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Knowing your boundaries: Integration opportunities in international professional service firms

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ABSTRACT

This study presents three different business models (continuous, repetitious, and unique) identified in international professional service firms that pursue a transnational strategy. These business models have varying opportunities for global integration. We extend the integration–responsiveness framework by offering a framework for analyzing how to balance global integration with local responsiveness when pursuing a transnational strategy. By identifying the content, structure, and governance transactions of the three business models, we can determine when to pursue headquarters-initiated global integration and when to choose strategies that ensure local responsiveness and subsidiary competitiveness in local markets.

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1. Introduction

Knowing what and when to integrate activities have occupied organization researchers since Lawrence and Lorsch (1967). This paper extends knowledge on the organizational forms and linkages that exist in international business operations, by examining business models in international professional service firms (IPSFs) that pursue a transnational strategy. The global integration–local responsiveness (IR) framework purports that multinational firms attempt to integrate their international activities across geographical borders to respond to the needs of various foreign locations (Bartlett & Ghoshal, 1989; Doz, 2006; Harzing, 2000; Jarillo & Martíanez, 1990; Rugman & Verbeke, 2001). Multinational firms face both global and local pressures (Grøgaard, 2012). Their ability to pursue both integration and responsiveness requires careful strategic coordination, labeled 'transnational strategy' (Bartlett & Ghoshal, 1989). However, existing literature has been unable to identify the elements that constitute the duality of this coordination. How much integration must be sacrificed to obtain responsiveness, and vice versa, remain unclear (Asmussen, 2007).

We argue that the inconclusive empirical results for pursuing a transnational strategy may be a result of applying an inappropriate unit of analysis. Previous research has questioned the mere presence of these firms in the marketplace (Leong & Tan, 1993). Furthermore, studies seeking to understand how these firms balance global integration with local responsiveness have focused on organizational-level items, such as the network structure, intersubsidiary flows, local R&D, adaptation to marketing, and level of HQ dependence (Harzing, 2000) and factors of international strategy determinants (e.g. Fan, Zhu, & Nyland, 2012). Kim, Park, and Prescott (2003) instead focus on varying integration modes between functions within the firm. This is in line with Devinney, Midgley, and Venaik (2000) arguing that multinational firms can configure themselves in various ways, rather than prescribing the transnational form as optimal. Similarly, we believe that important insights will be gained by investigating the various business models that exist within firms. Global integration can be achieved through standardized business models that provide efficiency and economics of scale, while responsiveness can be achieved through business models customized for local markets.

A business model is defined as 'the structure, content, and governance of transactions between the focal firm and its exchange partners' (Amit & Zott, 2001, p. 511). It is the way firms capture value in the marketplace. Business models are characterized by their design themes, which capture the common threads that orchestrate and connect the focal firm's transaction with external partners (Zott & Amit, 2008). Decisions to coordinate globally or decentralize collective knowledge influence innovativeness and competitiveness in local markets (Williams & van Triest, 2009). In IPSFs, knowledge is the major source of value creation (Løwendahl,

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1997; Maister, 1993). IPSFs are described as pursuing a transnational strategy due to the 'tug of war' between standardization (where favorable) and adaptation (when appropriate). Hence, we ask: *What kinds of business models do we observe in IPSFs?* and *How do these business models enable the firm to benefit from scale advantages of global integration, while remaining locally responsive?*

We claim that IPSFs provide a particularly appropriate context to explore intrafirm balancing between integration and responsiveness. Professional services are generally considered to be difficult to standardize (Løwendahl, 1997; Maister, 1993) since knowledgeable individual local experts are central to what these firms offer. Nevertheless, an increasing number of professional service firms (PSFs) are internationalizing and, thereby, gaining scale advantages (Boussebaa, 2009; Brock, 2006; Brock & Powell, 2005; Faulconbridge, Beaverstock, Muzio, & Taylor, 2008; Greenwood & Empson, 2003; Hitt, Bierman, Uhlenbruck, & Shimizu, 2006; Segal-Horn & Dean, 2007, 2009). Our empirical investigations involve different business models in two mature IPSFs that serve both local and global markets. Service customization is still important for these ISPFs, even though they are delivering globally integrated services (Brock & Powell, 2005; Faulconbridge, 2008; Segal-Horn & Dean, 2009). Our study provides insight into how IPSFs balance local responsiveness and global integration in the focal firm (Segal-Horn & Dean, 2011).

We begin by presenting some theoretical foundations of the IR framework and value-creation processes in IPSFs, with a particular focus on business models. The understanding of business models guides the analysis with regard to how value is created and captured. We then present the research methods applied in the empirical investigation of identifying business models in IPSFs. Finally, we present the results from the data analysis, discuss the findings, and suggest a framework for global integration in IPSFs. We demonstrate the appropriateness of business models as a unit of analysis for how firms can balance global integration with local responsiveness.

2. Global integration and local responsiveness

In international business theory the IR framework describes the degree of subsidiary autonomy (local responsiveness) compared with central HQ-driven standardization (global integration) (e.g. Bartlett & Ghoshal, 1992; Birkinshaw & Morrison, 1995; Birkinshaw, Morrison, & Hulland, 1995; Devinney et al., 2000; Doz & Prahalad, 1991; Grein, Craig, & Takada, 2001; Roth & Morrison, 1992; Taggart, 1997). According to this framework, the tension between pressures to integrate globally and to be responsive locally is highest when a firm is pursuing a *transnational* strategy. Integration is conventionally defined as resource flows within the firm facilitated by technology (Kobrin, 1991) and involving coordination within the multi-national corporation at the firm level (e.g. Martinez & Jarillo, 1991; Roth & Morrison, 1992; Taggart, 1997). Determinants of international strategy (Birkinshaw et al., 1995; Fan et al., 2012; Luo, 2001, 2002) include various organizational factors (e.g. resource flow, manufacturing scale), industrial factors (e.g. cost pressure, resource distinctiveness), and environmental factors (e.g. extent of global competition, transnationality) (Fan et al., 2012). Hence, multiple environmental and organizational conditions influence the degree of global integration in the focal firm.

However, there is little consensus on the domain of the IR framework (Venaik, Midgley, & Devinney, 2004). For example Kim et al. (2003) emphasize the internal coordination of integration and describe integration modes at functional levels (e.g. marketing and R&D), whereas Devinney et al. (2000) address how structural and technological factors are organizational determinants of strategy. The challenge is that fundamentally different logics must coexist within the organization to achieve a transnational strategy. Hence, neither the factor nor the functional perspective can successfully explain the consequences for organizing and managing these processes (that require global versus local attention) across functions, subsidiaries, and HQ to contribute to the firm's competitiveness.

The IR framework also does not adequately incorporate the transactional pressures of the firm's value chain, since firms operating in the same industry may follow quite different strategies (Devinney et al., 2000). Based on these observations, Devinney et al. (2000) suggest that the IR framework must incorporate the concept of 'transactional completeness', which they define as the condition when 'all the characteristics of the transaction can be priced as if on an open market' (Devinney et al., 2000, p. 682). This concept is similar to the understanding of a business model, which concerns how value is captured in a market (Zott, Amit, & Massa, 2011).

To overcome these challenges, we suggest applying *business models* as an alternative unit of analysis to understand how firms can balance high global integration with high local responsiveness. By examining business models in a context where high pressure to integrate coincides with high pressure to be locally responsive, we may obtain new knowledge for balancing the transnational challenge. Devinney et al. (2000) identified interfirm variations in transactional completeness. Here, we identify such variation *within* firms that, we argue, may explain differing opportunities for global integration versus local responsiveness in the focal firm. We suggest that a business model approach can potentially bridge organizational and competitive factors (e.g. industrial and environmental) (Fan et al., 2012; Luo, 2001, 2002) with integration modes across functions (Grein et al., 2001; Kim et al., 2003).

2.1. Value creation in IPSFs

PSFs are firms 'whose primary assets are a highly educated (professional) workforce and whose outputs are intangible services encoded with complex knowledge' (Greenwood, Li, Prakash, & Deephouse, 2005, p. 661). Reputation is the most important value driver in PSFs (Greenwood et al., 2005; Stabell & Fjeldstad, 1998; von Nordenflycht, 2010). Their service deliveries are often provided in close cooperation with clients (Greenwood et al., 2005; Hitt et al., 2006; Løwendahl, 1997; Maister, 1993; Robertson, Scarbrough, & Swan, 2003). The value-creation process of professional services can be described as a 'value shop' (Stabell & Fjeldstad, 1998) because the goal is to solve specific client problems (Bettencourt, Ostrom, Brown, & Roundtree, 2002; Løwendahl, Revang, & Fosstenløkken, 2001; von Nordenflycht, 2010).

The value shop is a problem-solving process in which value is created through initiation, execution, and delivery phases (Stabell & Fjeldstad, 1998). During the *initiation phase*, efforts are rendered to sell, plan, staff, and budget the service. During the *execution phase*, the service offering is produced. During the delivery phase, the service is adopted by or rendered to the client. Some service researchers argue that the two last phases occur simultaneously: for instance, a play is produced, delivered, and consumed simultaneously (e.g. Normann, 1984; Ramírez, 1999). Professional services are considered to be difficult to standardize (Løwendahl, 1997; Maister, 1993) since individual experts are central to what these firms offer. However, we claim that the question of simultaneous production and consumption will vary according to the type of business model.

Although some of the characteristics connected to professional services limit opportunities for global integration, institutional forces (e.g. industry deregulation, technological developments, and increased globalization) have led to an internationalization of

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