05. Human Resource Management
Competitive Session

Converging configurations: developing a taxonomy of management and human resource practices in Australian and New Zealand accounting firms

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ABSTRACT

This paper reports on a replication study that investigates management and human resource practices in accounting firms. Using configuration theory, the study surveyed accounting firms in Australia and New Zealand with regard to their intensity of practice of HRM and management practices. Building on existing theories concerning organisational archetypes and the existing taxonomy, this study classifies accounting practices according to their human resources and management configurations. Using cluster analysis, the study found three clear configurations in the accounting industry, confirming the existing taxonomy and research method. Implications for management theory and practice are then discussed. The study contributes to the ongoing discussion concerning homogeneity/heterogeneity within professional services, finding that, with regard to HRM and management practice, there is evidence for homogeneity across professions.

Keywords: HRM; HRM research methods; HRM theory; performance management; Strategic HRM

Introduction

Developed economies, such as Australia and New Zealand, have experienced a significant shift in recent years, moving largely from the industrial age toward the information/knowledge age (Ehin, 2008). Professional services firms (PSFs), prominent in both economies, with their highly skilled and trained workforce, are organisations that embody many features associated with the knowledge age. PSFs are therefore an appealing location for research because insights gained in the traditional professions, exemplars of the knowledge age, may shed light more broadly on management in other knowledge-intensive industries (Teo, Lakhani, Brown, & Malmi, 2008). Despite the obvious need for evidence-based approaches to management, in the professions, there is a relative lack of research exploring the presence and impact of different management philosophies and techniques (Guzak & Rasheed, 2013; Malhotra & Morris, 2009).

Since the 1990's the dominant mode of enquiry used in research conducted on the traditional professions (law, accounting, architecture, engineering, medicine) has been the neo-institutional approach (Kirkpatrick & Ackroyd, 2003). Building on the analytical approach that deals with the presence of organisational archetypes in institutional fields (Greenwood & Hinings, 1993), the literature traces structural and cultural change in well-established industries using typologies (for

example, Cooper, Hinings, Greenwood, & Brown, 1996; Greenwood, Hinings, & Brown, 1990).

With some exceptions, research that builds a taxonomical understanding of organisational categories

within PSFs is sparse.   Malhotra et al. (2000) used a taxonomic approach to develop a classification

of Australian law firms that posited the presence of five main archetypes among Australian law firms.

More recently, an empirical study of the Australia/New Zealand legal industry found three dominant

HR and management configurations utilising an inductive taxonomy formed by cluster analysis

(Heys, Rodwell, & Jepsen, 2011).

The research reported on here set out to validate the research instrument and replicate the

taxonomy discussed in Heys et al. (2011), with a study of the Australia/New Zealand professional

accounting industry. The research aims to provide a better understanding of management practices in

the Australasian accounting industry using an empirical approach; and to compare the results of the

study with the configurations found in the Australasian legal industry and thereby contribute to the

emerging theory of PSF management (Greenwood, Li, Prakash, & Deephouse, 2005).

Archetypes in Professional Services

That PSFs have unique management and organisational structures has been well documented

(for example, Giblin, 1978; Hall, 1968; Montagna, 1968). The seminal paper by Greenwood et al.

(1990) set out the core attributes of PSFs, founded around the pillars of professionalism and

partnership – the P^2-form as defined by an analysis of their structures, systems and values. Building

on the P^2-form as the classic professional archetype (Brock, 2006), there have since been a number of

variants proposed in the literature. These include the managed professional business – MPB (Cooper

et al., 1996); the global professional network – GPN (Brock & Powell, 2005); and the elite 'star' form

(Brock, 2006; Gray, 1999). These new organisational forms have developed as a result of change in

the ideological, institutional and economic environments in which firms operate (Ackroyd & Muzio,

2007).

The degree to which archetypes are stable, growing or in decline is the subject of ongoing discussion (Connaughton & Meikle, 2013; Lawrence, Malhotra, & Morris, 2012; Pinnington & Morris, 2002, 2003). Greenwood and Hinings (1996) argued that institutional pressures can facilitate radical organisational change – which suggests that, particularly given significant environmental pressures, observed archetypes may lack stability. This paper is concerned with the occurrence of previously identified organisational forms within the Australasian accounting context, and whether the classic P^2-form has significant presence.

Classification and Heterogeneity in Professional Services

There has been a tendency within the research to treat "professional services" as a homogenous group, without significant regard for institutional variation (for example, Brock, 2006; Jensen, Poulfelt, & Kraus, 2010). However in recent years researchers have begun to emphasise the way in which professions are varied due to differences in their institutional contexts (Malhotra & Morris 2009).

Recognising that there is variation amongst knowledge-intensive firms with regard to knowledge intensity, capital intensity, and the degree to which the workforce is professionalised, Von Nordenflycht proposed a taxonomy of the professions (2010). The taxonomy provides four categories of PSF – classic PSFs (law, accounting); neo PSFs (consulting, advertising); technology developers (biotech, R&D); and professional campuses (hospitals). This taxonomy provides a useful structure to understand firms by their differences. More recently, there has been increased distinction between 'classic-PSFs' and 'neo-PSFs'. Kipping and Kirkpatrick (2013) argue that profession-specific regulation, and the conditions that those regulations create, are important in understanding the development of organisational forms over time. Because neo-PSFs are subject to weaker regulation, change within organisations – and by implication, organisational forms – are easier and more frequent.

Malhotra and Morris (2009: 917) note that there is "a widening gap between the sociology and organisation and management literatures in that there has been little consideration of the possibility that differences at the level of the profession might flow to the firm level". Investigating three professions through the dimensions of knowledge, jurisdictional control and client relations, they argue that there is heterogeneity among firms across professions. The role of the nature of work that professional firms engage in is said to be a determining factor in influencing the structure and systems of PSFs. While institutional differences amongst the professions may be observable, there remains a significant question around whether management practices are comparable. This paper seeks to identify the degree to which there is homogeneity of practice across the legal and accounting professions.

METHOD

The study was constructed as a replica of that described in Heys et al. (2011, hereafter "the original study"), intended to investigate a 'neighbouring' industry segment in order to discover the degree to which findings were similar across industries. Replication is considered a pillar of scientific investigation because it establishes whether an original result or finding holds, and the degree to which or manner in which it doesn't hold (Uncles, 2011). The outcome of a replication is a more applicable and usable result (Uncles, 2011). This study is a 'replication with extension' (Fuess, 1996) – it is a duplication of previous research where the primary concern is to increase the external validity of the research design – in this case, extending to a neighbouring industry segment. Following suggested replication techniques, the study used the original survey instrument (Rice & Schneider, 1994); the original research design was followed (Hamlin & Cooper, 2005; Russell & Russell, 2006); and the principal researcher from the original study was a member of the research team (Avolio, Bass, & Jung, 1999).

The original survey instrument was adapted using a three-stage review. Firstly, through informal dialogue with key informants, it was established that the basic constructs developed to test

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the legal services sector were also valid in the accounting sector; this established the face validity of the survey instrument. Secondly, the wording of individual items in the original study was reviewed to determine their applicability and relevance to this study. Minor adjustments to the survey instrument were made to ensure questions were clearly interpreted and seen as relevant to the new industry. Finally, any survey scales and survey items that were problematic in the original study were altered based on the original study results.

The cluster solution was derived using a two-stage cluster analysis (Hair, Black, Babin, & Anderson, 2010). An initial exploratory analysis was conducted using Ward's method – a hierarchical approach; followed by a non-hierarchical 'k-means' analysis. Conducting the cluster solution in this way reduces the problems inherent in each method – in the case of hierarchical methods, the potential for uncorrected misallocations; in the case of non-hierarchical methods, the need to determine the number of clusters prior to performing the analysis (Ketchen Jr & Shook, 1996).

Sample

The survey population was identified using publicly available lists (the 2011 Business Review Weekly Accounting 100 list, and the AccountancyAge 35 largest global accounting networks). Upon investigation, including discussions with key informants and a review of firm-produced material, it became evident that many mid-sized accounting networks (under the same firm's 'brand' name) in fact consisted of independent firms (a network analogous to a franchise arrangement), and so it would be appropriate to analyse these independent firms as separate entities in the sample. This treatment corresponds to Osterman's (1994) study, in which the HR policies of firms were analysed at the establishment, or enterprise, level – in order to avoid the risk of 'head office bias'. Effectively, each enterprise was treated as a separate firm for the sake of the analysis. Comparably, distributing surveys at the independent firm level in this study avoids the risk of network leaders responding on behalf of enterprises that they have insufficient knowledge of with respect to management practices.

The survey was distributed to 167 accounting firms in Australia and New Zealand. Surveys were addressed to the Managing Partner, CEO, or other comparably titled person, being the most senior and thus frequently the best-informed individual of firm-wide practices. Sixty responses were received, a return rate of 35.9%, comparable to a 2008 meta-analysis of survey response rates, that found the mean organisational response rate was 36.2% (Baruch & Holtom, 2008). In common with most research of this nature, there is risk that the results contain non-respondent bias (Becker & Huselid, 1998). Feedback from non-respondents indicated that the time of year – particular in relation to the traditional accounting 'busy season' of July-October, along with survey fatigue – contributed to their decision not to respond. Respondents represented a balanced mix in terms of size and geography, with the response profile of firms similar to the sample profile.

Measures

The survey contained 20 scales (labelled A-T below). Scales A-M used a 5-item Likert response range, where 1=strongly disagree and 5=strongly agree; scales M-T used a 7-item Likert response range, where 1=strongly disagree and 7=strongly agree. Response ranges were the same as that used in the original study.

A: Visionary leadership. Visionary leadership was drawn with reference to the construct of "transformational leadership" as discussed in Podsakoff et al. (1990) – in which transformational leaders "motivate followers to perform at a level over and above mechanical compliance with the routine directives of the organisation".

B: Vision and mission. The Vision and Mission scale as used in Heys et al. (2011) was used without modification. In that study, an original five-item scale was created based on a qualitative component of the research. The scale identifies the degree to which the firm has a clearly articulated vision and/or mission

C: Balanced client focus. The majority of items in the Balanced Client Focus scale were adapted from a well-used scale of Li and Calantone (1998), along with two items developed by Heys et al. (2011). The Li and Calantone scale has been used widely to determine the degree to which a firm has a market-orientation – that is, to be well-positioned to better realise its capabilities by understanding

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what is needed or wanted by clients. In addition, two items were included from Heys et al. (2011) with a view to including the impact of client focus on employees. The Li and Calantone study focused on hi-tech/software companies from a marketing perspective, so it was considered important to include a component of people management in this scale.

D: Voice mechanisms. The Voice Mechanisms scale was principally drawn from Sun et al. (2007). Their study examined high performance human resource practices, of which one was deemed to be participation. Heys et al. (2011) supplemented this scale with two original items that were derived from the qualitative research that formed part of that study (Heys & Rodwell, 2006). Items were modified slightly to allow for the specific application in the professional accounting industry.

E: Work flow processes. The scale used for Work Flow Processes was adapted from a comparable scale developed in Heys et al. (2011). Within professional service firms, particularly coming from the classical P^2-form pedigree, there is potential for work to be hoarded and/or not appropriately delegated across professionals working for other partners – which results in inefficient human capital deployment. The original scale had one item removed, which had been found to distort the overall reliability of the scale.

F: Accountability. The scale used for Accountability drew from a comparable scale developed in Heys et al. (2011). The original scale was a 5-item scale, however two of the items, which related to remuneration-related practices, had a high level of missing data, and so were not used in the analysis stage of the original study. On the expectation that these questions would also be considered too sensitive by participants, the same problematic items were not included.

G: Employee value proposition. The Employee Value Proposition scale was developed by Heys et al. (2011). The scale examines the degree to which firms actively create a compelling employment proposition for prospective and current employees.

H: Lateral hiring practices. In the qualitative research conducted in Heys et al. (2011), the issue of lateral hiring was found to be an important consideration for law firms. An original 10-item scale was developed to gauge this. The scale was found to be testing two factors – lateral hiring practices and lateral hiring attitudes. Therefore, the original scale was split into two separate scales, each of five

items. An example item in this scale was "We make lateral hires when the opportunity presents itself".

I: Lateral hiring attitudes. An example item in this scale was "We see lateral hires as more likely to leave our firm than long term employees".

J: Diversity. The scale for diversity was taken from a University of Wisconsin (Stout) survey of university employees, as adapted by Heys et al. (2011). The scale asked questions around diversity in general, and more specifically around gender- and age-related diversity.

K: Managerial training. The Managerial Training scale was taken from Heys et al. (2011). Managerial training, more specific than training and development as a human resource practice, focuses on the development of junior and intermediate professionals with regard to their management competencies. It is of particular interest in a professional service firm environment, particularly alongside lateral hiring attitudes and practices, as it bears relationship to "up or out" and "cradle to grave" policies.

L: Performance management. The first of two scales related to performance management, this scale focused on the degree to which performance management considers a range of activities or outcomes that do not have direct financial implications. The scale is from Snell and Dean (1992), as adapted in the original study – using the original scale except for the removal of one item.

M: Client strategy. Client Strategy drew both from Powell (1992), and from Heys et al. (2011). As highlighted in Cooper et al. (1996), the degree to which strategy is consensus- or directive-based is a differentiator between the P^2 and MPB archetypes.

N: Thought leadership. The Thought Leadership scale was taken from Heys et al. (2011). Thought leadership is seen to be an important differentiator for firms in both client and employee markets, in which firms compete (Maister, 1993).

O: Selective staffing. The scale used for Selective Staffing was adapted from Snell and Dean (1992), a widely used and well-validated scale. Items were modified slightly to suit the professional accounting industry. This scale sought to identify how selective firms are in their selection and appointment of new staff.

P: Role clarity. The scale used for Role Clarity was predominantly adapted from House et al. (1983), with three items being drawn from Heys et al. (2011). The degree to which there is perceived to be clarity or ambiguity around one's role within the firm – including understanding role expectations – is seen to be an important driver for success.

Q: Performance management and appraisals. A shortened version of the scale developed by Snell and Dean (1992) was used to measure Performance Management and Appraisals. This scale sought to understand the degree to which formal performance management is a priority, and the links between performance management and development initiatives.

R: Continuous improvement. The Continuous Improvement scale took four of the original five items used in Conca et al. (2003). The scale asked participants to indicate the degree of implementation of a number of quality/improvement processes.

S: Strategic HRM. The scale used for Strategic HRM was adapted from Becker and Huselid (1998). The scale included a reverse-coded item: "Is HR seen primarily by senior management as a cost to be minimised versus a source of value creation?" which was recoded during the data-cleaning process.

T: Decentralisation of authority. This scale sought to identify the degree to which authority was decentralised. The scale was drawn from Delaney and Huselid (1996), and adapted to suit the organisational structure of accounting firms. Participants were asked to identify the level in the firm that someone has authority to make decisions in relation to a range of items, such as headcount, new employees, remuneration, and the like.

RESULTS

The data was cleaned and reviewed for reliability and validity prior to performing statistical analysis. Survey results were reviewed for reliability by way of an assessment of Cronbach's alpha (Conca et al., 2003), and construct validity by ensuring scales were not collinear. The Cronbach's alpha of the survey results is presented at Table 1.

Insert Table 1 about here

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A two-stage cluster analysis was performed on the data (Hair et al., 2010). Initially, Ward's method, which uses hierarchical clustering, was used to determine the most likely number of clusters for the data set. Following this, a k-means quick cluster analysis was conducted in SPSS. These analyses produced a three-cluster solution, with no outliers identified in the dataset.

Following the derivation of the cluster solution, an analysis of variance was conducted with a view to discriminating between the clustering variables to determine those which were significant in defining each cluster. A one-way ANOVA was then conducted, followed by the application of a Bonferroni correction, such that the alpha for all comparison tests was set to the overall alpha of 0.05, divided by the number of cases in the population, 60, yielding a post-hoc adjustment of 0.00083. It was found that all but two of the clustering variables were significant. The final cluster solution is shown at Table 1, with accompanying demographic data shown at Table 2.

Insert Table 2 about here

The study found three distinct configurations within the Australasian accounting industry – two larger configurations, and one smaller configuration. The largest configuration (n=28), labelled the Pragmatists, showed intensity of HR and management practice largely in the mid-range, with a small number of practices being either high or low, relative to the other two clusters. Results that point to a 'classic' or traditional configuration, aligning with the P2-form archetype (Greenwood et al., 1990), are low activity within voice mechanisms, employee value proposition, and diversity. This suggests that non-partner professionals do not have a lot of opportunity to participate in firm management and decision making; and that firms in this configuration are comfortable with their current *modus operandi* around both attraction and retention, and do not perceive a need to be more appealing to potential candidates. Of note with this configuration is an apparent conflict of practice. Practices of both lateral hiring and managerial training are high. This suggests that firms in this configuration are active in hiring partners or near-ready partners laterally, but they are also well-invested in training internal candidates toward partnership. This conflict could pose a risk to the

stability of the configuration, and could influence firm performance. A review of defining clustering variables suggests this configuration aligns with the Democratic Traditionalists found in (Author 1 et al. 2011).

The configuration (n=24), labelled the Performance-Oriented Progressives, showed high intensity of practice across all measures. The results within this configuration show similarities with the MPB form found in the literature (Cooper et al., 1996). Firms in this configuration set a clear strategic direction, and embrace activities focused on improving the firm and promoting effectiveness with clients, and have policies to develop and manage the performance of their people. HRM is seen to be strategic, reflected both in attitudes towards the HR function and in the adoption of proactive human resource practices. A review of defining clustering variables suggests that this configuration aligns closely with the Performance-Oriented Progressives found in the original study.

The third, smaller configuration (n=8), labelled the Laissez-Faires, exhibited low intensity of practice across all measures. This indicates that firms in this configuration tend to take an ad-hoc approach to firm management and management of professionals – by accident or by design, it is likely that there is a high level of autonomy within the firm. They do not appear to place importance on strategic planning or leadership. It is likely that professionals at firms following the Laissez Faire configuration receive less feedback on their performance, and less support in their roles and in their development. These firms may experience difficulty in succession because, while they have a relatively low level of activity around lateral hiring practices, their managerial training is also relatively low – suggesting that they neither hire new or near-ready partners from outside the firm, nor actively develop internal candidates for future roles.

A further finding of interest stemmed from the survey being conducted at the enterprise level. The majority of research investigating professional service firms is based at the national firm level. Within the accounting industry, firms are frequently organised as networks of independent firms, rather than national firms. Table 3 illustrates the degree to which survey respondents from the same

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network were in the same or in different clusters. While the population at the network level is limited, the findings suggest that the assumption that individual firms within accounting networks will adopt the same practices is not reasonable to make.

Insert Table 3 about here

DISCUSSION

This study has successfully replicated Heys et al. (2011), in the process making a number of important contributions to literature investigating PSFs. The configurations that were identified show a high degree of homogeneity with those identified in the legal industry. This contrasts with the findings of variation across professions found in Malhotra and Morris (2009). The findings of this study do not refute the suggestion that there are institutional differences amongst professions, but rather it suggests that there are common configurations of practice across professions. Further, the findings of the study reinforce that the two dominant archetypes that are found in the literature – the P^2-form and the MPB – are found, with modest variation – after empirical investigation. Future research may extend this work by investigating further professional service industries, and by investigating the legal and accounting industries longitudinally or at the business unit level.

The study, as a replica of Author 1 et al. (2011), provides a methodological framework for further such studies in relation to organisational studies in HRM practice. In particular, the results of the study provide further validation of the usefulness and reliability of the survey instrument and analytical procedures as a tool for the ongoing investigation of the professional services sector in Australasia and elsewhere. Of need of further investigation is the finding of variation amongst 'network-brand' firms. The literature has predominantly made an assumption that professional service firm networks will adopt the same practices. This study suggests that such an assumption is not reasonable to make. Future studies investigating management and HR practice at both the individual firm level, and also at the divisional level, will provide a means to validate this finding.

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Table 1: Cluster solution showing mean scale scores, ANOVA results, Bonferroni post-hoc results, scale reliabilities, and Cronbach's alpha for this study and the original study

	Laissez-Faires	Pragmatists	Performance-Oriented Progressives	Cronbach's Alpha
Visionary leadership *	12.63 low	15.21 med	17.83 high	0.88
Vision and mission *	15.13 low	18.36 med	21.79 high	0.87
Balanced client focus *	29.50 low	35.71 med	41.13 high	0.86
Voice mechanisms *	23.13 low	24.50 low	26.83 high	0.72
Work flow processes *	15.75 low	20.00 med	21.50 high	0.72
Accountability †	10.13 low	11.68 n.s.	12.88 high	0.73
Employee value proposition *	9.63 low	11.11 low	12.71 high	0.80
Lateral hiring practices *	14.75 low	17.82 high	19.38 high	0.67
Lateral hiring attitudes (n.s.)	13.00	12.54	10.79	0.81
Diversity †	22.50 low	23.50 low	26.04 high	0.73
Managerial training *	12.00 low	14.75 high	16.63 high	0.84
Performance management *	30.00 low	37.79 med	44.88 high	0.89
Client strategy *	19.25 low	25.54 med	28.42 high	0.80
Thought leadership *	16.38 low	26.11 med	29.38 high	0.91
Selective staffing *	27.38 low	31.43 med	35.29 high	0.62
Role clarity *	33.63 low	39.82 med	43.00 high	0.86
Performance management and appraisals *	12.75 low	16.86 med	18.46 high	0.80
Continuous improvement *	14.25 low	20.14 med	23.33 high	0.85
Strategic HRM *	16.63 low	19.75 med	23.67 high	0.68
Decentralisation of authority (n.s.)	26.63	24.82	28.42	0.82

Notes: * - scale exhibits a clear differentiation between clusters in the clustering ANOVA
              † - scale exhibits a tendency to differentiate between clusters at 0.000833
              low – the cluster exhibits a low level of activity in the management practice relative to other clusters, based on the significance level of the Bonferroni post-hoc adjustment results
              med – the cluster exhibits a medium level of activity in the management practice
              high – the cluster exhibits a high level of activity in the management practice
              n.s. – ANOVA indicates the management practice is not significant as a differentiator

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Table 2: Demographics table

	Laissez-Faires	**Pragmatists**	**Performance-Oriented Progressives**
Location detail	Syd/Melb (1); Bris/Adel/Perth/ Canb (3); Aust regional (0); NZ (4)	Syd/Melb (7); Bris/Adel/Perth/ Canb (11); Aust regional (4); NZ (6)	Syd/Melb (7); Bris/Adel/Perth/ Canb (10); Aust regional (5); NZ (2)
Revenue size [a]	Large (0); Mid (1); Small (7); n.d. (0)	Large (2); Mid (13); Small (11); n.d. (2)	Large (3); Mid (7); Small (11); n.d. (3)
Number of equity partners	>20 (0); 11-20 (0); 6-10 (3); 1-5 (5)	>20 (1); 11-20 (8); 6-10 (9); 1-5 (10)	>20 (4); 11-20 (4); 6-10 (8); 1-5 (8)

Notes: a – revenue groups are: small - <$10 million; mid - $10-50 million; large - >$50 million; n.d. – not disclosed

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Table 3: Dispersion of same-network firms amongst clusters

Number of respondent firms in network	Number of networks	3 clusters represented	2 clusters represented	1 cluster represented
6 firms in same network	1	1		
5 firms in same network	2	1	1	
3 firms in same network	4		3	1
2 firms in same network	6		2	4