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Internationalization as Strategic Change: The Case of Deutsche Treuhand-Gesellschaft**

Building on Hinings and Greenwood's (1988) concept for the explanation of strategic change processes, this paper examines the organizational transformations in the internationalization process of Deutsche Treuhand-Gesellschaft. We identify three archetypes of the international organization of DTG/KPMG, which developed from a correspondent network via an international federal network organization to become a global advisory firm, undergoing various stages of transition, de-coupling and re-orientation. Our analysis (a) provides an in-depth understanding of the longitudinal and contextual character of internationalization as a strategic change process of one of the most prominent international accounting firms with a European origin and (b) contributes to a rapprochement of strategic change and internationalization literatures.

Key words: **strategic change, archetypes, internationalization, accounting industry; professional services, KPMG**

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Over the last decades, most professional services such as those provided by management consultants, engineering consultants, lawyers, accountants, advertising agencies and market research firms have grown rapidly in all advanced industrial nations. The global market for professional services is estimated at over \$1 trillion in 2002, with 85 per cent of total revenues are created in developed countries (UNCTAD 2004). Early on, professional service firms were engaged in moving advisory activities across borders. For example, accounting firms have followed their industrial clients since the late 19th century when British accounting firms such as Deloitte and Haskins Sells or Price Waterhouse moved to the United States (Aharoni 1999). Similarly, the international expansion of American consulting firms to Europe was facilitated by increasing investments of U.S. manufacturing multinationals which not only provided a first client base in the host countries but also served an important “bridging” function to overseas work (Kipping 1999). Even late movers in the international expansion game such as law firms have successfully created organizations whose strengths extend considerably beyond their home markets (Economist 2004b; Spar 1997).

Several studies point out that professional service firms create a significant part of their competitive advantage as a direct result of their foreign-based activities (Dunning/McKaig-Berliner 2002; Nachum 1999). Not surprisingly, professional service industries have become an emerging focus in international business research (e.g. Aharoni 1993; Nachum 1999; Reihlen/Rohde 2006; Roberts 1998). The dominant view in studying the internationalization of these firms is still occupied with the application of foreign direct investment (FDI) theories such as the eclectic paradigm (Dunning 1993b; Enderwick 1989; West 1996), theories of locational advantages (Nachum 1999), and transaction cost economics (O’Farrell et al. 1999). In addition, researchers have studied the internationalization process based on behavioral variables as proposed by the Uppsala model to explain the order of international establishment (Roberts 1999). These investigations are mainly based on an analysis of macro issues in international business such as internationalization motives and modes as well as the sequence of incremental steps which determine the stages of internationalization (Dunning 1993a). On the contrary, very little is known about the dynamic processes of strategic change during the internationalization process of professional service firms. The field offers few studies, for instance, on archetypes of international accounting firms (Brock 2006; Brock/Powell 2005; Brock et al. 2007), on managerial issues arising within large law firms from the pressure to provide tightly integrated global services (Segal-Horn/Dean 2007, 2009) as well as on learning (Reihlen/Apel 2007) or path-dependency (Cooper et al. 2000) of the internationalization process. Yet, research has paid only scant attention to a dynamic analysis that is responsive to the longitudinal character of internationalization as a strategic change process over time.

This paper contributes such a longitudinal analysis of the internationalization process by investigating a particularly rich empirical setting of strategic change – the accounting industry. The large accounting firms not only operate in nearly every corner of the globe, but also reached a scale that moved them into the ranks of the largest 500 corporations worldwide (Greenwood et al. 2006). In other words, one reason for studying organizational change in the accounting industry is its significance; a second

reason relates to its global reach and lengthy history emerging from a local to a global industry. Within the accounting industry we selected the Deutsche Treuhand-Gesellschaft (DTG) as our case of investigation which has undergone intensive periods of growth, internationalization and (re-)structuring. DTG is a particular relevant case; today, as part of KPMG, it is one of the largest international accountancy firms worldwide and is the only “Big 4” accounting firm with a European origin.

As a theoretical framework for structuring our empirical investigation we employ the process theory of strategic change proposed by Hinings and Greenwood (1988; Van de Ven/Poole 2005). Hinings and Greenwood (1988) understand strategic changes as changes of archetypes mediated by paths of transition, replacement and re-orientation. Based on this framework we explore different organizational archetypes, dynamic factors of change, and tracks that DTG took in moving from a “correspondent network” to the “global advisory firm”.

We proceed as follows: first, we introduce Hinings and Greenwood’s concept for explaining strategic change. The concept is then applied to analyze the strategic transformation of DTG in the process of internationalization. We then discuss various factors which have influenced the dynamics of change in the DTG, and finally close our paper with a brief conclusion.

Hinings and Greenwood’s Approach to Strategic Change

Hinings and Greenwood (1988) pursue the question of what causes changes in the sense of “major organizational transformation” and what paths such organizational development processes can assume (Greenwood/Hinings 1988, 1993). Change is conceptualized as a dynamic development process in a constantly changing environment with emerging patterns of interaction between the context and the organization (Hinings/Greenwood 1988). The Hinings and Greenwood approach comprises three main components: *archetypes* which describe the form of the organization; *development paths* (or tracks) that trace the course of developments in an organization, and *dynamic factors* which trigger change and influence the direction, the speed and the extent of strategic change (Hinings/Greenwood 1988).

Archetypes

Hinings and Greenwood define the archetype of an organization as “a composition of structures and systems given coherence or orientation by an underlying set of ideas, values and beliefs” (Hinings/Greenwood 1988: 4). By this definition, an archetype comprises three elements: structures, systems and interpretive schemes. *Structure* is seen as both, the formal arrangement, in the sense of a “prescribed framework”, which embraces the division of responsibilities and positions and the establishment of authority relationships, the formalization of work processes and their written documentation as well as the interactions of the organization’s members within the framework (“emergent interactions”) (Hinings/Greenwood 1988).

Systems are closely connected with structure and support certain interaction patterns of an archetype. Systems of resource allocation, appraisal-and-reward systems, and information-and-control systems are distinguished (Greenwood/Hinings 1993; Greenwood et al. 1990; Hinings et al. 1999). In the professional service sector, Brown

et al. (1996) for example note that in the transition from the classic partnership model to diversified “full-service” consultancy (multi-disciplinary practices), the loose systems of planning and control based on personal contacts and networks are increasingly being replaced by formalized, market-oriented systems of corporate governance (Brown et al. 1996; Economist 1999; Greenwood/Suddaby 2006).

The basis of the archetype is formed by the *interpretive scheme*, a combination of values, convictions and ideas which lends coherence and purpose to the elements of the organization. From the point of view of the organization members, organizational structures and systems must reflect particular patterns of interpretation (“interpretive scheme”).

Strategic change thus involves not only a change in structures and systems visible on the surface of the archetype, but above all the more or less shared interpretive scheme by which the developments in the organization’s contextual setting are interpreted. In order to understand changes in organizations, it is therefore necessary to comprehend the archetype of an organization including the prevailing interpretive scheme (Greenwood/Hinings 1988; Hinings/Greenwood 1988).

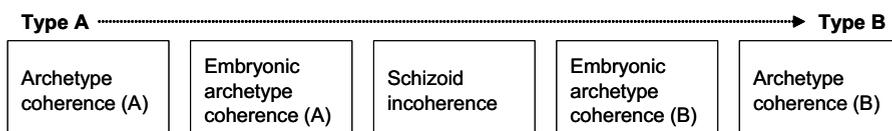
Paths

Hinings and Greenwood understand radical strategic change as movement between two archetypes; the way in which this movement occurs is described as a development path (or track). Every change involves moving away from, or disconnecting from, an existing archetype. At the same time, the appearance of a new archetype ultimately results from a linkage of the structural elements to a new interpretive scheme containing new values and convictions reflected in the organizational structure. The transformation path thus describes a kind of “structure of decoupling” from the old interpretive scheme and linking up with a new interpretive scheme (Greenwood/Hinings 1988; Hinings/Greenwood 1988).

Organizations pass through phases of transformation, but also phases of “inertia” and of unsuccessful change over time. They evince different histories which determine different archetypes, which represent the starting-points for further change. The bandwidth of potential development paths is highly complex and potentially exhibits a significant variety (Greenwood/Hinings 1988). For any transformation, however, this variety can be captured by one of three generic phases (Greenwood/Hinings 1988; Hinings/Greenwood 1988):

1. *coherence*: the structures and processes of the organization consistently reflect the existing interpretive scheme;
2. *embryonic coherence*: a majority of the structures and processes reflect the interpretive scheme of the prevailing archetype; however there are some elements which do not harmonize with the interpretive scheme;

Figure 1: Phases of transformation (Source: Hinings/Greenwood 1988: 29)

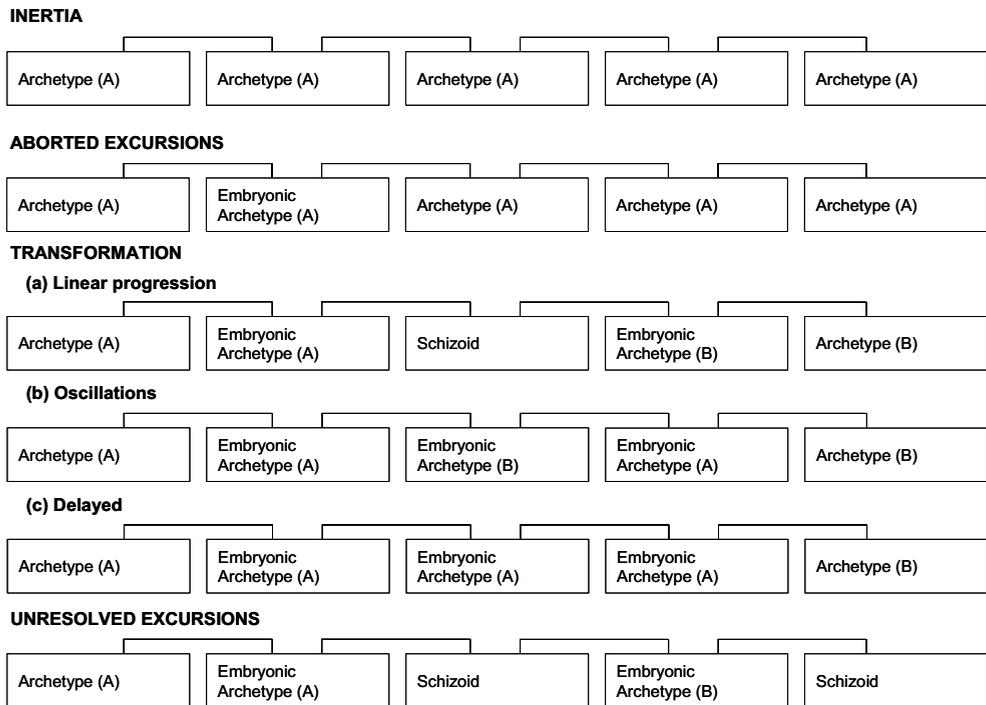


3. *schizoid incoherence*: the structures and processes reflect the tension of competing interpretive schemes within the organization (figure 1).

For the case of two alternative archetypes, four prototypical paths resulting from the different combinatorial possibilities of the phases reflecting the movements between the archetypes can be differentiated (figure 2):

1. *inertia*: transformation takes place only within the existing archetype in the form of minor structural adjustments (Greenwood/Hinings 1993); changes that are not compatible with the dominant interpretive scheme are suppressed (Greenwood/Hinings 1996a; Greenwood/Hinings 1988; Hinings/Greenwood 1988);
2. *discontinued transformation*: transformation processes are triggered; in the process, individual elements of the structure decouple themselves from the dominant interpretive scheme; the weakened structural coherence may however lead to negative developments in performance; management comes under pressure and returns to the old structures (Greenwood/Hinings 1988; Hinings/Greenwood 1988);

Figure 2: Structures of paths (Source: Hinings/Greenwood 1988: 29)



3. *transformation*: the organization abandons an archetype and takes on the form of a new archetype; the previously dominant convictions and values of the organization lose their importance; they are replaced by an alternative interpretive scheme

which finds its expression in new structures and systems; very rarely, this development follows a linear course; often there are fluctuations or delays leading to variations in the speed at which the different phases of transformation are undergone (Garud/Van de Ven 2002; Greenwood/Hinings 1988; Hinings/Greenwood 1988).

4. *incomplete transformation*: the organization gets stuck between two competing interpretive schemes; it remains in a state of dissociation between the elements of the structure and the interpretive scheme, so that the transformation remains incomplete (Greenwood/Hinings 1988; Hinings/Greenwood 1988)).

Dynamic Factors of Change

Crucial for the path of an organization are, according to Hinings and Greenwood, dynamic influence factors (“dynamics of change”), which trigger strategic transformation, influence its course and thus determine the path of an organization (Hinings/Greenwood 1988). This is based on the assumption that different factors condition and constrain organizations’ scope for action (Greenwood/Hinings 1988; Hinings/Greenwood 1988).

Hinings and Greenwood distinguish between three categories of these factors: the first consists of *constraints resulting from the specific situation* of the organization (“situational constraints”). Alongside classic contingency factors (i.e. size, technology, environment), further factors such as shortage of resources (skilled staff, capital, equipment), ownership and liability structures (private, publicly owned, and joint stock companies), and the institutional context (legal framework conditions, public-service obligation) of an organization are proposed. Depending on their relative importance to the organization in question, they either trigger strategic change, or else they cause organizations to remain within an archetype (Hinings/Greenwood 1988).

The second category relates to the *influencing of strategic decision-making processes*. It includes orientation to particular values within an organization as part of the “interpretive scheme” and the interests of groups or individuals or, as the case may be, the degree of satisfaction within the organization.

Whereas these two categories directly influence the transformation of the organization and its direction, the third category comprises factors whose role is comparable to that of a *catalyst*. They can encourage or discourage change, but only indirectly. These factors include power-distribution structures in organizations (“dependencies of power”) and the organization’s performance capacity, which embraces leadership, knowledge, and specific abilities in respect of shaping the archetype (“organizational capacity”) (Greenwood/Hinings 1988, 1996b; Hinings/Greenwood 1988).

Strategic change in the internationalization process: the case of the Deutsche Treuhand-Gesellschaft

The Deutsche Treuhand-Gesellschaft

The “Deutsch-Amerikanische Treuhand Gesellschaft” was formed on 27 March 1890 with the purpose to promote and protect German capital investments in North America. An economic and financial crisis in the USA resulted in the purpose of the company being redefined, and in 1892 it was renamed the “Deutsche Treuhand-Gesellschaft” (Schuld 2003), but retaining its international focus. The development of

German auditing began in 1901, and this became the core business of the DTG long before the introduction of compulsory auditing in 1931. The company was thus a pioneer of the industry in Germany and was able to steadily expand its auditing activities at an early stage. Before the Second World War the company already employed a staff of about 200, of whom 30 were publicly accredited auditors. During the war years, the activity of the DTG was greatly reduced, and by the end of the war it was almost finished as a company. The company, however, was able to maintain its activities under the Allied occupation. The network of company branches was even continually expanded in the post-war years. In 1957 the first attempts were made to revive the former foreign contacts (Schuld 2003). Until 2003, the then KPMG turned over €923 million in Germany, 65 percent of which coming from the company's core business, namely auditing. The company employed 6,535 staff. In Germany, there were 21 branches, and KPMG was represented in 150 countries (KPMG 2003: 5, 20).

Table 1: Chronological framework of the internationalization of the DTG (1890 to 2002) (Source: KPMG 2003: 196–199)

1890	Formation of the Deutsch-Amerikanische Treuhand-Gesellschaft in Berlin by Deutsche Bank and four other shareholders to protect German capital investments in North America
1892	Re-constitution of the company under the name Deutsche Treuhand-Gesellschaft (DTG) and change of the legally stated company purpose (now to include "assuming the office of trustee")
from 1901	Build-up of the auditing sector as the main business activity of the DTG (oldest German auditing firm)
from 1957	Revival of foreign contacts, at first in Brazil, England and Switzerland
1960	Formation of the ETG AG in Zurich with Italian and Swiss partners (after their departure, the activities were continued by the DTG as a foreign-based company in 1962 under a new name, INTERVISA Revisionsgesellschaft AG, until 2002)
from 1966	Build-up of a correspondent network with reputable counterparts abroad
1968	Establishment of a supra-regional administration unit of the DTG in Frankfurt am Main ("Central Secretariat" as forerunner of today's "National Office" in Berlin)
1969	Formation of the Deutsche Treuhand-Unternehmensberatung GmbH in Frankfurt am Main
1972	Formation of the foreign company Klynveld Turquands DTG & Co. (KTD) based in Brussels
1979	Formation of the foreign company Klynveld Main Goerdeler (KMG) with headquarters in Amsterdam (with the addition of "KMG" to the DTG company name)
1986/ 1987	Merger of KMG with Peat Marwick International (PMI) to form the worldwide group Klynveld Peat Marwick Goerdeler (KPMG) as an association under Swiss law with its administrative headquarters in Amsterdam (change of the KMG suffix to "KPMG")
1987 /1988	Departure of the "non-specialist" DTG shareholders through the conversion of their equity into participation certificates
1990	Opening of the first KPMG office in the former GDR
1992	Contract to merge KPMG Peat Marwick Treuhand GmbH with KPMG Deutsche Treuhand-Gesellschaft (merger 1993)
From 1998	Restructuring: division into six German regions (hitherto division by business activity), introduction of four company divisions (Core Services) and sectors (Lines of Business) into a three-dimensional organization model
2000	Conversion of KPMG Consulting GmbH together with the Austrian and Swiss KPMG consultancy firms into an AG (public limited company) under German law (sold in 2002)

Data sources and data analysis

The aim of our empirical study was to understand the archetypes and transformation processes of the Deutsche Treuhand-Gesellschaft over a time period of approximately fifty years. Thus, the case study method, which involves tracing processes in their natural contexts, appeared most appropriate (Eisenhardt 1989; Yin 2003). The time period covered by the case-study begins with the first internationalization endeavours after the Second World War and ends with the latest developments of DTG in 2003. As a result of the strong orientation to the past, the study evinces features of a historical investigation (Yin 1994) that allows understanding and explaining strategic change processes as reflections of historical developments. Furthermore, confronting theories of strategic change with longitudinal, historical developments offers a more solid testing ground than applying them only to short-run changes (Kieser 1994).

The material used were primarily archival data and were supplemented by interviews of key informants. The DTG business reports from 1972 to 2003, a business chronicle published in 2003, experience reports of the major company personalities Reinhard Goerdeler and Eugen Freiburger, and numerous press articles were the important data sources used. For the more recent past, these sources were supplemented by academic articles and theses dealing with the development of the accounting sector and the leading accounting companies. These secondary sources were further supplemented by five personal interviews with present or former DTG managers.

To compile the case study, we first examined the historical reports by Freiburger and Goerdeler and the DTG business reports from 1972 to 2003 in the sense of a narrative expansion analysis (Gephart 1993). Building on this, we reconstructed the chronological development of the organization. Next the sources were searched for entries relating to the internationalization strategy, the manner and organization of international co-operation, the division concerned, the structuring of the change and the influencing factors. For the publications, context and readership needed to be taken into account, as these influenced the content and its presentation. On the basis of the selected segments and the chronicle, the descriptive case-study was drawn up. The international development of DTG was subdivided into four sections, each of which reflects the different ways in which the international activities were organized. Next the text was examined for indirect clues to, and features of, the strategic change process.

Archetypes and development paths in the internationalization process

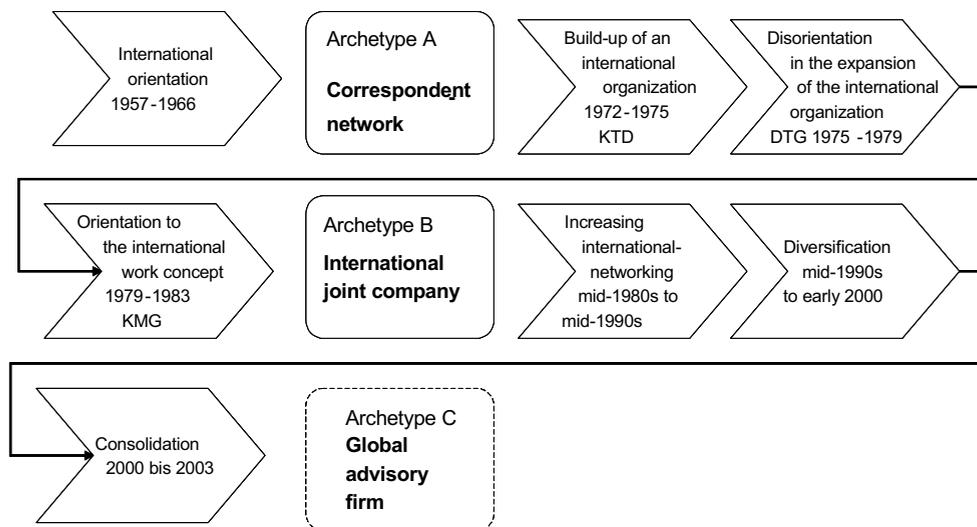
In the course of DTG's internationalization and strategic transformation (see table 1 for an overview), three different archetypes can be identified. Their appearance and "decline" were accompanied by different development paths. In figure 3 these are denoted as archetypes A, B and C. The demarcation of the archetypes is based primarily on different internationalization strategies as part of DTG's respective interpretive scheme.

Path of "international orientation" – DTG 1950–1966 (schizoid incoherence)

The first foreign investments by clients of DTG after World War II were the triggers of a gradual resuscitation of international activities (Freiburger 1981). Clients required supervision of their foreign subsidiaries, which caused DTG at first to establish sub-

sidiaries abroad for its part too. Also, DTG endeavoured to create a European service network in the form of an international organization. DTG's first internationalization approaches after the war did not follow a comprehensive plan but were rather the result of incremental trial-and-error processes where several initiatives were launched, with many of them proving unsuccessful.

Figure 3: Archetypes and paths of the strategic transformation of the Deutsche Treuhand-Gesellschaft



In 1954, together with other German, French and Italian auditors, the EUROFIDES company was established in Luxembourg. The goal was to enable collaboration in the countries of the European Iron and Steel Community. However, lack of assignments led to the failure of this first attempt (Freiberger 1981).

In 1959, together with the British company Barton, Mayhew & Co., a German company of the same name was formed, with DTG owning 90 percent of the shares. A few jobs for British clients were carried out in Germany, but carrying out jobs in Britain for German clients, proved a failure (Goerdeler 1990).

Also in 1959, a Brazilian subsidiary was formed. The business base consisted of German clients' local subsidiaries. In order to provide comprehensive assistance, partnerships with Brazilian auditors were established and German employees were sent to Brazil (Freiberger 1981; Goerdeler 1990).

In Switzerland the Europäische Treuhandgesellschaft (ETG), set up with Italian partners from outside the sector in 1960, was never allowed to get off the ground, because at that time the "European" scope could only be demonstrated in the aims, but not materially. The hoped-for business did not materialize at first, causing DTG to buy out the remaining shareholders. Until 1965 the company, meanwhile renamed INTERVISA, engaged in virtually no business activities (Freiberger 1981; Goerdeler 1990).

Overall, a consistent internationalization strategy cannot be observed in the immediate post-war phase. With respect to its international activities, DTG was rather in a state of schizoid incoherence: On the one hand there were competing convictions within the organization regarding the form its internationalization should take. On the other hand different internationalization experiments were carried out in order to gather international experience.

Archetype A: correspondent network

Following the failures in Luxembourg and Switzerland, DTG decided on an internationalization strategy which involved the creation of a correspondent network with bilateral agreements (Freiberger 1981; Goerdeler 1990; Lenz/Schmidt 1999). This strategy contained three sub-strategies (Freiberger 1981: 5-6):

1. build-up of own activities in the interesting countries of Europe, namely Italy, France, Belgium and the Netherlands;
2. initialization of collaboration with suitable correspondents on a commission basis in other important countries in which recurrent auditing activities were to be expected (e.g. Argentina);
3. build-up of business relationships with further correspondents in other foreign countries (without a commission agreement), in which only occasional audits and consultancy were expected.

When choosing correspondents, it was ensured that the quality and capacity of the foreign companies matched their own (Goerdeler 1990). In addition, mutual economic interest and prospects of success in respect of market potential were crucial. The context of the correspondent network gave rise to links with Argentina, Britain, France, Holland, Belgium, Austria, Portugal, Sweden, Switzerland, Italy and the USA (Freiberger 1981). DTG's subsidiaries in South America thus became a special case within the international network (Goerdeler 1990). These bilateral international relationships were instruments for DTG to exploit the growth opportunities that an internationalization of its business provided and allowed the conservation of its core European focus. According to Freiberger (1981), the foreign partner usually assumed responsibility for advising the German clients when foreign assignments were undertaken. Auditing and commercial rating assessments, however, were carried out by DTG (if local regulations allowed).

The correspondent system was well received by the clients. Between 1965 and 1972 alone, 200 auditing assignments were carried out via INTERVISA, and the number of foreign assignments also rose for DTG itself. Foreign business was given a further impetus by the increasing number of international annual accounts companies wished to provide (Freiberger 1981).

DTG was, even then, concerned with the maintenance of its independence and its continental-European focus. These values within the organization had a significant influence on the way DTG internationalized. A merger with one of the global American or British companies was not considered at this time: Firstly, DTG had been auditing German subsidiaries of well-known foreign firms which themselves were audited by various of the "Big Eight" firms for years, so that in the case of a merger with

just one of these companies, domestic clients would have been lost. Secondly, there was a will to preserve the independent existence of DTG in particular from the major Anglo-American companies (Goerdeler 1990). The aim was to carry out the internationalization process on their own, using only the services of their correspondents (Freiberger 1981).

From the perspective of Hinings and Greenwood’s theory, with the formulation of the strategy to build up a correspondent network one interpretive scheme attained dominance and thus formed the basis of the first archetype. This interpretive scheme was reflected in the systems and structures that were characterized by the dominant conviction that the independent status of DTG be preserved, so that nothing was aimed for beyond a loose association of national member companies, which was in fact what happened (table 2).

**Table 2: Characteristics of archetype A:
The DTG correspondent network (coherence)**

<i>Structure and Process</i>	Bilateral agreements, loose association of independent national member companies; no coordination or knowledge exchange with respect to professional practices
<i>Strategy</i>	Local responsiveness; follow clients; selective internationalization strategy with autonomy focus
<i>Interpretive Scheme</i>	International presence is an opportunity; client focus; autonomy/ independence; US-rivalry and dominance assumption; trustee; international relations as instrument for national firms

Path of the “build-up of an international organization” – DTG 1972–1975 – KTD (embryonic coherence)

Hitherto there had been no international structure and no common standards within the correspondent network; it was a loose association of independent national companies. As time went by, however, there were various developments that led to DTG deciding to form a joint international company.

The correspondent network had become denser, with the aim of also allowing mutual contacts between the members. Also, international clients were beginning to demand uniform auditing guidelines and standards for their subsidiaries, and were starting to draw up consolidated global results (Goerdeler 1990; Hachmeister 2001). In order to comply with their clients’ wishes, and to re-arrange the international co-operation to meet anticipated future demands, the international company Klynveld, Turquands, DTG & Co (KTD) was formed in association with selected co-operation partners (DTG 1972: 5; Freiberger 1981; Goerdeler 1990) and replaced the correspondent network in 1972. The new organization had a common structure and defined divisions of responsibility. The Brussels headquarters was responsible to facilitate cross-border foreign business, although the auditing itself was to be carried out by employees of the founding companies. The Brussels office was responsible for coordinating and monitoring international assignments and to serve as an information interface for the founding companies (DTG 1972: 5; Freiberger 1981; Goerdeler 1990).

Committees were set up on such issues like harmonization of common professional principles, exchange and training of employees or on the form and content of the company contracts in the individual countries to work out the details of the organization, its structures and systems. The philosophy of KTD was “the joint implementation of assignments of the partners abroad, on the basis of common standards and quality controls designed to allow a joint signature” (DTG 1972: 5; Freiberger 1981: 12). The plan was to gradually to transfer all international assignments to KTD, so that it could entirely handle foreign business from 1975 (Freiberger 1981; Goerdeler 1990).

However, the allocation of international assignments by the partners to KTD was on a voluntary basis, there were no contractual obligations in this regard. Thus international assignments often continued to be carried out by the member companies’ own subsidiaries. This tended to obstruct any mergers of the subsidiaries, and negatively influenced the order books of the joint company (Freiberger 1981). In particular, DTG, which hardly had any foreign subsidiaries of its own, saw the progress of the international company endangered.

The demands of clients and the limits of the correspondent network facilitated the emergence of a new interpretive scheme stressing closer cooperation with international partners and the formation of a joint company represented by KTD. The transition from correspondent network to KTD was however relatively abrupt, so that the organization immediately entered a state of embryonic coherence of the new archetype.

The main pillars of the international organization’s institutional framework were laid down with its formation; it was supposed to be followed by the corresponding changes in the interactions of the organization members and the creation of the international organization structure according to a fixed timetable. A subsequent full merger – depending on the future development of the European market – was envisaged as a long-term goal. As a result of delays in the creation of new structures and systems which would have given the new interpretive scheme organizational substance, these failed to materialize, so that the joint organization did not achieve a state of complete coherence.

Path of “disorientation in the expansion of the international organization” – DTG 1975–1979 (schizoid incoherence)

Due to its skepticism regarding KTD’s development, DTG started searching for alternatives (DTG 1975: 6; Goerdeler 1990). From the mid 1970s DTG reinforced its endeavours to build up an international company of its own. It formed subsidiaries in several European countries (Paris, Barcelona, Brussels, Luxembourg, Milan) indicating a declining commitment to KTD (DTG 1975: 6, 1976: 5f., 1977: 6, 1978: 6). Furthermore, the formation of own subsidiaries conflicted with DTG’s original conviction at the inception of KTD, that internationalization of its own was hardly possible (Freiberger 1981).

As an alternative to the total merger into KTD, DTG designed what it called an “international work concept”. This concept emphasized the importance, identity and legal independence of the national companies in parallel with the intensification of in-

ternational co-operation (Freiberger 1981; Goerdeler 1990). Within KTD, DTG's "international work concept" was not as well received as anticipated. The lack of agreement with respect to the future development of the international joint company finally led to the break-up of KTD (Freiberger 1981).

When KTD failed, the British KTD member-company joined up with one of the "Big Eight". The close links between the DTG and its Dutch partner KKC were, however, not affected, and became the basis of their continued internationalization endeavours. An international company with a European focus was the goal. Unlike the former British partner Turquands, Barton Mayhew & Co, DTG continued to reject any co-operation with one of the Anglo-American "Big Eight", as their dominance would have been inevitable at that time (Freiberger 1981; Goerdeler 1990).

Disappointment at the halting development of KTD provided a breeding ground for the development of alternative, competing interpretive schemes. The establishment of subsidiaries by DTG together with the international work concept which had already been developed, and was presented as an alternative to the full-merger model, led to the concurrent pursuit of different strategies and resembled the initial stages of internationalization with their incoherent patterns of action.

Path of "reorientation to the international work concept" – DTG 1979–1983 KMG (embryonic coherence archetype B)

DTG's international work concept reflected the dominant interpretive scheme at the time. Building on this, a second attempt at an international joint company was made, and again a state of embryonic coherence, archetype B, similar to that prevailing at the start of KTD, was achieved. The structure of the organization, however, unlike KTD, developed steadily and successfully, so that the organization finally moved to a state of total coherence.

Archetype B: International joint company

Using DTG's international work concept and building on the experience derived from the KTD venture, a new international company was set up together with the Dutch partner in 1979 (Freiberger 1981; Goerdeler 1990): a joint company whose focus was to be on continental Europe. The individual subsidiaries of the organizations were intended to develop into a large international group with uniform working principles and a joint billing procedure. Internationally, the plan was to operate and expand under a single name, and at the same time for the national companies to remain legal and actual separate national accounting companies (DTG 1980: 5; Goerdeler 1990).

To start with, DTG and the Dutch KKC looked for a new British partner, in order to form a strong international group. Eventually KMG included ten founder-members from Germany, Switzerland (Fides Revision), France (Fiduciaire de France), Australia (Hancock & Offner), Denmark (C. Jespersen), The Netherlands (Klynveld Kraayenhof & Co; Pelser, Hamelberg, Van Til & Co), the USA (Main Hurdman and Cranstoun), Great Britain (Thomson McLintock & Co) and Canada (Thorne Riddell & Co). The initially two Dutch partners merged soon after the formation of KMG. By the following year, the number of members had already increased to 27 and ten other companies were candidate members. The initial efforts of KMG to find partners in all

those parts of the world where they were likely to have auditing business were thus successful within a short time (DTG 1979: 6f., 1980: 5; Goerdeler 1990).

The formal structure of the joint company comprised a central office in Amsterdam, which assumed responsibility for the necessary co-ordination of specialist activities. A detailed structure developed only gradually. In the first two years an international co-operation agreement was worked out by the members, setting out the details of collaboration. There was no international partner status, as this was legally impossible in some of the countries (Tenhagen 1991). In order to use the company name KMG, the member companies had to join a Swiss association, which represented the legal link between the partners. This association performed no services, but owned the rights to the name KMG, which could then be acquired by licence (Cooper et al. 2000; DTG 1979: 7; Goerdeler 1990; Ziegler 1994).

The German management personalities Freiburger and Goerdeler were particularly involved in building up KMG (KPMG 2003). Goerdeler's name became a part of the international company name when it was set up (KMG: Klynveld Main Goerdeler), reflecting his personal importance in the creation of the organization (DTG 1980: 5f., 1995: 1; Goerdeler 1990).

The re-arrangement of the individual member companies' foreign activities took place in the first few years of KMG. This included transferring the foreign offices and foreign assignments to KMG (DTG 1980: 5, 1982, 1983: 5). As the demand of clients for uniform standards was the crucial factor in the establishment of the joint company, the development of common quality standards was given great importance from the outset. In 1980 DTG documented its own quality standards as the basis for harmonizing standards within KMG. As early as 1981, a comprehensive quality control scheme was institutionalized, proving its worth from the very beginning (DTG 1980: 6, 1981: 5f.).

DTG's successful "expatriate system" involved sending employees abroad to look after clients on the spot. Now the system was extended to the other members (Goerdeler 1990). Besides looking after clients, it was also designed to promote transfer of knowledge within the international organization. The chairmanship of the "Expatriate Meetings" was entrusted to highly regarded board members who had shown a particular commitment in the international field, pointing to the importance attached to these meetings.

By the early 1980s, international co-operation within KMG had been consolidated. The member companies continued to look after their domestic clients completely independently. At the international level, the companies acted under the name KMG and worked to common standards maintained by uniform quality controls. The strategy involved combining domestic strength with international flexibility to provide clients with a comprehensive range of services using national and international specialist expertise (DTG 1981: 5-6).

The development of KMG was, unlike the KTD phase, marked by strong growth and successful collaboration. Internationalization was now extended to new growth markets in which auditing was still relatively underdeveloped. In this process, a policy of forming subsidiaries was pursued, rather than national partners of equal status. On

the other hand the search for local partners was often problematical because the auditing sector was poorly developed. In parallel there was a diversification of activities on the national and international levels.

KMG remained true to the distinction between national and international activities and thus to the preservation of the independence of the national companies. Also, KMG had become a company with an international reputation, so that the initially feared dominance of a US firm in a partnership or merger with a US American company was reduced among the KMG partners.

Table 3: Characteristics of archetype B: The KMG international joint company (coherence)

<i>Structure and Process</i>	Central coordinating office for nationally independent accounting company structure; standardization: uniform working principles; information sharing and exchange across national companies; federal structure (semi-autonomous firms), democratic governance
<i>Strategy</i>	Grow internationally with partners while maintaining autonomy; coordinated partners under a single brand
<i>Interpretive Scheme</i>	International presence is necessary; international integration; global grouping as instrument for national firms; increasing self-esteem/decrease of perceived US-dominance

The international joint company, in which the member companies continued to maintain their legal and actual independence on the domestic level and to work to common standards under a common name on the international plane, thus represented a further archetype (table 3). The interpretive scheme of the international organization reflected, in spite of the efforts at integration, a strongly federal structure. In contrast to the correspondent network with totally autonomous partners, the structures and systems of the international organization are more pronounced, while being restricted to just a few areas of the organization: the headquarters with its committee structure, in which the national companies are represented by partners, is responsible for the coordination of international activities. The international organization is therefore closely enmeshed with the national entities; a quite democratic relationship between the national companies is created. This however prevents strategic decisions that touch on the special interests of individual national companies (Mandler 1999). The fixing of common standards is carried out by commissions. The areas in which integration was most pronounced were joint training, employee secondment in the context of knowledge transfer, and monitoring the extent to which common standards were adhered to. By these means it was hoped to achieve a harmonization in global service standards and an extension of the knowledge base of the individual employees and companies.

Path of the “institutionalization of international networking” – DTG from the mid 1980s to the mid 1990s (embryonic coherence archetype C)

The further development of KMG was characterized by the steady growth of the organization (DTG 1980: 5, 1981: 5, 1982: 5, 1983: 7, 1984: 12, 1985: 10). In 1983 KMG consisted of 42 members in 70 countries and had become a company of international repute (Cooper et al. 2000; Goerdeler 1990). However, developments in the organizational environment, in particular the competitive situation in the USA, led to KMG's

considering a merger with an international company, even with one of the “Big Eight”. At the same time thought was given to the conditions in which KMG could continue to work successfully at an international level. The discussions continued into 1985 (Goerdeler 1990).

A possible merger with Peat Marwick International (PMI) had already been considered in 1984, but negotiations were officially discontinued in 1985. However, contact was maintained and the search for agreement continued, so that the merger of the companies was eventually sealed in August 1986. The new company was called Klynveld Peat Marwick Goerdeler, or KPMG for short. The other members were given the right to join on appropriate terms, on condition, as hitherto, that there would be no more than one member company in any one country. In spite of membership in the global organization, the individual companies retained their legal and actual independence (DTG 1986, Goerdeler 1990).

Strong growth, diversification, international scope and increasing pressure of competition forced KPMG to increase the efficiency of its organization. As a response, efforts were undertaken to intensify systems- and structural integration as well as co-ordination within the organization. Only after these adaptations were implemented, a change of values became apparent in the business reports of the DTG in the late 1990s: a change in the interpretive scheme followed the adaptation of the interactions between the members of the organization to the changed institutional environment, the increasing competition and the demands of clients – a sign of an incipient new archetype. However, it is hardly possible to establish precise times for the end and the beginning of such a phase of embryonic coherence as opposed to the period of coherence. The adaptation rather took place in a number of small steps. The formerly only marginally integrated structure of KMG was, given the size, the geographical range and the spectrum of activities, no longer sufficient to compete, resulting in pressure to change.

The following years continued to be characterized by strong growth on the part of the joint organization. On the national level too, DTG enjoyed strong growth as a result of acquiring numerous holdings, followed by consolidation measures.

Path of “diversification” – DTG mid 1990s to 2000 (embryonic coherence archetype C)

Strategic change was already becoming apparent when KMG considered joining forces with a major American company. This was in contrast to the hitherto dominant convictions of archetypes A and B in respect of the company’s independence. The formation of KPMG was accompanied by steady growth and the increasing diversification of its activities, the consequences of which strengthened the integration and co-ordination of the international organization. Differentiated structures and systems were developed in every area of the organization. The independence of the member companies was vitiated by a growing international hierarchy. Other service divisions greatly expanded, while the auditing division lost its relative importance within the organization, in particular vis-à-vis management consultancy, because of the comparatively low rate of growth (DTG 1994: 10, 1996: 10, 1997: 10). The growing commercialization and diversification of services went hand-in-hand with changes in the underlying values and convictions of the business, which now reflected not so much the

principles of a “trustee”, as in the early days, but rather those of a market-oriented commercial business. Competition, market and growth strategies, rationalization and productivity improvements became important elements of the emerging new interpretive scheme (Cooper et al. 1996). KPMG thus began to see itself no longer as a network organization, but as a global consultancy (Lenz/Schmidt 1999). Even though the late 1990s witnessed the spread of the interpretive scheme of the new archetype of global advisory firm with sophisticated management systems and an extensive range of consultancy services in all parts of the world, the company was still organized on a decentralized basis, in which, as Jan Thornbury (1999: 4), the head of KPMG’s cultural change program, declared, “... local practices still operate with a great deal of autonomy, so we knew that issuing directives from the centre would not work”. The loose network of independent companies in different countries, each concentrating on its own local market, lacked structures and systems which would have allowed a tighter and more complex control and co-ordination of the global activities. This federal structure was also felt to be disadvantageous by the member companies. Thus in the late 1990s the national company KPMG Canada had considered joining up with the local branch of Arthur Andersen, because its partners thought a more strongly integrated structure was more appropriate and saw such a structure implemented at Andersen. Following negotiations within the management of KPMG Canada, however, the merger was rejected (Lenz/Schmidt 1999; Morrison/Kelly 1999). The vision of the global advisory firm thus necessitated new structural changes, as Stephen Butler, then Chair of KPMG International, pointed out: “One of my major objectives for KPMG ... is to create a true global firm, managed on a global basis with full sharing of profits. We will have to maintain the national organizations for licensing and regulatory reasons, but we can manage on a global basis. That is the path we are on and we hope to get there quickly” (Craig 2000: 25). Questions of supporting the interpretive scheme of the global advisory firm by appropriate integrated decision-making structures, profit allocation systems and a less decentralized organization culture were however not resolved and thus prevented the total transition to a new archetype.

Path of “consolidation” – DTG from 2000 to 2003 (embryonic coherence archetype C)

The (until recently) promising strategy of diversification on the part of KPMG was publicly questioned. The debate on the form company management and control should take meant that KPMG moved away slightly from the archetype of the global advisory firm. Thus KPMG parted company with its business-consultancy branch, and shortly afterwards from its legal consultancy and insurance services. Although KPMG was still focused on the strategy of the global advisory firm, auditing was once more becoming increasingly central. The strategic transformation of KPMG in the near future is being driven by the legislative framework. KPMG has thus endeavoured to play an active role in shaping the institutional environment by lobbying at various levels. At the same time, any further consummation of the archetype of the global advisory firm with its unfinished systems and structures has retreated into the background. The firm has remained in a state of embryonic coherence. However, the institutionalization of international networking, the diversification tendencies as well as the

recent consolidation efforts still hint at an embryonic coherence to archetype of the global advisory firm (table 4).

Table 4: Characteristics of archetype C: The KPMG global advisory firm (no coherence)

<i>Structure and Process</i>	Differentiated structures and systems; growing international hierarchy (growing coherence)
<i>Strategy</i>	Diversification; multidisciplinary; leverage common brand
<i>Interpretive Scheme</i>	Competition, market, growth, rationalization, productivity; market-oriented commercial business; national firms as instrument for global center

Even though not fully adapted, major elements of this emerging archetype have been remaining stable with KPMG over the last two decades: the differentiated structure and systems which are aimed at allowing for closer integration of the internationally dispersed activities, an interpretive scheme which reflects commercial values and the belief in the indispensability of the global center for the successful operation and performance of the national partner firms (representing a reversal of the preceding approach to the internationalization of DTG). The recent consolidation trend reflects new changes in KPMG's institutional context which entails further adaptations in its structure, systems, and therefore further delays the achievement of complete coherence.

Dynamic factors of change

Limitations and influencing factors of the situation

The limitations and influencing factors resulting from the various situations DTG was confronted with have had decisive effects on its transformation. On a number of occasions during the development process, a change has resulted from the organization's incompatibility with the respective situation. At the same time the changes on the demand side, in the institutional context, in the size of the organization and not least the developments in information technology have played the most important role.

Demand: The internationalization process was mostly triggered by clients who demanded worldwide services from their accountants. The largest manufacturing, trading and service companies are often among the customers of the large accounting firms (such as DTG) and expect their accountants to accompany them along their own internationalization processes. The general global networking of the highly industrialized economies has made the creation of global auditing organizations a competitive necessity. Accordingly, the major accounting companies owe their present dominance to a large extent to their global reach and their close connections with multinational companies (Hinings et al. 1999).

A further development on the demand side influencing DTG's transformation was the increasing need for services beyond auditing. Since the early 1980s, clients have increasingly been enquiring about consultancy services in the fields of strategy, restructuring, TQM, business reengineering or the introduction of IT systems such as SAP or Peoplesoft. This resulted in high growth rates of non-auditing services, and at the same time was the trigger for the far-reaching diversification at DTG, with the aim

of repositioning itself as a global advisory firm (Economist 2001; Greenwood et al. 2002).

Institutional context: Auditing activities are subject to supervision by professional associations, state regulatory boards and not least a number of legal regulations and restrictions. The various national legal restrictions have complicated and hindered the internationalization process (Lenz/Schmidt 1999). On the other hand, the origins of the development of the European Community were crucial for the first attempts to set up cross-border companies like ETG. The developments on the European market and the international financial markets in large measure stimulated the internationalization of DTG, as the international accounts which were increasingly being required in this connection constantly had a positive impact on the international development of the company.

Various corporate accounting scandals (e.g. Ernst & Young/Cendant; Andersen/Baptist Fund of Arizona; KPMG/Rite Aid; PWC/MicroStrategy) increasingly cast doubt on the legitimacy of the accountancy profession (Economist 2004a) and gave rise to the initiative for new reform proposals (Handelsblatt 2002). The respective public debate has had far-reaching consequences for the archetype of the global advisory firm. KPMG anticipated the Sarbanes-Oxley Act by parting company with its business consultancy division. The field of activity of the accounting companies was legally restricted and measures were taken to institutionalize their supervision. The discussion and elaboration of the details of corporate supervision is still ongoing, but will be of major importance for the further development of KPMG.

Size of the organization: DTG's strong growth and its international organization over the years was partly responsible for the strategic transformation of the organization, beginning with the correspondent network, whose function was ultimately limited by size and multilaterality, so that a joint company was formed as being a more strongly integrated and co-ordinated form of international activity. Later the increasing size of KMG and its extended field of activity led to adapted structures and systems that supported tighter co-ordination and integration and thus increasing efficiency (Lenz/Schmidt 1999). As a result of increasing regional expansion and service-oriented diversification, it became quite obvious that a need for new structures and systems in DTG existed which could do justice to the more complex harmonization and supervision requirements of an international organization. At the same time, the availability of more financial resources allowed greater standardization of auditing activities through national and international training programmes, the development of accountancy software and the development of knowledge-management systems (Meyer 1989).

Developments in information technology: The development of information technology also favoured DTG's internationalization and its strategic transformation. In the late 1980s, a start was made on distributing and networking the knowledge base of the company via computer-assisted knowledge management systems. The first initiatives started with the KMan project in 1989, which, in the framework of the KWEB Alpha program was continually improved in its functionality, its content and its user-friendliness, and was introduced as new knowledge infrastructure in 1997 (Alavi 1997). This and other initiatives to improve communication and data storage ulti-

mately contributed to a reduction in the cost of managing the international activities of the company. This can be attributed to two effects: firstly, the *electronic communication effect* leads to more information being transported in a given time as a result of information and communication technology, so that for example complex documents, programs, presentations and client data can be accessed quickly all over the world. Secondly, the *electronic integration effect* describes the fact that electronic communication systems allow a more exact matching of processes and thus facilitate the overall coordination of consultancy and auditing projects, not least when these are international in scope (see Gehring 2004).

Interpretive schemes

Two aspects of the interpretive scheme have left their particular mark on the course of internationalization: first, the endeavour to preserve DTG's legal and actual independence, which was the reason for both the failure of KTD and the highly federal structure of KMG; secondly, independence from the large Anglo-American companies and the emphasis on the continental European origin of the company.

There had been a possibility of merger with one of the American companies at an early date which DTG rejected. These convictions then weakened over the years. Some of this independence was already surrendered with the formation of the joint companies. However, the principle of the federal structure and the loose association was retained. With the global advisory firm however, the focus of the endeavours was on creating an international unified structure and organization. The above mentioned convictions, which had for a long time previously put their stamp on DTG's development, were pushed into the background. The change of this interpretive scheme is due above all to the changing context, since the position on the American market could only be strengthened by a strong American partner. With increasing competitive pressure, the international company was forced to organize itself more efficiently in order to survive in the accountancy market. If we consider the interpretive scheme as part of the organizational structure, then the changes in it are to be understood as the central mechanism of adaptation by the organization to its environment.

Interests and power structures

The satisfaction or dissatisfaction of groups or individuals with their available resources, as well as their motivation to oppose or support the existing distribution of scarce resources is an important dynamic element in the reaction to new challenges. From our data, which, because of the longitudinal analysis relied heavily on secondary material, there are only hints of conflicts crucial to change, for example the effect of different interests on the internationalization process in the KTD formation phase. The problems arising during the structuring of the organization and the different ideas in respect of the further development of co-operation eventually led to numerous points of friction, which generated new change. The degree of dissatisfaction on the part of DTG with the situation in KTD increased, and ultimately led to the formation of alternative interpretive schemes within the organization. In the further course of international activity, no further such conflicts within KMG and KPMG were documented to this degree. On the other hand Hinings et al. (1999) argue that the intro-

duction of new services in the large auditing companies has generated an increased degree of conflict over distribution of resources. The decision to develop new services or locations represents an investment that had to be shouldered by one company or one division. In particular the opening of new offices in the emerging markets was driven by individual national companies – DTG was responsible for Eastern Europe – who operated at their own risk. But at an even earlier stage, while the correspondent network was still being built up, the commitment of the individual branches was very variable, and as a result “the marked decentralization of the DTG [showed] one of its weak aspects” (Freiberger 1981: 6).

Further potential for conflict was contained in the differential development of the areas of activity themselves, giving rise not only to divergent future scenarios but also, and particularly, losses of prestige. Such conflicts are best documented by the case of Arthur Andersen, which ultimately sought to solve the disputes between the stagnating auditing business and the expanding consultancy activities by separating the two divisions in 1988 (Economist 2000). Similar potential for conflict may also be presumed with the appearance of the archetype of the global advisory firm at KPMG.

Conclusion

Strategic change in the internationalization process is ultimately an oscillation between the historic and new archetypes of an organization. In the case of DTG, two archetypes were identified. In the mid 1960s, after an orientation phase, DTG formed a correspondent network with independent national companies, which, following various experimental and re-orientation phases, was replaced in the mid 1980s by a network organization based on a decentralized federal model. Growing pressure of competition and increasing client globalization favoured the appearance of a new archetype, the global advisory firm, which operates not just through “multi-disciplinary practices”, but was also supposed to enable closer cross-border integration and coordination between the national companies. This archetype had, however, in our view, not been rigorously implemented at KPMG by 2003, as it would have necessitated the replacement of the federal network by an integrated structure. However, beyond the focus of the period studied, there are clear indications for the emergence of such a global advisory firm. In 2007 KPMG Germany, together with KPMG in Great Britain and Switzerland formed KPMG Europe LLP with revenues of more than € 3.5 bn and 18.000 employees.

In order to understand the dynamics of change in the internationalization process the dynamic processes within a business by which the contextual challenges are translated into initiatives for change need to be examined. We have framed our analysis within Hinings and Greenwood’s model of archetype change which, through its holistic nature, brought to the surface the close links that exist between structure, interpretive schemes and dynamic change factors and their relevance for understanding DTG’s internationalization strategy. The results of our study of a unique, exemplary, complex case of strategic change is potentially instructive to other professional service settings as well.

Following our data this dynamic has been primarily based on changes in the market and the institutional environment of the accounting firms, which in turn influ-

enced interests, power structures, and interpretive schemes. Still, as a more recent study by Greenwood and Suddaby (2006) suggests, accounting firms have not only reacted to these market changes, but have also been engaged as institutional entrepreneurs actively shaping the rules of the game in their industry.

This leads us to the limitation of our study. While we are able to identify the major moves and archetype changes of DTG's internationalization over a period of fifty years as they appear primarily in archival data, we have only surface information about an inside view of these strategic change processes concerned with, *inter alia*, power struggles of rival coalitions, competing cognitions, subcultural clashes. Symbolic interactionism therefore suggests that the investigation of such an internal view of change would require studying "the social construction of meaning" (Musolf 1992: 172). From an empirical point of view, one way to accomplish such a study would be to conduct semi-structured in-depth interviews (Denzin and Lincoln, 2000). While such an approach would be necessarily restricted with regard to the observable time period (much shorter than the fifty years analysed here), this would allow identifying deeply held mental models about change processes and recognize their influence on people's cognition, interests, and decisions.

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