



Control in the multinational enterprise: The polycentric case of global professional service firms



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ABSTRACT

This paper contributes to research on control in multinational enterprises (MNEs) by considering the case of global professional service firms (GPSFs). Drawing on fieldwork in four firms, it argues that GPSFs are seeking greater control over their subsidiaries in order to provide integrated cross-national services to global clients and, in the process, are becoming subject to a center–subsidiary tension similar to that observed in more conventional MNEs. However, and importantly, the paper also argues that the center–subsidiary tension operates differently in GPSFs. This is because central control in this particular context is pursued by not only headquarters but also subsidiaries based in core economies where major global clients are headquartered. Such *polycentric control* leads to the center–subsidiary tension expressing itself along not just the vertical (headquarters–subsidiary) axis but also the *horizontal* (inter–subsidiary) one and, in particular, along *core–periphery* lines. The research and managerial implications of these findings are discussed.

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1. Introduction

In the last three decades, a considerable body of research has examined how multinational enterprises (MNEs) control their international operations. Much of this work has adopted the perspective of headquarters and been concerned with identifying and prescribing effective ways of controlling subsidiaries (e.g. Bartlett & Ghoshal, 1989; Nohria & Ghoshal, 1997). Since the early 2000s, however, a growing number of studies has been undertaken from the viewpoint of subsidiaries, revealing how the interests, practices and wider contextual circumstances of these actors often undercut central control efforts (e.g. Birkinshaw, Holm, Thilenius, & Arvidsson, 2000; Ferner, 2000). This has gradually led to a view of the MNE as a socio-political space marked by a fundamental center–subsidiary tension over control processes and opened up a lively discussion about the causes, consequences and moderating factors of this tension (see e.g. contributions in Dörrenbächer & Geppert, 2011; Ferner, Quintanilla, & Sanchez-Runde, 2006).

In this paper, I reflect on a category of MNEs that have been largely left out of the discussion: *global professional service firms* (GPSFs) – of which the ‘Big Four’ accountancies, the ‘elite’ law firms and the major international management consultancies are prime

examples. These organizations now occupy center stage in the world economy in terms of their influence, role and size, and this very fact ‘is reason enough for giving them serious attention’ (Suddaby, Greenwood, & Wilderom, 2008, p. 992). More importantly, control in GPSFs tends to be highly decentralized (Jones, 2005; Nachum, 2003), raising the question of whether the center–subsidiary framework of analysis employed in socio-political studies of the MNE is useful in this particular organizational setting.

I address this question through qualitative research conducted in the consulting arms of four of the world’s largest GPSFs, from the perspective of their UK (London) subsidiaries. I focus, in particular, on control processes related to the delivery of transnational projects on behalf of global clients. I begin by elaborating on the theoretical context of the study, reviewing first the literature on center–subsidiary control relations in MNEs and, subsequently, research on the international organization of GPSFs. The research methods are then described and, in a subsequent section, the findings presented. I show how GPSFs are becoming subject to a center–subsidiary tension similar to that observed in conventional MNEs but also reveal that this tension manifests itself differently in this particular context. In the final section, I discuss the research and managerial implications of the findings, and highlight a few limitations together with some possible areas for future research.

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2. Theoretical background

2.1. Control in MNEs

A key message to emerge from headquarters-oriented studies of MNE control (e.g. Bartlett & Ghoshal, 1989; Nohria & Ghoshal, 1997) is that MNEs have become less centrally managed. That is, in response to the increasing complexity of the international business environment, including pressures for more responsiveness and innovation, MNEs have had to shed their command-and-control structures and give subsidiaries more autonomy. In particular, MNEs are said to have become less reliant on conventional – i.e. 'bureaucratic' – means of controlling subsidiaries (e.g. formal hierarchy, standardized work procedures and formal performance management systems). Instead, they seek to maintain firm-wide control through 'cultural' means (e.g. training and socialization), i.e. by having subsidiary managers internalize, and therefore willingly comply with, central requirements.

However, this view of MNE control has been challenged by research conducted from the perspective of subsidiaries (e.g. Birkinshaw et al., 2000; Ferner, 2000; also contributions in Morgan, Kristensen, & Whitley, 2001). This has revealed that, in practice, central control is 'greater than is often thought' (Edwards, Ferner, & Sisson, 1996, p. 20) and that, indeed, 'the relative importance of headquarters is in fact growing' (Barner-Rasmussen, Piekkari, Scott-Kennel, & Welch, 2010, p. 88). This appears to be especially the case in service MNEs attempting to respond to global customers' demand for integrated cross-national offerings (Miozzo & Yamin, 2012). It has also been highlighted that 'cultural' control efforts are merely an additional means by which the center seeks to regulate subsidiaries rather than an alternative to conventional 'bureaucratic' forms of management (Ferner, 2000).

This is not to imply that central control is always effective. On the contrary, it is often challenging because the interests and practices of the two parties are frequently misaligned. That is, headquarters pursues global control – often by simply imposing home-centric management systems and practices with little subsidiary involvement and scant attention to host-country contexts – but subsidiaries do not necessarily fulfill expectations and may indeed be directly opposed to 'top-down' management. Such resistance occurs not simply due to subsidiary managers being 'intrinsically motivated by [...] the need for self-determination or autonomy' (Ambos, Andersson, & Birkinshaw, 2010, p. 1102) but also because host-country institutional pressures can lead them into seeing the requirements and control systems of headquarters as inappropriate for, or inefficient in, their local contexts (see e.g. Boussebaa & Morgan, 2008; Ferner, Quintanilla, & Varul, 2001). The result is that central control efforts sometimes fail or have to be negotiated through the deployment of power resources held by the two parties.

In sum, the MNE is increasingly being conceptualized as a 'contested terrain', i.e. a socio-political space in which headquarters and subsidiaries are continually engaged in conflict and negotiation over the control of the firm and its resources (see e.g. Andersson, Forsgren, & Holm, 2007; Morgan & Kristensen, 2006; also contributions in Dörrenbächer & Geppert, 2011; Ferner et al., 2006). This socio-political perspective has greatly advanced our empirical and conceptual understanding of control in the contemporary MNE. What remains unclear, however, is whether this perspective, which has emerged based on studies of *manufacturing* MNEs, is useful for understanding control in GPSFs, organizations that are generally believed to be highly decentralized.

2.2. Control in GPSFs

It is well established that professional service firms, because of their 'professional' character, tend to be more decentralized than

conventional businesses such as manufacturing companies (see e.g. Greenwood, Hinings, & Brown, 1990; Mintzberg, 1983). Unlike most manufactured goods, professional services are typically produced in close interaction with clients who often require customized solutions, thereby calling for a mode of control that gives professionals a high degree of autonomy in their day-to-day activities. Further, norms of professionalism generally dictate that decisions about the management and organization of the firm are made consensually rather than in a 'top-down' fashion. In short, as Mintzberg (1983, p. 197) long ago put it, 'not only do [...] professionals control their own work, but they also seek collective control of the administrative decisions that affect them.'

Central control in professional service firms is thus relatively limited and the same appears to apply to those firms that are *transnational* in scope (see e.g. Aharoni, 1996; Jones, 2005; Nachum, 2003). Indeed, the transnational level arguably calls for an even greater degree of decentralization given that professionals here not only have to offer customized client solutions but also 'tailor offerings to suit local market preferences and culture' (Campbell & Verbeke, 1994, p. 97). In this context, subsidiaries are said to retain firm control over decisions about day-to-day work matters (e.g. the allocation of employees to client projects and the choice of methods of work and service delivery) and also have a degree of control over managerial decisions affecting them via consensual-decision making processes. Whilst 'bureaucratic' control systems are by no means absent (e.g. global HRM policies and knowledge management systems), central control is said to generally occur more through 'cultural' means, including shared training (to standardize the skills of professionals) and socialization practices (to inculcate appropriate organizational values).¹

This raises the question of whether and how far the sociopolitical view of the MNE is useful for understanding control in GPSFs. Based on the characteristics discussed above, one would be inclined to conclude that it is not. However, a common theme running through the professional services literature is that demand for integrated cross-national solutions on the part of 'global clients' has led GPSFs across various sectors to become more centrally managed and more reliant on bureaucratic control systems (see e.g. Boussebaa & Morgan, 2015; Faulconbridge & Muzio, 2008; Rose & Hinings, 1999; also Kärreman & Alvesson, 2004). The organizational implications of this change are far from clear given the dearth of detailed research conducted from a subsidiary perspective, but it suggests that GPSFs are becoming less distinctive and therefore possibly subject to a center-subsidiary tension similar to that observed in conventional MNEs. Indeed, a number of studies point in that direction (e.g., Boussebaa, 2009; Barrett, Cooper, & Jamal, 2005; Muzio & Faulconbridge, 2013).

A few studies seem to suggest otherwise, however. For instance, Spence et al.'s research (in press) on the 'Big Four' accounting firms identifies a strong center-subsidiary convergence around partner promotion processes and, in particular, around the need to generate certain levels of revenue as an essential criterion for promotion. Based on this, the authors argue that the firms have become 'in fundamental ways, globally homogenous' (p. 18), thereby suggesting that some GPSFs have managed to increase central control without experiencing the center-subsidiary tension identified in more conventional MNEs (see also Greenwood, Morris, Fairclough, & Boussebaa, 2010; Segal-Horn & Dean, 2009).

¹ The extent to which this particular control model is applied in practice is likely to vary depending on a number of factors, including mode of governance (e.g. partnership vs. corporation) and type of profession (e.g. auditing vs. consulting) (see Malhotra & Morris, 2009) but, on the whole, GPSFs are generally believed to be less centrally controlled and, in particular, less reliant on 'bureaucratic' management systems than conventional MNEs.

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