the culture and cultural controls are not shaped in isolation, but are rather a consequence of harder, more enforcing forms of control.

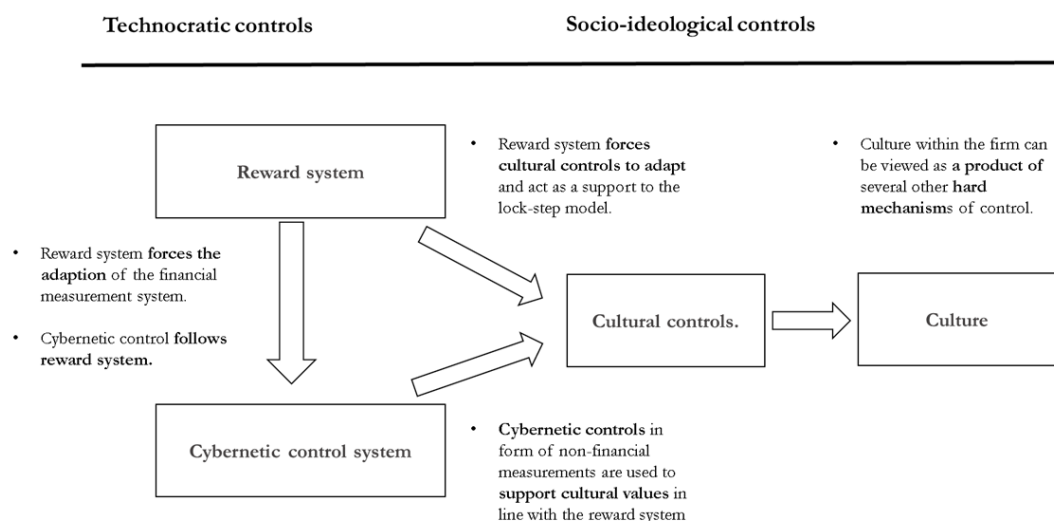
Culture was described by all interviewees as important in LawCo and was by many seen as the guiding light that ensures that employees are striving in the right direction. Socio-ideological

controls in LawCo were manifested in several ways. Most emphasized were the most organic forms of cultural control such as clan control and subtle socialization processes. It was described on the other hand that credos, mission statements and similar outspoken manifestations of culture were to a large extent an afterthought. What then builds the socialization processes at work within LawCo?

Within LawCo, one main mechanism was found to be driving the culture to a large extent. In many organizations the reward system is often built as a support to a financial control system (Otley, 1999). It is often connected to measuring financial data as an ex-post reward mechanism and thus helps anchor the accounting numbers measured within the organization. For example in the Malmi & Brown framework (2008) the reward system follows the cybernetic controls chronologically in its implementation. Some MCS-frameworks therefore combine the two aspects of control into one due to their innately connected nature (Merchant & Van der Stede, 2007). The reward system could thus be seen as a relatively hard controlling tool (Otley, 1999; Simons, 1995) and within LawCo the reward system could be seen as a vital aspect as it impacts cultural and cybernetic controls. The dominance of a certain control element has been emphasized in literature in order to achieve internal consistency (Mundy, 2010; Sandelin, 2008). Sandelin (2008) further asserted that internal consistency is achieved when the primary mode of control matches the secondary mode of control. The dominance and ripple-effect created by rewards has however not been fully explored in relation to other control elements (Roberts, 2004; Malmi & Brown, 2008). In LawCo this dominance was clearly found, and its effect on the culture was clear, which contradicts previous research that highlights the leading role of cultural controls in shaping other control elements in a PSF-context.

The picture (figure 4) below highlights the connection between technocratic and socio-ideological controls within LawCo. It can be seen that the reward system drives the cybernetic controls and these two in concert shape the socio-ideological controls which then shapes the culture. The culture in turn takes on a supporting function that permeates the MC-package, and camouflages the enforcing elements of control.

Figure 4. Interdependent effects of the reward system.



The notion that professionals do not want strict cybernetic controls is acknowledged in literature as described by Abernethy & Stoelwinder (1995). However, as is the case in LawCo and is further highlighted above, the reward system due to its nature necessitates cybernetic controls. The financial measurement system is put in place in order to avoid free-riding and is therefore restricted in its use as it does not clearly encourage behavior, but rather acts as a discouragement for unwanted actions. It is formulated strictly related to the ideas proposed by the reward system. By having a relative benchmarking instead of an absolute one with targets imposed from above, the perception of the strictness was reduced. Because the output-control is dynamic, a larger acceptance is created which underscores the idea of no top-down control (Abernethy & Stoelwinder, 1995). This is partially in line with the notion of Alvesson & Kärreman (2004) where technocratic controls were used to lay the foundation for the culture, however in their case it was found to be cybernetic tools that were perceived to be clearly enforcing. The notion of strictness is further reduced because in contrast to the usual case, the cybernetic controls are adapted to reward system rather than the other way around. Therefore the guidance of the reward system can be concluded to be that of reducing intra-firm competition and creating more of a collegial belonging to the firm and descriptions such as that the CPD-evaluation was put in place to avoid that partners “abused the culture” support this view.

The non-financial measurement system in LawCo, in contrast to the CPD-evaluation, works more directly as an influencing aspect to the cultural controls, as its aim is to ensure that wanted behavior is maintained within the firm in a diagnostic fashion. Many of the questions within the evaluation are aimed at cultural values that can be concluded to be very much in line with the concept of the lock-step model for the reward system. In this sense the control system works between and through different control elements to ensure a degree of consistency within the system as a whole and lay the foundation for an acceptance on all levels of the firm. While the interviewees said that once the evaluation was changed to emphasize certain values, the range of cultural values that can be strengthened and asked about in the evaluation are strongly tied to the reward system. The fixed nature of the reward system therefore induces the 360-evaluation to be in a certain way as to provide internal consistency (Malmi & Brown, 2008; Sandelin, 2008). By being used in a coherent fashion in concert with the reward system, the cybernetic control was able to help lay the foundation for the socio-ideological controls. These findings are in line with Dent (1991) who argued that formal controls can create spillover effects that affect the culture.

From this perspective it can be concluded that the cultural controls and culture that is widely maintained by people within the firm to be their most guide, for instance evident in the clan control stressed by interviewees, is to a large extent driven by harder forms of control. The common perception of a culture which is seen to be largely created outside the hard control elements could thus be questioned. While cultural controls used within LawCo to some extent provided direction as a guiding light, more importantly they were a reflection of the light emitted by the reward system which was partly enhanced by the cybernetic control system. This contrasting picture can be viewed as related to the inherent balance between harder and softer forms of control that echoes through LawCo’s entire MC-package. In line with Alvesson & Kärreman (2004) technocratic tools were helpful in creating the foundations for culture. In contrast to the “delivery & feedback”-culture noted by the authors, in LawCo the culture was framed in softer terms, however. Concepts such as collegial governance and self-control (Harlacher, 2010) were emphasized and to avoid a “clash

of cultures” (as described by Abernethy and Stoelwinder (1995)) subtle ways were used to ensure that the largely enforcing and cybernetic tools were perceived to be relaxed.

The results found contrast previous research in that the top-down control aspects within the MCS were hidden through the built-up perception of the system. One implication of for example the Simons’ (1995) framework, which has a top-down perspective, was that control elements should be visible in order to be effective. Management control literature often view MCSs as something that needs to be tangible in order to achieve its purpose (Otley, 1999). Within LawCo however the notion of hypocrisy shapes the function of the management control system as a whole. It can be seen that an idea has developed in regard to the perception of the MC-package. The idea of perception of the MCS is also not expanded upon by Mundy (2010) who structured an analysis of interdependency between levers. Within LawCo it can be concluded that employees view the system as a whole as to allow for a great deal of autonomy, even though some empirical findings clash against this notion. The employees’ perception of the system seemingly override the enforcing aspects of control and allows the staff to feel empowered. The perceptual dimension is therefore found to be an important element to study in understanding the balance between the different elements of control within LawCo.

5.4 The dark side of the cloak of ambiguity

Overall, the MCS can be concluded to be affected by the contextual aspects of the industry in several ways. Several measures are taken, as highlighted in the empirics and expanded upon in the analysis, to allow for autonomy and cater to the nature of the professionals active in the firm. However, within LawCo there exist some directional issues regarding certain types of tasks, namely outside the employees’ own delineated domain. This complication is illustrated by three main aspects of the MCS as related to the contextual challenges of the PSF.

First, clan controls, as related to the profession of law in itself, clearly delineate the role of the lawyer within the firm, and the frame within which employees can act has thus been set. The role of the professional can thus be seen as tightly tied to the performance of the work in itself, and tasks that fall outside this frame can thus be viewed as more marginal matters (Abernethy & Stoelwinder, 1995; Copur, 1990). This form of clan control serves to help overcome challenges in relation to opaque quality, but the required adaptation to the profession also creates limitations. For this reason the specific LawCo-way was emphasized as a complement to the general lawyer knowledge to be able to have more strict rules in place.

Second, the short- and long-term planning controls within LawCo are built on a great deal of informality and autonomy, which is in line with the ideas proposed by Alvesson & Kärreman (2004). The implication is that while many things are not formalized, and outside a partner’s legal area, there is not a clear role definition related to menial tasks. As the informal and autonomous nature of the system means that no partner have direct authority over another partner, associates had the role of performing tasks not related directly to cases. Thus, there was a clear lack of directional mechanisms in regard to areas outside of the normal day-to-day business for partners, as confirmed by an underdeveloped computerized knowledge management system.

Finally, the reward system both limits the amount of extrinsic reward tools to guide direction outside direct legal areas and also enhances the partners' autonomous position within the firm. The reward system as it stands is a fixed aspect of the control elements. In order to avoid free-riding a cybernetic control system has been built in order to achieve a lowest bar for achievement relative to other partners, which is tied to billed revenues. Equity stakes make, as maintained by many partners, those involved feel like they are their own boss and are reluctant to take orders. This is in line with reasoning provided by Sandelin (2008) where equity stakes created an "ownership-culture". These factors contribute to enhancing the issue of direction in relation to roles outside that of the professional.

Overall, the implications of the enacted MCS is that the directional value of the system is largely limited to the staked out area of the profession, in the case of LawCo. The CEO's mandate, and planning control functions, is relatively large from a political perspective, but as maintained by interviewees, there exists clear limitations as to how it can be infringed on the individual partner's area. Consequences of this can be seen throughout the organization, but one clear example is found in regard to the computerized knowledge management system. It was stated by many partners that there would be clear benefits of enacting such a system, but that it was unclear of who would take it upon themselves to help drive the organization towards developing better processes around it. An individual partner would have little to gain by coding their knowledge into a computer system, but the firm as a whole would likely benefit. The directional difficulties inherent in a knowledge-intensive firm are through this highlighted. Nordenflycht (2010) argued that allowing autonomy would help directing employees within a knowledge-intensive context, but didn't expand upon the consequences of doing so. The case of LawCo emphasizes the consequences of allowing some autonomy, and the dark side of the cloak of ambiguity that permeates the management control system as a whole is thus stressed.

6. Concluding remarks

This section will give an overall summation of the analysis and account for the principal contributions to literature in regard to both management control and professional service firms. Our aim with this study was to in-depth explore the management control systems implemented within a professional service firm. The management control framework of Malmi & Brown (2008) was used in combination with contextual challenges facing a PSF in order to systematize the analysis of the contextual challenges impact on the system. Our findings confirm that there are clear implications for the management control package in a PSF, stemming from the contextual challenges.

The issue of a *trusteeship norm* necessitates an equity based reward system due to the commercial nature of the industry and is in the legal sector regulated by law. However, the reward system chosen was shown to have consequences throughout the organization as a whole, affecting both cybernetic and cultural controls. In terms of handling *opaque quality* employees who had been with the firm a longer time argued that there are few policies and restrictions in place and instead pointed to the culture as a manager and guiding light to ensure unity, while newly hired employees described mountains of policies. While many of the rules were motivated by the demands of the profession and to ensure that the brand is kept intact, other rules were more enforcing but still accepted. In this regard, social controls were used to disguise the enforcing nature of the vast amounts of rules to guide employee behavior. Rather than replacing formal controls, social controls were used to *disguise* their existence and downplay their role.

To overcome directional and retentional difficulties related to *cat-herding*, a large autonomy and informality were allowed. The importance of short-term planning meetings was repeatedly emphasized as a way in which self-governance permeates the organization. The ability of getting employees to do menial tasks was decreased however. The ideas of self-control were strengthened by the way in which the annual general meetings were set up. Social controls were used to highlight that everyone is in charge and the “consensus”-culture created was seldom problematized. This in turn allowed for a larger role of the CEO in staking out the overall direction as there was an aura of inevitability surrounding proposals. The reward system created ripple-effects in the system and was important in shaping cybernetic controls and influencing the culture. The culture then became a relatively fixed aspect and was further enhanced by the 360-evaluation. The CPD-evaluation was aligned to these aspects and further laid the foundation for the culture.

Our contribution can partly be found to be related to the perception of control which was cultivated within the organization. We found a strong connection between culture and harder, more formal types of control. Much research suggests that cultural controls within a knowledge-intensive context often have a leading role and that strict output controls cannot be imposed upon professionals to easily (Abernethy & Stoelwinder, 1995). In contrast we find that technocratic and more enforcing tools, in similarity to the results of Alvesson & Kärreman (2004) in a PSF-context, were important drivers behind the culture. In LawCo it was found that technocratic controls, such as the reward system in concert with the cybernetic control were important in shaping the culture. Further, cultural control were used in a counter-intuitive way. Rather than being a guide, it acted

as a disguise in regard to formal elements of control such as administrative controls. Many aspects of the socialization processes are based around the idea of implementing a culture, forming an individual that functions and serves the values of the firm. This formed a perception of the MCS as a whole that allowed for the idea of autonomy, while still maintaining some controlling aspects of the system stricter.

Furthermore, we find that the MCS within LawCo is clearly limited in its directional use due to the professionalized staff, in combination with their allowed autonomy and position as owners of the firm. It is noted that there were difficulties when it comes to directing employees at tasks that are outside their perceived notion as a professional, while direction within aspects perceived to be within their role is easier.

This study faces several possible limitations. While the use of a single-case study allows the research to more deeply consider a complex phenomenon, the drawback is that the generalizability of the results will be lowered. It would therefore be suggested that performing a multiple-case study in regard to MCS within PSFs would enhance the ability to generalize the results. Furthermore the method of interviews may induce biases from the authors when it comes to interpreting the results. For these reasons one should proceed with caution when generalizing the findings in other settings and on other case companies. Nevertheless, this thesis is aimed to provide fertile soil for the nurturing of further research in regard to the field of management control as a package within PSFs. For instance, we have studied MCS within the context of a Classical PSF, a law firm, and this is only a relatively narrow sub-set within the knowledge-intensive industry. A suggestion would then be to do either a study of another firm within a different subset that would help comparisons or a study regarding direct comparisons between different sub-sets. For example the reward system was found to be important, highly affected by the trusteeship norm and it could be interesting to analyze the context without this factor.

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8. Appendix.

8.1 Interviews

Role	Department	Number of interviews.	Type.	Time
Partner 1	M&A	3	Face-to-face interview.	80
Partner 2	M&A	1	Telephone.	45
Partner 3	M&A	1	Face-to-face interview.	75
Partner 1	Dispute Resolution	2	Face-to-face interview.	110
Partner 2	Dispute Resolution	1	Face-to-face interview.	60
Partner	Environmental Law	1	Face-to-face interview.	120
Partner	Bank and Finance	1	Face-to-face interview.	72
CEO		2	Face-to-face interview.	70.
Partner	Litigation Law	1	Face-to-face interview.	60
Partner	Tax	1	Face-to-face interview.	80
Associate	M&A	1	Face-to-face interview.	40
Associate	M&A	1	Telephone.	25
Associate	M&A	1	Face-to-face interview.	45
Associate	Dispute Resolution	1	Face-to-face interview.	60
Senior Associate	Dispute Resolution	1	Face-to-face interview.	55
Senior Associate	Bank and Finance	1	Face-to-face interview.	60
Senior Associate	Bank and Finance	1	Face-to-face interview.	50

8.2 Interview guide

General questions

Describe your role within the company

Admin

The organizational structure.

Policies and procedures used.

How leadership is exercised in the company.

Planning

Long- and short-term plans

Interaction between annual partnership-meetings and other forums for planning

Cybernetic

Budget, purpose, targets and link to rewards/punishments.

360-evaluation, importance, link to other control elements and concrete usage and change over time.

Rewards

Importance of lock-step compensation

Link between performance and rewards

Culture

Characteristics of the culture and cultural controls

Symbols, rituals or events reinforcing or characterizing the culture.