

Contingency and Institutional Perspectives within the Liberal Professional Organisation

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## Contingency and Institutional Perspectives within the Liberal Professional Organisation

### Summary:

This developmental paper will argue the necessity of drawing on both the contingency and institutional theories when researching the professional organisation. It is based on a doctoral thesis that addresses the barriers to acceptance and application of marketing within accountancy and law firms. The paper briefly presents the relevant definitions of the professions and the role of the marketing function within the organisation. The Contingency approach and its relevance to theory building and research in marketing have been identified. Conversely, the Institutional approach has been identified as relevant to the professions. The two approaches are separately outlined and their theoretical foundations traced. Finally, two theoretical models are proposed for discussion. The theoretical model that has been further developed for the thesis explains the barriers to marketing as a result of organisational conflict between the need for response to contingency pressures and the internal and external institutional isomorphic pressures of maintaining professional legitimacy with the implications of forfeiting organisational efficiency.

## Contingency and Institutional Perspectives within the Liberal Professional Organisation

### **Introduction**

This developmental paper is based on a doctoral thesis that addresses the barriers to acceptance and application of marketing within the liberal professional organisation, specifically in the accountancy and legal sectors. A theoretical model has been developed which explains these barriers from a combined contingency and institutional perspective. The thesis findings based on qualitative analysis of the professionals' perceptions have demonstrated that these barriers can be seen as a result of an organisational conflict between the need for response to contingency pressures and the internal and external institutional isomorphic pressures of maintaining professional legitimacy with the implications of forfeiting organisational efficiency. Change within the liberal professional organisation takes place if subject to sustained contingency pressures but this process is slowed down due to the institutional barriers of the professional partnership and professional culture (Cohen, 2006).

The present paper will argue the necessity of drawing on both the contingency and institutional theories when researching the liberal professional organisation and will put forward two theoretical options for discussion.

For the purpose of this study, the professions have been defined along the lines suggested by Reed (1996). Accountants and lawyers fall into the category of the independent liberal professions characterized by a cognitive base that, "...always emphasized abstract, codifiable and generic knowledge allied to complex tacit skills derivable from, but not reducible to, rational scientific knowledge acquired by protracted periods of study in higher education institutions" (p.584). Marketing and management professionals fall into the organisational or managerial professions category, which are located in large private and public-sector bureaucracies. These professions, according to Reed (1996), have been unable to achieve the degree of indetermination, monopolization and control of their knowledge base, lacking the legitimacy provided by the connection of abstraction with general values, enjoyed by the liberal professions. Finally, the loosely formed group of 'entrepreneurial professions' or 'knowledge workers', such as financial or IT consultants who depend on a highly esoteric and intangible knowledge base for mobilizing claims to expertise and the control over areas of work.

The liberal professions of accountancy and law, which for centuries have been sheltered against change, in contemporary times have been subjected to increased competition, more demanding and sophisticated clients, deregulation, technological advancement and globalisation (Powell et al, 1999; Carter and Crowther, 2000; Hanlon, 1994; Macdonald, 1995; Aharoni, 1999; Heinz et al, 2001). Given the intensity and complexity of these environmental pressures and the organisational changes that followed, marketing has been very reluctantly adopted as a management tool by the professional service firms (Morgan and Piercy, 1990; Morgan, 1991;

Morgan, Foreman and Poh, 1994; Barwise and Meehan, 1999; Pheng and Ming, 1997).

This study has adopted Varadarajan's definition of marketing as a "boundary-spanning organisational function through its constant interface with the external environment at large and with customers, competitors and channel members in particular" (1992, p.340) as well as with the various groups within the organisation. Equally relevant in this context is the conceptualisation of marketing as an ecological system engaged in economic operations (Zeithaml, et al, 1988 based on Alderson, 1957; Nicosia, 1962). The key role attributed to the marketing function is as a tool designed to maximise organisational effectiveness.

### **Theoretical approach**

#### *The Contingency Perspective*

Varadarajan's definition of marketing fits well into the organismic view of the organisation and leads to the Contingency theory that highlights the importance of situational influences on the management of organisations and questions the rationale of an optimal, single way to manage and organise (Zeithaml, et al, 1988). Developed in the 1960s, the contingency approach to management has its roots in the general open systems theory, which views organisations as problem-facing and problem-solving entities. Complex organisations are viewed as a set of interdependent parts, which constitute together a whole and which in turn is interdependent on its environment (Zeithaml, et al, 1988). The open systems have two characteristics central to the contingency approach: adaptation and equifinality. The principle of adaptation states that elements within a system adapt to one another in order to preserve the character of the whole system, whereas the principle of equifinality states that a system can reach the same final state following a variety of differing paths. Morgan (1997) supports the organismic view stating that organisations, just "like organisms in nature, depend for their survival on their ability to acquire" the resources needed for their survival (p.61). In this 'ecological' process they have to compete with other organisations in an environment offering limited level of resources and if there is a scarcity of these resources, then only the fittest and most adapted will survive. This approach though might lead to misleading concepts; the natural selection view of organisational evolution ignores the fact that organisations are made of people who can determine the destiny of the organisation and have a free will choice whether to compete or collaborate. This observation is particularly relevant to the professions, which operate in very special environments with self-imposed barriers and regulations. In this instance the natural selection view of organisational evolution would be difficult to apply unaltered.

The fundamental principle of the contingency approach, is that effectiveness, defined broadly as *organisational adaptation and survival* can be achieved in more than one way, where certain organisational responses are more appropriate than others depending on circumstances (Donaldson, 2001; Zeithaml, et al, 1988). Donaldson argues that organisational effectiveness can have a wider meaning, including efficiency, profitability, employee satisfaction, or innovation rate. In fact, "Organisational effectiveness can be defined as the ability of the organization to attain goals set by itself...or by its ability to function well as a system...or by its ability to satisfy stakeholders" (p.6). Accordingly, organisational efficiency within the professional firm could be linked to the ability of the firm to attain its goals based on the adoption and implementation of marketing activities.

There are three types of variables within the contingency theory model, namely, *contingency variables*, *response variables* and *performance variables*. If this theoretical model is to be applied to the professional context, then one can assume that the contingency variables would be the competitive pressures, technological, globalisation or regulatory pressures. These are external variables over which the professional firm has in principle limited influence of action. The response variables would be the structure of the marketing function and activities, whereas the performance variables would be the levels of growth rate or levels of confidence in ensuring continuous work, ultimately reflecting the confidence in controlling the internal and external environment. This would also reflect the fit between the marketing structures and activities and the external contingency pressures.

The direct relevance of the contingency theory to marketing highlighted by Zeithaml et al (1988) was based inter alia on Nonaka and Nicosia (1979), Weitz (1981), Weitz and Anderson (1981) and Williams and Spiro (1985) but a substantial body of research followed since in respect to marketing orientation (Harris and Piercy, 1999; Kohli and Javorski, 1990; Narver and Slater, 1990) and the influence of marketing within the organisation (Homburg et al, 1999).

Uniquely within the study of marketing in the organizational context, Homburg et al (1999) have drawn upon the Contingency theory and the Institutional theory. Similarly, Gupta, et al (1994) have drawn on both theories in examining how professionals in an institutionalised environment, are coordinated and controlled and what forces shape the structures organisations adopt in this process. They argue, in support of Scott (1987) that, “Contingency and institutional theory explanations, when applied separately, offer only an incomplete understanding of the different roles played by various coordination and control practices that are used in contemporary organizations but that both theories together could be used to understand better the instrumental and symbolic roles fulfilled by coordination and control practices” (p.264).

### *The Institutional Perspective*

DiMaggio and Powell (1983) made inroads into the organisational theory debate by opposing the contingency theory with institutional isomorphism, which is at the core of the institutional theory. Looking from an organisational diversity perspective, which posits a diverse and differentiated world of organisations in structure and behaviour, DiMaggio and Powell highlighted the “startling homogeneity of organizational forms and practices” (p.148). They observed that increasingly structural changes in organisations seem to be “*less and less driven by competition or the need for efficiency*” and instead, a process of bureaucratization and other forms of homogenisation were emerging, making organisations “more similar without necessarily making them more efficient”. Isomorphism is important in the context of the liberal professional organisation as it explains the motivations in managerial decisions that are based on taken-for-granted institutional assumptions rather than conscious strategic choices.

### *The Distinctive Professional Organisation*

There is a body of academic research that views the professional organisation as an archetypal structure, defined as, “...a set of structures and systems that reflects a single interpretive scheme” (Powell et al, 1999, p.3). The archetypal approach

involves taking a more 'holistic' view to organisational structure to include its beliefs, values and ideas (Greenwood and Hinings, 1993). This is particularly relevant to the liberal professional organisation as the professional culture plays an essential role in its organisational makeup and performance.

Minzberg (1979) considered the 'professional bureaucracy' a "distinctive organisation; similarly, Powell et al, (1999) argued that, "Professional organizations, from small professional partnerships to large professional bureaucracies, compose a broad organizational archetype with a high degree of commonality in structures, systems and, most of all, in their fundamental interpretive scheme" (p.4). From the point of view of the present study, it is important to understand the way in which the professional organisation seen as an organisational archetype adapts to change. This would involve the interpretive scheme or the value system of the professional organisation to be challenged by an alternative interpretive scheme that, in certain circumstances induced by external environmental pressures, might threaten to deligitimize the old and will be resisted. Thus, for example, introducing the marketing function within the professional firm could be perceived as an attempt to destabilise the legitimate interpretive scheme established.

Greenwood, et al (1990) argued that professional firms differ from other organisations in two key ways: (a) professional partners combine ownership, management and the delivery of professional service; (b) their primary task is the application of expertise to complex problems requiring considerable discretion. They proposed the distinctive P<sup>2</sup> model - professionalism and partnership. The P<sup>2</sup> model is seen as the traditional professional archetype, meaning that it had been adopted historically as the legitimate form of organisation, even when some firms have been organised in different ways. The professional partnership is identified as having a strategic direction, which is weak and not centrally controlled. Strategy adoption and implementation is only possible with partners' consensus, who are individuals operating loosely autonomous operating units.

## **Conclusions**

There are two clear options that could be considered in explaining the professional organisation which emerge from the discussions of the contingency and the institutional approaches.

The first option views the professional organisation as similar to any other organisation based on a black box approach ignoring any differences in terms of structures, strategies and behavioural processes. The contingency approach is assumed to be prevalent in explaining the understanding, role, adoption or rejection of the marketing function within the firm. The approach that can be adopted is to link the marketing function to the firm's effectiveness, which, as stated by Zeithaml, et al (1988) depends on the appropriate matching of contingency factors with internal organisational designs that can allow the appropriate responses to the environment. The assumption made is that marketing as the organisation's interface with its environment has a strategic role in maximising the firm's overall effectiveness and will play a vital role in the continual adaptation of the firm to external contingency factors of more demanding and fluctuating customer base, sharper competition, increasing globalisation, technology changes and regulatory forces. This process will be moderated by internal and external institutional determinants that create inertia,

slowing down or outright prevention of the continual adaptation to environmental change.

The research covered by the doctoral thesis has adopted and tested the second option which views the professional firm as a unique and distinct type of organisation that has to be studied using different approaches. These stem from the institutional theory and are based on the institutional isomorphic processes, which, according to DiMaggio and Powell (1983), have created organisational structures driven less by the need of adaptability to the environment or by the need for efficiency. Given the assumption made of the role attributed to the marketing function as an interface tool designed to maximise efficiency, it is clear that a possible explanation for the barriers to marketing could be found here. Nevertheless, the increasingly complex and turbulent environment facing the professional organisation will induce it to experience uncertainty leading to change.

The professional firm needs to be viewed through Minzberg's professional bureaucracy and Greenwood's et al. P<sup>2</sup> professional partnership model, which has been undergoing significant change in contemporary times, due to contingency environmental pressures. The impact of this change upon the archetypal professional organisation needs to be studied looking at the role marketing is playing in this process. From a contingency point of view, the firm is under increasing pressures from customers, the competition, technological innovation, deregulatory pressures and globalisation to change and adapt to the new environmental conditions. In this context, marketing fulfils the function of organisation's interface through its market and intelligence collection and analysis and its strategic role in maximising the firm's overall effectiveness. As an institutional organisation, the professional firm will be under internal and external institutional isomorphic pressures, which gives its defining characteristics. Externally the professional firm is subjected to influential external normative pressures of the educational system namely the universities and professional training institutions, which provide the cognitive base for the formal professional education and the legitimation of the professions. In addition, the professional associations and professional networks across organisations provide the definition and dissemination of normative rules related to organisational and professional behaviour. Regulatory pressures add to the process of legitimation, which the professional firms feel compelled to adhere to. All these external professional pressures, such as the professional education and the influence of the professional associations, have a formative and dependency role on the internal professional culture, which will act as a moderating variable in the contingency process.

**Note:** In preparation for the presentation and discussion at the conference the authors are planning to expand the sections on the understanding of the marketing concept and the professions; a summary of the thesis findings supporting the theoretical framework discussed above will be made available.

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