2016

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Originally published as:
Original available [here](https://ro.ecu.edu.au/ecuworkspost2013/3525)

This Conference Proceeding is posted at Research Online.
https://ro.ecu.edu.au/ecuworkspost2013/3525
THE EVIDENCE OF HIGH PERFORMANCE WORK SYSTEMS IN PROFESSIONAL SERVICE FIRMS

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ABSTRACT

The study draws on the high-performance work systems (HPWS) to explore the different types of HPWS implemented in professional service firms, specifically in Australian law firms. Although there has already been considerable empirical effort toward understanding the relationship between HPWS and organisational performance outcomes, there is no agreement on what constitutes HPWS and more importantly, there is limited evidence exploring how HPWS are implemented in practice. Based on interviews with 21 Managing Partners and Partners of Australian law firms to gain an in-depth understanding of HPWS practices implemented by the firms, we found evidence of nine (9) HPWS practices of recruitment and retention, creating positive organisational culture, training and development, organisational sharing and learning, developing an effective organisational structure, performance management, rewards, job mobility, and succession planning. The research findings offer contributions to theory and practice on the implementation of HPWS in professional service firms.

Keywords: high performance work systems, HR practices, professional service firms, law firm

INTRODUCTION

Organisations’ human resource management (HRM) strategies have long been considered as one of the sources of competitive advantage that can be difficult for competitors to imitate (Boxall, 2003). One group of scholars examining this human resource-based strategic advantage have proposed the concept of high-performance work practices (HPWS) to illustrate the need for organisations to significantly invest in employees as well as to adopt
and implement human resources (HR) practices that leverage employees’ skills, knowledge to create strategic value (Bae and Lawler, 2000; Becker and Huselid, 1998). For professional service firms (PSFs), recruiting and retaining the best people to maintain and build client relationships is imperative for the sustainability and success of the firms (Lowendahl, 2005; Swart et al., 2015). However, while human capital is critical for PSFs, how HR practices in PSFs can be systematically organised for developing human capital has not been fully understood (Fu et al., 2016a). In fact, studies of the HPWS have provided limited insight into how HPWS are implemented in PSFs, which serves as a significant gap in our knowledge.

Although there is no agreed upon definition of a HPWS (Heffernan et al., 2011), HPWS is often considered as “an internally consistent set of policies and practices that ensure that a firm’s human capital (employees’ collective knowledge, skills, and abilities) contributes to the achievement of business objectives” (Huselid et al., 1997: 171). HPWS is also often defined as “a group of separate but interconnected human resources (HR) practices designed to enhance employees’ skills and effort” (Takeuchi et al., 2007: 1069). HR practices such as recruitment and selection, training and development, rewards, and performance appraisal are effectively designed to create a competitive differentiation based on employees being more motivated, engaged, and satisfied. For example, Messersmith et al.’s (2011) study highlights that high performance HR practices have a positive impact on departmental performance through their influence on employee attitudes such as job satisfaction, organisational commitment, and psychological empowerment. These attitudinal variables then contribute to a positive organisational citizenship behaviour that consequently improves the performance of departments. In implementing HPWS, complementary practices are essentially developed and practised in order to maximise employees’ involvement, engagement, responsibility, and commitment. Indeed, the majority of research on HPWS
have consistently found these systems to have a positive relationship on organisational performance outcomes such as productivity, innovation, and profitability (e.g., Delaney and Huselid, 1996; Fu et al., 2015; Patel and Conklin, 2012; Wu et al., 2015).

This study investigates the more sophisticated forms of strategic human resource management as expounded in HPWS, commonly mentioned in academic publications. This study endeavours to contribute to the strategic human resource management (SHRM) literature in several ways. First, although there has already been considerable empirical effort toward understanding the relationship between HPWS and organisational performance outcomes (e.g., Appelbaum et al., 2000; Boselie et al., 2009; Combs et al., 2006; Fleetwood and Hesketh, 2006; Subramony, 2009), there is no agreement on what constitutes HPWS (Boxall, 2012; Boxall and Macky, 2009). This is due to the fact that evidence of what constitutes HPWS has only been briefly explored and highlighted in the literature, with limited substantiation gathered from practice. Second, most of the research published on HPWS to-date has largely focused on manufacturing firms (e.g., Chi and Lin, 2011; Elorza et al., 2016) and the public sector (e.g., Jensen et al., 2013; Selden et al., 2013). Although a growing amount of studies have focused on the service sector (e.g., Chang, 2015), there is still a neglect of this area of SHRM research (Chang and Chen, 2011; Harley et al., 2007), and particularly so in the professional service sector. Indeed, research on HPWS in PSFs is relatively under-explored (Fu et al., 2016a), and this can be considered a significant limitation of the literature given the economic contributions of PSFs. It is also probably imprudent to generalise HPWS from the manufacturing sector to professional services which in general have higher rewards and investment in skills development and several areas of HR (Boxall, 2012). The third contribution of the study is the examination of HPWS issues in Australian law firms, which has received relatively limited attention. Boxall and Macky (2009) indicate that with the majority of studies on HPWS being conducted in the
American context, it is important to consider the socio-cultural variations in the implementation of HPWS. By providing evidence from PSFs from a non-US context, we intend to offer a contextual perspective that is a central consideration for research on issues of high performance and in particular HPWS. In doing so, we not only provide evidence of HPWS (Boxall, 2012), but also highlight the implementation and issues in practice in PSFs from a non-US context.

The paper is structured as follows. We begin by reviewing the literature on performance in PSFs and specifically on HPWS. We then provide evidence from the literature of HPWS in different categories of PSFs. Our method is then elaborated with an approach to gather and understand the evidence for different strategic approaches to high performance in PSFs that rely on their professional knowledge and work experience on contracts and projects for clients. We follow this up with illustrations and discussions of our findings of HPWS practices. We conclude by outlining our contributions to theory and practice, highlighting the limitations of our study on high performance in PSFs, and recommending potential avenues for future research.

THEORETICAL BACKGROUND ON HPWS

Several frequently cited empirical studies provide evidence that firms with high scores on valuing HRM and people as a source of competitive advantage have higher performance outcomes (e.g., Bae and Lawler, 2000). The development of the discipline of SHRM from the 1980s onwards was followed in the 1990s by scholarly interest in the management of high performance and in HPWS, focusing on developing people as the human capital of the firm.

Theories specifically concerning HRM and performance have been divided into three broad
perspectives: universalistic, contingency and configurational (Delery and Doty, 1996; Marchington et al., 2016). The universalistic perspective concentrates on ‘best practices’ and assumes that these ‘best practices’ are equally applicable to a wide range of situations (Thompson, 2011) as well as generalisable to the measurement of organisational success (e.g., Huselid, 1995; Pfeffer, 1995, 1998). Pfeffer (1998), for instance, highlights a proposed set of universal HRM practices that influence organisational performance, including employment security, selective hiring, self-managed teams, high compensation/pay, extensive training and development, reduced status distinctions and barriers, as well as extensive information sharing. Several other alternative sets of HRM practices have also been identified by researchers. Leana and van Buren (1999) identify three employment practices of stable relationships, strong norms and well-specified roles that promote the development of social capital. Cook (2001) highlights five HR practices of selection and training, appraisal, contingent pay, job security and employee involvement. Jaw and Liu (2003) further propose five HR practices that have the potential to create value, namely (1) empowerment, (2) benefits programmes, (3) commitment, (4) training, and (5) performance management. Similarly, Martin-Alcazar et al. (2005) note that HR practices such as variable compensation, comprehensive training, certain recruitment and selection methods, performance appraisal as well as employee commitment and participation, teamwork, and problem solving can all lead to improved organisational performance. Indeed, Wall and Wood (2005) note that the universalistic perspective is commonly witnessed in practice, while Boxall and Macky (2009: 6) contend that “general consensus around systems of best practices is patently false, and arguments that a particular set of practices is self-evidently highly performing are not defensible”. The second perspective, the contingency perspective, is focused on the ‘best fit’ approach in which the strategic effectiveness of HRM practices is contingent on key external factors (Kim et al.,
2010), such as industry characteristics (Datta et al., 2005) and strategy (e.g., Delery and Doty, 1996). This perspective has been argued to be dependent on the strength of the IHRM system in creating a strong organisational climate (Bowen and Ostroff, 2004), and is broadly consistent with the resource-based view of the firm where a firm’s competitive advantage depends on the organisation’s unique, valuable and non-inimitable and non-substitutable core competencies (Heffernan et al., 2011). The third perspective, the configurational perspective, is focused on HR practices as a set of elements that can be combined in their implementation for various possible configurations (Lepak and Snell, 1999). This perspective outlines the importance of designing effective combinations of HR practices. The configurational perspective of HR practices is focused on taking into account the interaction effects of independent variables of culture, structure, strategy and processes to determine the outcomes (Heffernan et al., 2011).

The concept of HPWS has been researched using a variety of definitions on what constitutes high performance management (Gittell et al., 2010), including high-performance human resource practices (e.g., Mitchell et al., 2013), high-performance work practices (e.g., Posthuma et al., 2013), high-performance work systems (e.g., Chang, 2015; Fu et al., 2016a; Fu et al., 2016b; Kintana et al., 2006; Takeuchi et al., 2007), high-commitment work systems (e.g., Chang et al., 2014), or high-involvement work systems (e.g., Zatzick and Iverson, 2011). Boxall and Macky (2009) and Boxall (2012) however suggest that what many of these HPWS share in common is high-involvement work systems (power, information, reward and knowledge) as well as high-commitment management practices. A key premise in the HPWS literature is that SHRM can create value (Boxall and Gilbert, 2007; Boxall and Purcell, 2011). Key literature on HRM and performance highlights that HR practices are most effective when implemented as a system (Delery and Shaw, 2001; Wright and Boswell, 2002) and in bundles. Indeed, “it is the combination of practices into a bundle,
rather than individual practices, which shapes the pattern of interactions between and among managers and employees” (MacDuffie, 1995: 200). Boselie et al. (2005) found that many academic publications in fact adopt a ‘single practice’ approach which is inadequate to explain organisational outcomes as the components of HR practices should be viewed as interdependent on other practices. It has been argued that interrelated and integrated elements of HR practices, rather than single practices, are mutually reinforcing and have been shown to provide complementarity and synergies that can substantially produce greater effects on organisational performance (Appelbaum et al., 2000; Huselid, 1995; Ichniowski et al., 1997; MacDuffie, 1995; Subramony, 2009; Wright and Kehoe, 2008).

Thus, despite a plethora of research on HPWS, there is a much more limited amount of research investigating the components of HPWS as a set of practices or a bundle. In particular, evidence of HPWS in PSFs is still very much scarce, particularly from those outside the US or the UK contexts. The purpose of this study is therefore to examine the extent the HPWS practices are adopted and implemented by PSFs for achieving high performance and competitive success.

**International evidence of HPWS in different categories of PSFs**

Studies on HPWS in PSFs have been conducted in the areas of professional campuses in health care (e.g., Zhang et al. 2013) and aged care (Harley et al., 2007), as well as the more general hair and beauty services industry (Chang and Chen, 2011). However, there has been less examination of HPWS in ‘classic’ PSFs where human capital comprises of highly educated professionals who provide expert knowledge and customised solutions for clients – firms such as accounting, consulting, engineering, and legal firms (Maister, 1993; Von Nordenflycht, 2010), and so knowledge is more limited in this area (Fu et al., 2016a). Kaiser and Ringlstetter (2010) highlight the importance of HPWS in PSFs as these firms rely on their knowledge workers as their fundamental resources. It is thus crucial for PSFs to create
and sustain organisational work systems that can facilitate a sense of employee empowerment and participation. Fu et al.’s (2015) study of 120 Chinese accounting firms indicates the indirect link between HPWS and firm performance via organisational ambidexterity which is illustrated as a firm’s capability to explore new ideas while simultaneously exploiting existing resources. In a study of 93 accounting firms, Fu et al. (2016b) further indicate that HPWS links to the organisational performance of PSFs in the form a practices-resources-uses-performance linkage model.

Swart and Kinnie’s (2010) study highlights talent management and reward systems as supporting the knowledge assets of PSFs. A study by Swart et al. (2015) further outlines two models of HR practices to manage the human capital (knowledge and skills) and social capital (relationships within and external to the firm) of PSFs. The human capital of the firm is managed through a group of firm-centred HR practices that have centripetal properties, while the social capital of the firm is managed by client-centred HR practices that have centrifugal properties. However, different geographical, institutional and cultural contexts may exhibit different preferences for types of HRM systems. It is thus important to consider the different contexts of PSFs – the types and the geographical nature of the firms. Our focus in this study is the Australian law firms with an aim to provide exploratory findings on the evidence of HPWS in this category of ‘classic’ PSFs (von Nordenflycht, 2010).

**METHOD**

Our research method is based on a qualitative approach and exploratory purpose (Rouse and Daellenbach, 2002). Similar to the study by Segal-Horn and Dean (2011: 201), “we sought rich data. The most appropriate method to achieve this was in-depth personal interviews”. We interviewed 21 Managing Partners and Partners of Australian law firms to gain an in-
depth understanding of HR practices implemented by the firms. We selected the top Australian law firms based on their rankings within the Asia Pacific region. We also involved mid-tier firms as well as boutique law firms. For the mid-tier law firms, we applied similar criteria in terms of selecting them based on their rankings within the Australasia region. For the boutique law firms, we selected them based on their reputation in news reports on their fast firm growth or well-known specific expertise. Face-to-face semi-structured interviews at the interviewees’ offices were conducted in different locations in Sydney, Melbourne, Brisbane, and Perth. The interviews usually lasted from 60 to 120 minutes, with all interviews being taped and fully transcribed. We categorised the themes according to the different HR practices mentioned by the interviewees. The coding procedure and qualitative data analysis and interpretation employed in this study are more similar to what Flick (2014) recommends in conducting and analysing expert interviews. Our findings are reported in the next section.

FINDINGS

HPWS Practice: Recruitment and retention

Our interviewees acknowledge the ever-increasing issue of the ‘war for talent’. The scarcity of talent becomes a concern for organisations to attract qualified candidates in order to achieve competitive advantage. However, several interviewees noted that it is not really so much an issue to recruit qualified individuals but the concern was about retaining them. This issue is more prominent when law firms internationalise to other markets, driven by the fact that talent selection is not only primarily based on technical knowledge but is also determined by an understanding of the market and culture (Suseno et al., 2006), as illustrated by the following:
“Just on the selection of people ... You’ve really got to get people who understand business in Asia.” (Interviewee 12).

Several interviewees further noted that the retention issue becomes more concerning as putting the right people and giving them sufficient time on clients’ projects and understand client needs better is increasingly important, so that they are more effective in developing applications of their professional knowledge that are relevant to particular business contexts. Through providing legal and commercial solutions for clients, these retained individuals increase their reputation in local markets and over time acquire more social capital. In the initial stages of internationalisation, the problems of recruitment and selection are more problematic in terms of attracting both professionals to work for the firm and clients to contract its services, as is illustrated below:

“It shouldn’t be the problem in terms of getting expertise in. The problem in the early days was attracting quality people and good clients.” (Interviewee 11).

The war for talent between PSFs, particularly those competing in Asian business markets, is consistent with Lowendahl’s (2005) assertion that firms have to compete simultaneously in several markets notably the professional market for recruiting professionals and the winning projects in the commercial market working for clients. Thus, recruiting and retaining the right people become the strategic focus of many firms to attain competitive advantage, as we found in our interviews with lawyers.

HPWS Practice: Creating positive organisational culture

Organisational culture is important for establishing standards, norms, values, attitudes and expectations within organisations that enables the creation of shared vision and understanding, and promotes teamwork and unity. Kontoghiorghes (2016) found that talent attraction and retention are predicted by positive (or high performance) organisational
culture that is characterised by strong support for creativity, open communications, effective knowledge management and sharing, as well as being bounded by core values of respect and integrity. Organisational culture has also been noted to have an impact on employee outcomes such as job satisfaction, innovation (O’Reilly and Tushman, 2013) and organisational commitment (Alvesson, 1995). Many of our interviewees commented on the importance of strong culture which could drive their performance and profitability:

“Some of them have got very strong cultures ... I think that [name of a competitor] has a distinctive culture which is very aggressive and very profit focussed ... If you work at a national level it can be done, you can drive it, but the culture has to be receptive. I mean structural change itself doesn’t do much ... There has to be a culture which wants these things and is aggressive for them. We’re working on the basis of values rather than you know I suppose missions statements. We have this spine based around values and it’s quite effective.” (Interviewee 9).

Many senior partners with significant management responsibilities for the firm are aware of the importance of their firm’s organisational culture because it often has a direct impact on the extent that groups of professional employees share their knowledge and skills and collaborate successfully in serving clients. However, tensions too often arise between maximising effective team work in specific areas of professional practice and ensuring that at the same time, partners and their teams contribute to the broader strategic goals of the firm often in ways not always obviously related to their areas of specialisation and career interest. A positive and supportive culture thus becomes the ‘glue’ that connects people together; it is also possibly the most difficult thing for competitors to copy, enabling the creation of sustainable competitive advantage (Mankins, 2013).
HPWS Practice: Training and development

Effective training and development (T&D) programs and policies have been constantly viewed as playing a crucial role in creating and sustaining the competitive advantage of a firm (Ji et al., 2012). A long-term view of supporting structures that facilitate T&D is needed in order for organisations to achieve their long-term objectives. Several firms noted the formal adoption of a coaching model to train and develop their employees further, as illustrated below.

“We’re certainly trying to do that, following the coaching model. And we have people designated as such within our hierarchy ... to clearly put an emphasis on not just measuring the financials, but the other aspects of performance which we think are important.” (Interviewee 21).

However, two of the interviewees commented that they do not essentially provide T&D to their employees. This relates principally to the difference between the large firms which offer the bulk of the training places for new entrants to the professions and smaller, niche and boutique firms which depend on recruiting talent with 3-5 years or more of relevant work experience and client knowledge in specific industries and area of professional practice:

“Our employment strategy is to employ experienced lawyers. We don’t try and train a lawyer. First of all we’re not good at it, we’re not interested in doing it and it’s not worth our while. It’s easier to buy experienced lawyers than to train them.” (Interviewee 1).

However, all firms in various ways support the continuous professional development of their employees in order to maintain the currency and client relevance of their work competences. Many of our interviewees noted the value-added service they provide with the upskilling of
not only their employees but also their partners, as illustrated in the following comment:

“One of the reasons we’ve got a bit of a leg in in Asia is that firms like [name of firm] were finding that they weren’t getting the quality of service that they were used to in Australia ... But I think that’s a matter of us sort of upskilling our people and working with them so that they can provide the same level of service to the [name of firm] of this world ... Any firm faces in this situation, there is a need to train these people up to a higher standard than they’re generally are going to be at now.” (Interviewee 12).

Most of our interviewees underline the importance of T&D not only for the benefits to the firm but also its importance in identifying employee’s aspirations for their jobs and career in terms of their skills or competencies development.

“Education and training which we do spend a lot of time on. We probably do that reasonably well. It enables the staff to get any belly aches off their chest ... It enables me, because I have to report back centrally, when things are put on employees’ records to find out some astounding information about the aspirations of people. It’s tremendous importance to try and understand the personnel thing.” (Interviewee 11).

Our interviewees view T&D as critical because global competitors are catching up, and if Australian firms do not continuously invest in their people, they will soon be losing their competitiveness in the global world. Investment in people will also enable Australian firms to be more competitive when it comes to exporting their products and services. This is illustrated in the following comment:

“It’s important for us that we think outside just our local region and look to export legal services into the region ... In countries particularly like Vietnam
and Indonesia ... many of them are very good local lawyers ... but ... until recently had little experience in international transactions but it’s changing quickly, because a lot of the big law firms, say in Jakarta, would be sending their brightest young lawyers to do masters degrees at Harvard or The University of Queensland, or Melbourne ... and they’re trying to match the foreign lawyers by making sure that they do skill up their people so they are able to talk to overseas companies and advise them.” (Interviewee 10).

T&D is central to the knowledge jurisdictions of professional disciplines and in global legal markets, the development of new skills and ideas has to be combined with acculturation of partners and employees to the different customs, national cultures, legal systems and practices. All PSFs engaging in international business have to learn new ways of collaborating with different commercial and legal institutions and systems. If senior decision makers in these firms intend to practice in different international legal environments over the long-term rather than opportunistically engage only periodically in ad-hoc contracted client projects, then HPWS involves the strategic design and implementation of T&D.

**HPWS Practice: Organisational sharing and learning**

PSFs are focused on the creation and application of complex knowledge to solve client problems (Reihlen and Apel, 2007), and thus their employees’ knowledge, skills and abilities are important in the provision and delivery of service. However, not much is known on the aspect of organisational sharing and learning within PSFs. We found that some firms, from the global law firms to mid-tiered law firms, still rely on face-to-face meetings, as outlined below:

“We talk management every day when we have lunch two or three days a week together. We tend to have lunch together rather than with clients ... Formal partners’ meetings don’t work. We’d rather have a glass of wine and discuss
something.” (Interviewee 1).

“We have an annual meeting every year where all the partners go with their wives. It’s for three days, it’s in San Francisco this year and there’s a huge debate. It costs us millions of dollars to do that ... but fairly consistently the partners are saying well this is what the firm’s about, you know, if we don’t get to see each other every year, why are we in this partnership?” (Interviewee 6).

Many of the law firms commented on their management structure that allows communication and knowledge sharing between their domestic and international offices. Such structure enables the firms to be more of a learning organisation, characterised by continuous learning opportunities, collaboration, shared learning and dialogues (Yang et al., 2004). An example is illustrated in the following:

“A lot of communication and knowledge sharing happens between those offices. We have the overall management structure of our firm in Australia, we have a national board, of which the managing partner is an ex officio member. We have a managing partner who is virtually the CEO of the firm. He reports to the board and the board delegates the management responsibilities here in Australia ... We also have what we call an executive partner who oversees and reports to the board on the Asian practice offices, and within those offices of course, there are partners-in-charge of particular offices ... The partners of those offices meet regularly in an Asian context and then meet regularly with Australian partners in a South East Asian context, and we formulate strategic plans on annual basis, in both of those offices I just mentioned.” (Interviewee 2).

Interestingly, some firms, even the larger-sized national firms, commented that they are
not very good in sharing knowledge even though they have the technologies to do so:

“These different offices have certain interdependencies in terms of sharing of information and knowledge ... We’re not very good at knowledge management and sharing information. We’ve just taken on as a project being run by a woman called [name of a person] out of New York, a knowledge management program basically aimed at unlocking all of the information that’s in various heads and areas of the firm and making it available ... Technology is difficult enough ... it’s hard enough within Australia surprisingly enough but certainly between our international offices, that’s the key and that’s been difficult ... It’s still not to a level that it needs to be to deliver that level of service the clients really expect.” (Interviewee 12).

It is also interesting to find out that much of the learning that happens within the law firms that are part of our sample are rather informal. Much knowledge is shared but it is essentially about ‘knowing who you know’ to obtain the best advice and information, and to provide the expected level of service delivery. This is illustrated in the following quote:

“More sharing of precedents and ideas and getting to know people better. So when you refer something on you know exactly who it is and more or less what they’ll be doing. So you can be confident about the quality of the service and you can relate to people.” (Interviewee 10).

Our interviewees further commented on their struggles to share their knowledge even though there are interdependencies between offices in terms of knowledge, information and even resources. It is not about technology per se but also it is about putting in place better systems to manage organisational sharing and learning. There are a large number of legal and commercial facts, precedents, arguments and procedures that lawyers use and learn more
about when working on client contracts. The processes of advising them on general and specific problems can be made more efficient through having easy access to databases and records, which reduce the time it takes to develop customised solutions relevant to client contexts and needs. However, it sometimes is as simple and straightforward as knowing who in the firm has met this problem before as well as having access to them to discuss possible ways forward on a legal matter.

“We’re trying to put in place better systems in terms of training and technology and client services up there ... Things like profit sort of secondment arrangements between those international offices and the domestic offices. Common accounting and billing and quality control systems. We have appointed one of our senior partners as being responsible for the development of our international strategy and he has a team working that’s been with him to look at these sort of issues and identify ... what our strategy should be in the implementation of it.” (Interviewee 12).

The literature on PSFs and knowledge management (e.g., Anand et al., 2007; Brivot and Gendron, 2011) highlights that many professional employees are proactive in developing the contents of proprietary databases and using new systems of knowledge capture and sharing for both generic and client-specific projects. These technologies often save time and cost as well as improve the quality of PSFs’ services to clients. The evidence from our interview study however suggests that PSFs face significant challenges in developing new database and knowledge sharing systems not only for the domestic markets but also for their international markets. This often will be most evident when only a few key partners and lawyers are involved in international legal work in the firm.
HPWS Practice: Developing an effective organisational structure

Many of the Australian law firms are still structured using variants of what is known as the lock-step system of profit sharing. In this system, equity partners share profits relatively equally according primarily to tenure (position on the lockstep) often combined with a merit or bonus element that most usually constitutes a small proportion of the total amount of profit shared.

“It is a lock-step system in [name of firm], it is yes ... It’s a unit partnership. By that I mean when you are invited to partnership as a junior partner, you’d be offered 16 units and then you would progress to the maximum of units, which is 40 units, over a six year period.” (Interviewee 2).

It is rare however for the majority of the small and boutique law firms to follow the lock-step system where usually a few key partners have the largest share and other partners are remunerated based on a salary and performance bonus, often calculated based on the amount of fee income each individual has generated.

“No, no, no, we’re not lock-step. We do have salaried partners, minimum salary partner gets 250,000 per year plus bonuses and then equity partners, and equity partners take according to a percentage that is negotiated.” (Interviewee 1).

The second-tier law firms often use a combination of salaried and equity lock-step systems to remunerate their partners. There are a number of reasons for combining salary and bonus systems with equity profit-sharing at the top of the firm’s structure. Equity partners tend to have stronger claims than do salaried partners on long-term tenure and receiving rewards equivalent to their senior peers. Sometimes, a salary and performance bonus can be more attractive to junior partners who are concerned about the predictability of
their individual income particularly in business contexts where the firm’s total amount of profits may vary significantly year-on-year. Overall, the tendency has been to increase the proportion of salaried and equity partners’ rewards dependent on a combination of their evaluated individual performance and the overall performance of the firm, as illustrated in the following quote:

“Our actual aim is eradicate the concept or their idea of fixed profit partners. Where you’re either in equity or you’re not. That’s the view we take and we’ll handle differential performers through the performance pool rather than through lockstep. So there’ll be all equity partners plus getting performance ... which will stay at different points along the way. You’ll start a new equity partner at 50 points and there is a lockstep up to a hundred. It’s a combination of lockstep and it’s a mixture of two. It’s kind of giving effect to the notion that your equity in the firm is your return on your investment and the performance side is the thing that will really drive performance.” (Interviewee 9).

The domestic operations in Australia for several law firms appear to be structured differently in comparison to their international partnership. This is often done to enable professional staff working for international offices to share a proportion of the profits they generate locally while the firm’s profits are shared only amongst equity partners who are based principally in one of the domestic operations. In other firms, where specific foreign offices are viewed as being not too prone to risk over the long-term and where there is strong competition for talent in the office jurisdiction, profits may become shared on the same basis with the domestic partners. One example is illustrated below:

“The Australian partnership also elects people who are known as local or national partners, which means they’re partners and share in the profits of the
Australian partnership but don’t participate on a global basis in the international partnerships. There are two tiers, international partner and a local partner, and they are now recognised by the international partnership … At a local level, they’re salaried partners, they’re not equity partners … The international partners, the ones who are members of both the Australian partnership and the global partnership, are what you would describe as equity partners.” (Interviewee 6).

The national firms are also restructuring to put in place a better structure and system in order to manage the performance of the organisation as a whole and to make the firm more agile and differentiated against the competitors.

“We took on a completely new structure. The view we took was just integrating into one profit centre didn’t really take us very much further than we were. We wanted to change the management structure and the culture of the firm so we actually changed the way the firm is run. The organisational design was different too to a lot of our competitors.” (Interviewee 9).

Interestingly, more and more firms are being structured following a corporate structure – a phenomenon that has been discussed for over 40 years in government policy debates in Western countries on the deregulation of regional and national legal jurisdictions. Progressively, PSFs have adopted more management policies and practices such as formal performance appraisal and marketing activities that all lawyers are required to participate in. The specific implementation of these systems, although similar to those used in many of their client organisations, often retain a particular style of operation that suits the professional work culture.

“You have this drive in large corporations to slim down the management
structure and to have flat management structures, and that’s exactly what a partnership is. I mean it’s the ultimate flat management structure because there’s only one level between the people running the organisation and the owners of the organisation and the people who actually implement the management decisions.” (Interviewee 6).

Some firms have even gone further in terms of hiring non-lawyers in order to drive business change and sustainability of the firms, however, these para-professionals tend only to be employed in significant numbers wherever aspects of the work is somewhat routine and commoditised and the price of labour is more sensitive to competing with other PSFs for client contracts.

“While we’re on the structure ... it’s our shift to the corporate approach or style. It’s also carrying with it the use of external managers in these executive positions, some of whom aren’t lawyers ... One of our managing directors for example that heads up the property service line is a non-lawyer, yet has lawyers reporting ... And as you know in this change process, we do need a good dose of external influence to get us swinging from point a to point b.

Whilst I’m an internal appointment as CEO we have got some of those externals helping us with the change management ... It’s a more corporate approach to our business ... We’re already seeing that these external people are helping with that change. And with that change we’ll become, I think, an ability for us to react quicker and more decisively when the time comes to start building our future on the internationalisation side of things.” (Interviewee 21).

The structure of PSFs in law and other classic professions tends to reflect a segmented
labour market comprising a high earning group of partners and senior professionals alongside tiers of the professional workforce on the promotion track and others who are unlikely to advance much further in rank but remain with the firm because of the rewards (financial and non-financial). Organisational structure in PSFs thus needs to be designed to allow tasks and resources to be effectively organised to achieve organisational goals.

**HPWS Practice: Performance management**

Like any firms, Australian law firms adopt performance management in order to manage and reward their employee performance. However, while professional workers in PSFs are comparatively well paid compared to many of their peers employed in other occupations, the pay systems have traditionally been less based on individual performance rewards related specifically to business outcomes than has been typical of many corporate and commercial business sectors. Performance management with appraisal and feedback is needed even in PSFs to ensure that employees’ job performance and contributions can be evaluated, and opportunity for reflection and development can be identified for the effective management of human capital.

*“Law firms aren’t immune from its expectations like any business” (Interviewee 2).*

The performance management systems of many Australian law firms has matured over the last 20 years so that formal performance appraisal is a routine and formal process. This often involves evaluations of annual performance by the direct reports, as highlighted in the following quotes:

*“It’s a formal process so it involves PDF performance development reviews. It requires the practice group leaders to actually make assessments of partners. They then make their recommendations to the firm leadership team. The firm leadership team then makes a determination based on their analysis of the
whole firm and then it’s put to the board of the firm and then there’s a compensation board that actually approves or doesn’t approve the outcomes.” (Interviewee 9).

“It’s an appraisal process or counselling process that has been involved with their direct reports, and with the managing directors at least a couple of times a year.” (Interviewee 21).

In several companies, the process is even more structured with departmental meetings and monthly and quarterly systems of reporting work inputs (e.g., hours worked on different client projects) and outputs (e.g., tasks completed; work billed to clients) in order to manage and reward employee performance:

“Oh the three principal departments, there is an executive partner appointed to each of those departments and they are the three main practice area streams. And under that, for example, in commercial and resources, you’d have subsets under that, you’d have mining and resources, you’d have mergers and acquisitions, and you’d have intellectual property, IT, you might have life sciences and media and communications” (Interviewee 2).

However, the appraisals are done differently in several companies. For some firms, their profit sharing is based on the equity based on their performance-based system, as outlined below:

“Well they share profits in accordance with our performance-based system, regardless of where they’re from. So the compensation system is a single system spanning the firm. We try to follow a balanced scorecard approach ... which is the financial, obviously, performance with clients, performance with their people, and how good are they at keeping on top of the processes.”
(Interviewee 21).

For national firms with many offices throughout Australia and several foreign offices elsewhere in the world, the performance-based system is often based on benchmarking across the different offices, departments, teams and areas of professional practice:

“So we tried to rank each of the partnerships in terms of their overall performance, which created a sort of layering effect between the offices. And within the offices there is then a layering of the partners. And there’s a bit of overlap obviously but that creates a laddered system, which is your performance-based or differential profit-sharing system.” (Interviewee 21).

Most firms have adopted systems of measuring employees’ individual performance in ways that emphasise performance expectations and career development needs for different positions in the professional hierarchy (commencing from trainee, on to junior, then to senior associate). Some firms emphasise more strongly than others, achievement in particular measures of individual performance such as hours worked on projects according to budgets, bills issued and fee income received:

“Basically what you try and do is you make sure one of these conversations is around performance of the individual and what the multiplier factor of that might be in terms of pay and promotion and the other one is much more around what development is needed to make sure that individual achieves the objectives of their department and the firm.” (Interviewee 11).

As lawyers gain greater responsibility for winning new clients and retaining existing ones, the measures of their performance become more complex. It is common for senior associates seeking promotion to partner to be evaluated based on multiple performance criteria that assess and develop their competencies as a potential partner. Typically, salaried
and equity partners are evaluated across a range of criteria relating to their capacity to manage teams, the extent of success in winning clients and profits from work with clients, as well as their substantial contribution to the management and governance of the firm:

“The rule is common place that partners are expected to contribute across a whole range of scenarios not just fee earning scenario. But of course that is a significant one and ... in our firm under our partnership rules, these are called partner benchmarks, what is expected of all our partners and there’s about ten principle criteria, and fee earning is one of those ten criteria.” (Interviewee 2).

Most firms structuring their reward system differentiate between categories of employees notionally of the same rank in clients’ eyes – i.e., partners of the firms. Partners are either equity partners or salaried partners. Whereas equity partners often receive higher rewards from sharing in the firm’s profits than do salaried partners, this is not an area that clients would need to be informed about since it is an internal matter for the firm. The following quote highlights this:

“The way remuneration is determined is critical as a driver. We have a two pools. We have a profit equity pool and a profit pool. Partners’ performance is relevant to allocations from the profit pool. If you are an equity partner, you get whatever your equity points are worth from whatever amount of money is in that pool and you can get performance related pay on top. So it depends upon your meeting, your scoring of five or six critical areas and ... there’s a compensation committee that meets.” (Interviewee 6).

When performance targets are not achieved, several interviewees noted the more informal approach in handling under-performance by way of discussions between the
supervisor and the employee.

"What is done, we generally try to do it by exception ... There's a counselling mechanism put in place initially, for instance if I was struggling, and couldn't do what was expected of me, that would become pretty apparent to the partners in the department in which you worked ... It'd be a quiet chat between you, the managing partner and the executive partner of that department. So, saying Bloggs seems to be struggling, what's the problem, is there anything we should know about. There are regular meetings between partners to ensure that. If anyone's suffering a particular personal grievance or whatever, a health problem or whatever that's known, allowances are made for it. Then, if there's an identified problem, a plan's put in place to try to work through it and it's after that stage that due allowances are made for that. Then, there might be a freezing of units. If a partner couldn't turn that position around and in extreme circumstances obviously that's rare, the partner might be invited to depart the partnership." (Interviewee 2).

All lawyers who are partners along with the group of managers who are non-lawyers (e.g., Finance and IT directors), are aware of the importance of managing the performance of their practice as a whole. Inevitably, much of their success in the day-to-day management of the firm involves the extent that they take into account the individual strengths and personalities of different partners in winning new work, working with clients, managing other lawyers and contributing to the overall success of the firm.

"There's an expectation in reality that most partners are doing their best, you'll accept the vagaries of life in practice that some people are going to perform better than others, as long as you've got a very good firm that's always performing well, I think you'll sustain that ... If you try and associate with what is a leading firm in the jurisdictions in which you operate ... it
should never drop below what should be regarded as an acceptable level.”

(Interviewee 2).

Performance management in PSFs in Australia has become similar to mainstream systems for managing individual performance in corporate businesses. Even so, there are some notable differences where PSFs remain hierarchically organised according to professional status and position much more so than what is typical of businesses. This has implications for the extent that HPWS of performance management in PSFs can be customer-centric.

**HPWS Practice: Rewards**

Rewards are important in motivating and improving employee performance (Armstrong, 2012; Grandey et al., 2013). In the academic literature and practitioner publications of PSFs, it is frequently argued that the professional work itself supported by the general education and training in the profession, inculcate high individual interest in the intrinsic aspects of the job. The following quote illustrates the importance of rewards for the company and the employees:

“Remuneration is seen as something that is delivered as a way of driving change in the firm as well. It’s value-based in terms of four or five of the key criteria that are based against the firm’s values, such as client care, teamwork, practice development and people issues. You need to score well on those areas to get a high performance related pay component. Financial is only one of them but it’s an important part.” (Interviewee 9).

The most successful global law firms that are able to compete for the best talent in their profession are differentiated from other firms by their tendency to share profits across their different international offices. Sustained competitive advantage in the area of international profit sharing depends on the firm having the financial capacity to reward
partners in different offices and regions of the world more so than local partners who would only be able to achieve based purely on the local profits generated:

“Being a member of the international partnership means that we share our global income in a formula fashion ... The international partners distribute their profits on a basis which is called the formula, and the formula recognises a number of characteristics. It’s purely objective and there are some elements of which you share in global profitability, but to a large extent it reflects local office profitability. So, if you look at six headline issues under the partner formula, one is your own personal fee collections, second is how long you’ve been here in the international partnership. The third is the quantity of fees brought to the firm by clients who you attracted, and the fourth is the profitability of the local associates, the associate pool in this office. The fifth is the expenses of the local office and the sixth is the expense of the global firm. And if you look at the four of those are income components and two of them are expense components. It’s obvious from the expense components which ones are international and which one are local. In terms of the income components, length of time you’ve been with the firm and the clients you’ve attracted to the firm are basically shared on a global basis. The other two are more personal fee collection and associate profitability within this office are purely local.”
(Interviewee 6).

Some law firms are also providing rewards to encourage their staff to relocate to their international offices particularly if they want to formulate and implement effective international strategy, as illustrated below:

“If you’re going to be serious about developing an international strategy ... we do have to re-look at that reward and encouragement ... Since we’ve sent the
wrong people up there and they have significantly failed, then the image is tarnished, and when you even then identify the right people, they are reluctant to go because of the history of ... the ones who’ve gone before them. So my philosophy has always been that we really need to incentivise the right people to go up there.” (Interviewee 12).

Law firms are known to pay good salaries for their staff and Australian law firms are no exception. Some of the firms noted further the differences in living costs between capital cities of the country and as such, the rewards given to the employees are a function of where they are located to ensure fairness and equity. This is illustrated in the following quote:

“Bearing in mind the overheads that exist for example, between Sydney and Brisbane as to rents, salaries and so on ... The reality is, it’s more expensive to live and educate children in a city like Sydney than it is in Brisbane so we ... allow between ourselves, a cost of living differential to our Sydney partners over our Brisbane partners, just to make sure that you are indeed participating equally.” (Interviewee 2).

Many of the firms that are unable to offer their partners and employees the highest profits gained in the profession appear to emphasise other issues of lifestyle and career flexibility, typically the importance of non-monetary rewards:

“The international law firms are paying very well so they’re not unattractive in financial terms ... But they have large expenses, because they live expensively there and they don’t get any time to enjoy it anyway. I think ... rewards tend to be focussed around people and it tends to be focussed around essentially offering people a very good life style, including a good financial package ... It’s a small firm that is reasonably casual and in its working environment ...
like pampering to itself in terms of physical comforts. Good lunches, you know, travel, things like that.” (Interviewee 1).

Interestingly, when partners emphasise different forms of non-monetary rewards related to employment in their firms, they often draw attention to the traditional benefits of the career such as the high professional work of autonomy:

“It would be typical of [name of a competitor’s firm] as a fairly autocratic culture at one level of partnership and perhaps didn’t give sufficient autonomy ... Give people more autonomy so their firm develops a certain reputation and then it might work.” (Interviewee 11).

Some Partners of the firms further commented on the importance of non-monetary rewards in the form of different challenges that the job offers. Often, the jobs become mundane and routine that they no longer provide satisfaction and motivation to the lawyers, particularly the young ones. When the jobs no longer offer such motivating factors such as autonomy, responsibility, growth opportunity and challenges, these lawyers would become frustrated and move out of the firms.

“Youth does all the work, youth expects to be rewarded for all the work and once you hit the wall in terms of age you’re in the discard category ... Because you’re in a big law firm that has a lot of established clients, you find it very difficult to move into what I would regard as the next phase of commercial life, which is directorships, board appointments, public appointments, of various kinds and I wanted to do that. I wanted to do much more of that and much less law and I couldn’t. I was frustrated at [name of a firm]” (Interviewee 1).

PSFs benefit from being able to offer their partners and employees work that is financially remunerative as well as possessing intrinsic benefits obtained through the conduct of the
work itself. HPWS in PSFs is thus substantially influenced by the need for employers to provide different career opportunities and psychological contracts for groups of employees in the professional and paraprofessional workforce. This means that the work motivation of employees in these firms is often characterised by interest in professional aspects of the work, which provides partners and managers with many opportunities to organise and allocate tasks to teams and individuals that lawyers are likely to find engaging.

**HPWS: Job mobility**

The majority of the Australian law firms that have internationalised to different markets have a comparatively smaller number of top lawyers specialising in international work and therefore often must rotate and send their partners and employed lawyers on international assignments. As highlighted below, groups of Australian lawyers expect to be internationally mobile since it is not feasible for their firm to staff the local offices with all of the experience and expertise that is only periodically required:

“We rotate partners in the offices every few years or a bit longer, (a) because you need that replenishment of ideas and we transition that to make sure it’s quality of contacts and make sure that it’s done at times ... We encourage our Australian lawyers, we man the firms primarily from Australia, and local lawyers on the ground too, of course. But we rotate that as well.” (Interviewee 2).

Some firms have gone even further in terms of using international placement agencies to help them sort out the relocation of their employees to other markets and make the transition as smooth as possible. This is illustrated below:

“We’ve started to use a few of the sort of the international placement agencies and whatever to assist our people move in and for those who’ve gone to
Indonesia and Malaysia we’ve put them through sort of cultural immersion programs for a couple of months before they’ve gone. Language and culture and business and social cultures and right down to small things like we sent a chap and his family to Singapore two months ago, and we didn’t have housing sorted out, thinking that he’d be able to do that quite easily and not surprisingly, he can’t. So he’s got three kids and his wife living in a small apartment in Singapore which is of course, affecting his performance.” (Interviewee 12).

A critical area for PSFs in the context of increased globalisation of business is being able to provide the appropriate employee value proposition. At different times in people’s working lives, the opportunity to work in different locations will be more or less appealing. Inevitably, gaining international work experience is often attractive to younger employees who seek different and varied career experiences:

“The people that large Australian law firms lose to international firms, Clifford Chance and so forth, are younger, smarter people who feel they want an international exposure. It’s just part of life. They’ve been through law school, they’ve practised in an Australian law firm and they’ve got a feeling for what it’s all about, they’d like to have a year or two in London or New York. It’s always been the case.” (Interviewee 1).

However, some firms also noted the difficulty of bringing the talent back once they have been practicing in other markets for a while, particularly if they have been made partners in international offices:

“I mean obviously the young assistants, we tend to send them for three year stints and then they come back and send other people over. But partners by and
large tend to stay there and so it’s not too much movement there because it’s very difficult to bring people back. I think if they’re away for too long and you know, establish a big practice. It’s always very hard to come back and run a practice here because they’ve lost all their clients and they’ve lost all their skills here, and haven’t kept up with the Tax Act and the corporations law. It’s very hard to slot them back in.” (Interviewee 10).

“We’ve made mistakes before in sending up one or two very young partners ... One chap in particular, two months after he became a partner we sent him to Vietnam and he’s never been able to get back into the domestic sort of system. He lost a lot of confidence because you don’t practise a lot of law in Vietnam and then to take somebody young like that and put them in that sort of market for four or five years and then try and bring them back to Australia, it was just remarkable. He’d lost all of his sort of commercial confidence.” (Interviewee 13).

While job mobility to international offices provides valued rewards that many employees seek, it also becomes a challenge for organisations to decide who gets the job mobility opportunity. Some firms commented that they at times do not send their best employees to their international offices. This then creates problems and is counter-productive to the rewards that they seek. The following interviewees commented on this issue:

“In the past we’ve often sent quite cantankerous irascible people up there who have ended up sort of alienating most of the people in the firms they’ve been sent to ... because they were the difficult ones in Australia ... So you thought well they can go to Jakarta for a while and surprise, surprise there’s a revolt in the office over there, because they’re the ones who aren’t patient. They’re not
prepared to spend the time with solicitors there, explaining and training. They’re the ones who are more likely to just throw something back and say this is rubbish.” (Interviewee 12).

Australian firms have experienced more difficulty with maintaining their level of international growth than have a number of the large North American and European firms. This has meant that international work is more precarious and uncertain than are many mainstream areas of domestic legal practice. The main advantage of international work is it offers much greater opportunity for economic growth and expansion than do the comparatively mature and saturated domestic markets. The evidence from our study is that there remain many opportunities in the international domain for PSFs to design and implement more sophisticated systems of HPWS.

**HPWS Practice: Succession planning**

Succession planning, a process to develop internal staff members and equip them with higher-level of competencies, knowledge, capabilities and potential to fill leadership positions in the organisation, unfortunately has been a process that has not been thought of strategically and systematically by many of the Australian law firms. Succession planning to international offices is sometimes driven by a matter of ‘convenience’ rather than being strategic in identifying the long-term vision of the company, identifying the experiences, capabilities and competencies associated with key responsibilities, as well as recognising and developing the strengths of the people who they are grooming for. The lack of strategy for succession planning is illustrated by the following quote:

“Again, being frank with you, we’ve often put the wrong people into Asia and our overseas offices because we’ve often put people there who have been a problem or have come to an end of the road with their practice in Australia and
you couldn’t find a place for them here and you thought well maybe they’ll make a go of it in Jakarta and of course, that’s doing it all the wrong way around. And that’s a very unfortunate strategy ... really what’s wrong is that ... we’re really only now spending much more time thinking you know what skills are required both legal and personal to work in that region, and then identifying whose got those skills rather than saying oh well, if Michael Back hasn’t got much to do at the moment, he can go up to Singapore for twelve months.” (Interviewee 12).

Succession planning is important for the sustainability of the firms to ensure that there is a consistent high-quality leaders leading the organisation to improved productivity, profitability, efficiency, and effectiveness. Australian law firms need to be more systematic and strategic for their succession planning in order to develop a well-rounded HPWS, contributing to the success of the firms.

DISCUSSION AND CONCLUSION

This study attempts to advance the HPWS literature in the context of PSFs, and in law firms in particular. The main purpose of this study is to describe the different types of HPWS practices implemented in Australian law firms, focusing on the under-researched topic of HPWS in PSFs outwith the US- or UK-context.

The findings, although exploratory based on several interviews with Australian law firms, provide evidence of nine (9) HPWS practices of recruitment and retention, creating positive organisational culture, training and development, organisational sharing and learning, developing an effective organisational structure, performance management, rewards, job mobility, and succession planning. The study provides a major theoretical
contribution in terms of providing evidence of HPWS practices. Although there has already been considerable empirical effort toward understanding the relationship between HPWS and organizational performance outcomes, there is no agreement on what constitutes HPWS and more importantly, there is limited evidence exploring how HPWS are implemented in practice. This study also contributes to understanding HPWS in the context of PSFs that is still relatively neglected in the area of SHRM research. In addition, research on PSFs in general and law firms in particular tend to focus on the US and the UK-context, but little has been done to explain HPWS in PSFs in other economics outside of the US and the UK.

It is also important to highlight the practical implications of the study. The study findings suggest that even though firms attempt to strategically design and implement HPWS, the reality is that these practices are emergent. There are also various issues in relation to the different HPWS, suggesting that more work needs to be done by managers of the firms to improve such HPWS practices, particularly when these firms attempt to internationalise to different markets. There must be a strategic approach to HRM which seeks to develop HPWS practices further in order to build employees’ motivation and satisfaction, and for client engagements and relationships. A single practice is also inadequate and firms that seek to improve their organisational performance must be prepared to invest time, effort, and financial resources in bundling these practices together to increase the chances of recruiting and retaining the best people to maintain and build client relationships for the sustainability and success of the firms.

By only exploring the perceptions and nature of HPWS in practice based on interviews with Managing Partners and Partners of law firms, the study is limited in terms of providing generalisability across the different types of HPWS. In addition, we did not seek to uncover the various contextual factors that may influence the implementation of HPWS in practice. For example, contextual factors such as organisational history may play a role in the
implementation of HPWS. While we asked our respondents on the history of the firms, we did not find any evidence to suggest that organisational history influences the HPWS implementation in practice. Our interviewees indicated that these practices in fact continuously change due to the fast changing nature of the business and the environment they are operating in. The study is also limited in terms of increasing our understanding of the impact of HPWS on the performance of PSFs. Future studies are thus needed to examine the relationship between HPWS and performance in different types of PSFs, particularly those that are outside of the US and the UK contexts.

In conclusion, the study provides evidence on the HPWS practices in PSFs that are important to the success of the firms. In particular, the paper highlights nine different HPWS in practice that underpin the operations and management of several law firms in Australia.

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