LEVERAGING OR OVERCOMING DISTANCE?
GLOBAL STRATEGY AND STRUCTURE OF PROFESSIONAL SERVICE FIRMS

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ABSTRACT

In this study, we examine how geographic distance has influenced the strategy and structure of professional service firms as they internationalize. By drawing on three theoretical lenses – global value chains, virtual teams, and ecosystems – we identify eight governance structures in use by PSFs which rely on one of two distance logics: distance-as-enabler and distance-as-barrier. The tension in location decisions that arise from the two logics is resolved by firms' strategic decisions and is reflected in their governance structure. When the logic of distance-as-enabler is prioritized, PSFs choose a structure that is more unified at the global level. When the logic of distance-as-barrier is upheld, PSFs give greater autonomy to local units or establish loosely connected regionally autonomous partnerships. By differentiating between *professional governance* and *professional practice* we further show that greater distance necessitates professional work to be more codified and modularized, while proximity preserves professional work's bespoke nature.

Introduction

Professional service firms have traditionally valued proximity especially to clients. This results from the need to deliver customized (bespoke) service at the point of consumption, and the central importance of trust in professional-client relationships. Thus, medical doctors diagnose and treat patients face-to-face, lawyers represent their clients in person in courts, and auditors and consultants perform much of their work on client premises. However, professional expertise could be delivered at distance, due to a number of drivers including digital technology and the Covid-19 pandemic that led to the diffusion of remote working. This paper unpacks various aspects of the role of geographic (and associated institutional) distance on professional service delivery by offering three lenses to analyze the phenomenon. These lenses are global value chains, virtual teams, and ecosystems. To date, these lenses have not been applied to

professional services in a systematic manner. Moreover, we demonstrate that combining insights from the three theoretical frameworks adds value to furthering our understanding of the strategy and structure of professional service firms (PSFs).

Global value chains (GVC) provide a useful lens to examine distance between sequential stages in production and delivery. The disaggregation of value chains ensures that we distinguish, for example, between the distance between the back office and the front office of a firm, and the distance between the firm and its clients. GVCs leverage distance in order to exploit differences between locations, for example, in labor cost. Virtual teams offer a helpful perspective on how to balance the advantage of geographic dispersion, notably access to global talent, and its disadvantage especially in executing interdependent and complex tasks. Geographic distance creates cognitive and other barriers and is regarded as something to be overcome. Ecosystems add to our understanding of distance when we distinguish among different types of ecosystems (e.g. platforms, startup ventures), and identify the nature of interaction (complementary, modular) among stakeholders to create value.

The key contributions of this paper are as follows. First, we make a distinction between the impact of distance on *professional practice* (how work is carried out) and on *professional governance* (how firm-level governance structure is affected) and argue that the two co-evolve over time; that is, professional practice affects, and is affected by, professional governance. Greater distance necessitates professional work to be more codified and modularized, while proximity preserves the bespoke and craft nature of much of professional work. Greater distance creates a tension in professional governance, as firms must grapple with two contrasting distance logics, namely distance-as-barrier (to be overcome) and distance-as-enabler (to be exploited). Second, we identify eight governance structures in use by PSFs which privilege one of the two distance logics (indicated in brackets), namely "best friends" relationships (barrier), offshore knowledge centers (enabler), virtual teams (enabler), offshore

+ virtual teams (enabler), online labor platforms (enabler), ecosystems (barrier), decoupled regional PSFs (barrier), and globally integrated PSFs (enabler). We demonstrate that over time, two logics wax and wane due to factors such as developments in digital technology (including generative AI) and geopolitical trends, leading PSFs to shift their governance structure from one form to another. When the logic of distance-as-enabler is prioritized, PSFs choose an organization structure that is more unified at the global level. By contrast, when the logic of distance-as-barrier is upheld, PSFs give greater autonomy to local units, or else establish regionally autonomous partnerships with loose connections among them. These governance choices are common across all multinational corporations (MNCs) but require specific attention in professional service fields in which partnerships remain a dominant mode of governance. Partnerships generally do not scale well, compared to other forms of corporate governance, making global expansion or international presence challenging. It is for this reason that PSFs' management of distance requires specific attention.

The paper is structured as follows. First, we start with laying out the empirical context of distance in professional service delivery with a timeline and examples. Second, we provide a literature review of the three lenses, with a view to shedding light on the empirical context. Third, we combine the three perspectives into a single framework, to be used to identify current and future trends in the role of distance in professional services. Here, we also elaborate on different logics applied to distance, and distinguish between its impact on professional practice on the one hand and professional governance on the other. This framework could address key questions such as the following. Will the increasing potential of distant delivery continue in the age of artificial intelligence? What is the likely impact of geopolitics on the strategy and structural governance of professional service firms (PSFs)? And in what ways will the nature of professionals and PSFs co-evolve with their attempts to both exploit and mitigate distance?

1. Empirical Context

A variety of professional service settings – consulting, audit/accounting, legal, medical/healthcare – have been subjected to distant (geographically dispersed) delivery for at least three or four decades. This section develops a broad timeline to track the rise and fall of distance in professional service delivery. The first period (1990s) is characterized by the offshoring of repetitive tasks in the back office to low-cost location. The second period (2000s, 2010s) saw the offshoring of higher-end professional support tasks, accompanied by the globalization of providers in offshored locations themselves. The third period (ongoing) involves a relocation and reassembly of professional expertise that do not necessarily rely on labor cost arbitrage, and the decoupling and fragmentation of professional service firms (PSFs) due to the need for proximity between final markets and tech/data assets.

In the 1990s, advances in information and communications technology (ICT) led to the development of the Internet and the establishment of call centers in low-cost locations such as India (Batt and Nohara, 2009). While much of the work done was scripted customer support (e.g. changing mailing addresses for banks) and technical support (e.g. solving problems with installing a software on personal computers), the generic label applied to such work was business process outsourcing (BPO) (Kuruvilla and Ranganathan, 2010). For professional services, consulting firms such as McKinsey & Co. and investment banks such as Goldman Sachs set up their offshore "knowledge centers" in India. In a related field, legal support work was considered to be a subset of BPO, and came to be known as legal process outsourcing (LPO) (Lacity and Willcocks, 2013). Engineering services and software development, carried out by India-based companies such as Cognizant, TCS, and Wipro, were known as knowledge process outsourcing (KPO). Whilst providers in offshored locations accumulated greater capabilities over time, they were perceived to be delivering primarily low-cost support work for professionals onshore. Labor cost arbitrage was therefore a key logic in location choice.

Into the twenty-first century, a few things modified this simple labor cost arbitrage business model, and a deep dive into legal services provides an insight. In order to reduce the cost of legal work, global corporations such as GE created in-house legal teams in India, and law firms such as Baker McKenzie and Clifford Chance created their captive offshore legal centers in Manila (Philippines) and Gurgaon (India) respectively. At the same time, other law firms such as Allen & Overy and Herbert Smith Freehills preferred to create "nearshore" centers in Belfast within their home legal markets. By the 2010s, the legal process outsourcing (LPO) phenomenon morphed into a wider market for alternative legal service providers (ALSPs), with independent "law companies" such as Elevate and UnitedLex, and the Big Four accountancy firms (ThomsonReuters, 2021). At the same time, India-based providers such as Cognizant and TCS became more internationalized themselves, as they established delivery offices close to existing and new client sites.

Meanwhile, management consultancies, which had been ripe for technological disruption (Christensen et al., 2013), took advantage of fewer regulatory constraints on the delivery of work and leveraged ICT to build globally distributed client-facing teams (Ribes, 2021), with distant team members, often located in India, able to join meetings via conference call. By the mid-2010s, pairs of junior analysts and consultants, one located onshore and the other offshore, could collaborate during shared business hours, while "owning" project work during the other's off hours. This allowed near continuous work, enabling quicker turnarounds, and increasing the scope of work consultancies could take on. Moreover, the increased visibility of offshore talent allowed firms to recruit top performers to transfer to onshore offices. In addition to providing an incentive to offshore staff and access to a latent talent pool, the use of such transfers reduced cultural friction between onshore and offshore offices making managing global firms more feasible. More recently, as local economic opportunities have increased in offshore countries, some of these high performing consultants have relocated back to their

home countries, increasing mobility and further strengthening the ties between distant offices, in line with Saxenian's (2006) concept of “brain circulation”.

The Covid-19 pandemic and the resulting lockdown in spring 2020 was a notable shock that brought about a step change in the behavior of professionals. With no possibility of face-to-face meetings with clients and colleagues, video conferencing by Zoom, Microsoft Teams, and Google Meet came to be the norm for virtual meetings. Moreover, documents were drafted and transferred electronically, with the diffusion of e-signatures replacing handwritten signatures. Even after the end of lockdown, professionals continue to hold virtual meetings and hybrid meetings with others who may live in the same city, some of whom come into office and others stay at home. Much attention has been paid to the productivity and psychological impact of remote work, or working from home, especially among management, professional and related occupations whose work can indeed be location-agnostic (Alexander et al., 2021; Brynjolfsson et al., 2020; Yang et al., 2022).

Last and not least, developments in artificial intelligence (AI) have shifted our attention to locations, not so much of where client-facing work is done, but of where cloud computing and cloud storage are undertaken. Risks of security breaches and national protectionism have created data storage silos within countries, notably in China (with an “inside China for China” operations). Therefore, while professional service delivery may be seen to be increasingly geographically dispersed, there is a notable trend in proximity between final markets and tech/data stacks. This fragmentation resulting from hedging geopolitical risks has also led some firms to decouple corporate governance. For example, Sequoia, the US venture capital firm, split off and established separate partnerships in China and India in 2024 (Reuters 2023). This implies that venture capital investors and investment targets lie within the boundary of each country or region, with little linkages between separately incorporated partnerships.

To summarize, the 1990s saw the diffusion of electronically mediated communication with the Internet and emails, when professionals (including lawyers) became gradually more comfortable with using emails to communicate with clients about privileged and confidential information. The first two decades of the twenty-first century continued this trend with exponential improvements in computing power, cloud storage, and mobile telecommunication. The world-wide lockdown and travel restrictions that resulted from the Covid-19 pandemic led to a step-change in the comfort level with online video meetings and electronic transfer of documents with embedded e-signatures. We are currently in a phase when improvements in computing power and storage could promote remote work in professional services even further. At the same time, however, distanced delivery is challenged by geopolitical risks, leading some PSFs to rely on proximity between final markets and technology/ data assets.

2. Theoretical Lenses

This section reviews three theoretical lenses, namely global value chains, virtual teams, and ecosystems, each with a different take on how distance affects the production and delivery of services. In each, we will review the theory, key concepts, and empirical applications (see Table 1 for a summary), with a view to drawing implications for distance in professional service delivery.

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Global value chains

Global value chains (GVCs) originated from the idea of commodity chains (Gereffi and Korzeniewicz, 1994), applied to various sectors including agriculture and mining, with a policy concern for economic development, via the upgrading of suppliers located in less developed countries. More recently, as the empirical context shifted to manufacturing, notably apparel and electronic assembly, (Gereffi et al., 2005) devised a formal framework for identifying

different governance modes in GVCs. A starting point for applying a GVC perspective is the disaggregation of the value chain from sourcing raw materials to sales of final products and services. This enables the geographic dispersion of different stages in the value chain. In professional services, the notion of value chain disaggregation is of much more recent origin than in manufacturing, which saw the transformation from craft work to mass production with assembly lines in early twentieth century.

Governance is a key concept in GVCs. This is about who has the power to "drive" the value chain. GVC governance is unpacked into five modes (hierarchy, captive, relational, modular, market), ranging from hierarchy, with a lot of power accruing to the lead firm, to market, which implies a more equal power distribution. These modes are influenced by three characteristics of transactions: the complexity of information exchange, the codifiability of knowledge, and the supplier's capabilities. Between the two extremes of market and hierarchy (Williamson, 1975) lie three network forms of coordination ranging from "modular" on the market-like end of the scale, where complex information is codified; to a "relational" form of governance in the center, involving the exchange of tacit knowledge and governance by trust and reputation; to a quasi-hierarchical "captive" form that is more akin to vertical integration. Of these, relational governance (in which the buyer and the supplier are in long-term trusted relationships trading complex products and information) and modular governance (in which the two parties have clear interfaces in their division of labor) appear most relevant to professional services.

Modules could contain complex tasks within, but have clearly defined interfaces (Baldwin, 2008; Baldwin and Clark, 2000). Such interfaces define the division of labor and minimize the need for repeated interaction between consecutive stages in a value chain. Packaging tasks into modules enables distanced delivery because it removes the need for back-and-forth coordination to complete work. Put another way, distanced delivery necessitates modularity. For example in legal services, instead of a senior associate giving tentative instruction to a

paralegal down the corridor, the lawyer in London has to give a fully elaborated instruction upfront when the recipient of the instruction is sitting 4500 miles away in Mumbai.

GVC governance changes over time, as the three transactional characteristics of information exchange complexity, knowledge codifiability, and supplier capabilities shift. In particular, *upgrading*, referring to supplier capability accumulation, enables suppliers to move into higher value activities, sectors, products and processes (Humphrey and Schmitz, 2002). For instance, if a supplier develops capabilities not just in production but also in design, it has a better chance of shifting from captive governance to relational or modular governance. This governance shift enables suppliers to extract greater rent vis-à-vis their client firm, thus transforming the distribution of power in a value chain (Teece, 1986). In professional services, legal process outsourcing (LPO) providers initially provided legal support work (not legal work). But as they accumulated capabilities onshore as well as offshore, some of them came to be known as alternative legal service providers (ALSPs) whose work now include attorneys giving legal advice, earning higher profit margins than before (Sako and Zylberberg, 2019).

New vulnerabilities in globalization arising from the Covid-19 pandemic and heightened geopolitical risks disrupt international trade and logistics. In this context, international business scholars have identified multinational corporations' response in the form of "decoupling", defined as the process of weakening interdependence between two nations or blocs of nations, with specific attention given to China-US relations (Cui et al., 2023; Witt et al., 2023). Decoupling for firms, including PSFs, implies structural, as well as geographic, adjustments, and includes: (a) incorporating a client facing office separately in each significant final market, and (b) removing global value chains that rely on two or more locations that require decoupling. To date, globalization has brought risks as well as benefits, but firms are reflecting this awareness more explicitly when they restructure and redesign GVCs.

To summarize, applying the GVC lens to professional services enables us to examine firstly, if professional service work could be disaggregated into stages in the value chain. Next, the GVC lens applies distance (and location choice) between each pair of stages in the value chain. Thus, the distance between a firm's back office and front office via offshoring to exploit labor cost arbitrage is separate from the distance between the firm and its clients. Last and not least, professional service providers may accumulate new capabilities that affect GVC governance, shifting it towards governance modes (e.g. modular or relational) that give greater bargaining power to service providers.

Virtual teams

Virtual teams developed in parallel with advances in ICT in the 1990s (Maznevski and Chudoba, 2000). These teams allow geographically dispersed individuals to engage in cross-functional work involving interdependent tasks in order to achieve a common goal (Malhotra et al., 2007). Members of virtual teams communicate and coordinate primarily through electronic media, though most virtual teams have at least some face-to-face contact (Hertel et al., 2005). While some virtual teams are assembled to reduce costs – by mixing in comparable professionals from lower cost regions – most are constructed as a way to increase expertise by decoupling the expert from the worksite. Even prior to the COVID pandemic, a majority of organizations utilized virtual teams in some capacity (Dulebohn and Hoch, 2017) and the necessities of lockdowns in the early 2020s further accelerated their use (Hill et al., 2024) forcing organizations to rethink how they structure themselves for the future (Malhotra, 2021). Moreover, virtual teams may cross organizational boundaries, with members drawn from different firms, working together to deliver major projects.

In comparing virtual teams to physically co-located teams, scholars have delineated advantages and disadvantages (Ebrahim et al., 2012). Among the advantages to the organization are the ability to assemble teams that draw on the expertise of geographically

dispersed professionals and leveraging time zone differences to enhance productivity. If members of the virtual team are strategically located near clients, quicker response times and reduced travel costs may also be possible (Hertel et al., 2005). As intrinsic features to the virtual team concept, these advantages are typically taken for granted in the literature.

However, scholars have identified many challenges in effectively utilizing geographically dispersed virtual teams (since co-located teams also use electronic communications, geographic dispersion has become a defining feature of virtual teams research). For example, in contrast to the advantage of leveraging time zone differences to enhance productivity, temporal distance can negatively affect workers who have to coordinate both their work and personal lives across many time zones (Hill et al., 2024). Socio-demographic and cultural distances contribute to workers from distant geographies not sharing mutual knowledge ("common ground"), which can lead to failures to communicate effectively, unevenly distributed information, and differences in interpretations of the salience of information (Cramton, 2001). Studies have also found that virtual teams perform less of the socialization, courtship, and social identification activity that is typically associated with building trust (Jarvenpaa and Leidner, 1999) and that increased spatial distance inhibits the ability to repair trust once broken (Nohria and Eccles, 1992; O'Hara-Devereaux and Johansen, 1994). Moreover, scholars have found that the relationship between trust and performance is higher in virtual teams than co-located teams (Breuer et al., 2016), mitigating some of the assumed advantages.

Contributing to issues of trust and performance are dynamics that arise from the geographic configuration of the virtual team itself, independent of their spatial, temporal, or socio-demographic distances. O'Leary and Mortensen (2010), for example, find that an imbalance of the number of team members across sites can lead to "competitive coalitional mentalities", while teams with geographically based subgroups struggle with forming team identity. The

complexity of geographic distribution of the team members is further compounded by differences in labor and intellectual property law across jurisdictions (Roehling, 2017), making resolution of team conflict more difficult. As virtual teams are often constructed around the expertise of specific individuals, agnostic of their location, how team members are geographically distributed is often beyond the firm's control. Finally, at the individual level, team members may feel isolated and undergo conflict escalation that they would not have experienced on face-to-face teams (Hertel et al., 2005).

Some solutions to these challenges have been examined. For example, *task structure* (interdependence and complexity) is a core moderating factor of virtual team effectiveness. Interdependence implies that the performance of one member strongly affects the work process of other team members (Thompson, 1967). To make tasks as independent as possible, a clear division of labor could be worked out. But the whole point of having a team is that members have complementary capabilities that create synergy when brought together. If one worker hands over a completed task to another, without feedback or interaction, the two are arguably not in a team. Another approach recognizes that managing virtual teams requires leadership skills that are not just different, but often the exact opposite of managing co-located teams (Meyer, 2010). To be effective, virtual team leaders need to ensure that team diversity is understood and appreciated, and that work-life cycles are accounted for, among other tactics (Malhotra et al., 2007; Zigurs, 2003). However, the absence of non-verbal cues and body gestures in electronic communication often make such awareness difficult (Dulebohn and Hoch, 2017) and many legacy managers may lack the skill set to do and would require retraining.

The empirical context for virtual teams research range from R&D, training and development, new product development, and science collaboratories within a diverse set of industries such as telecommunication, aerospace design and medical device manufacturing.

Case studies (Sarker et al., 2018), interviews (Majchrzak et al., 2005), surveys (Rosen et al., 2006), and mixed-methods (Maznevski and Chudoba, 2000) make up the bulk of the literature, but experimental designs – often utilization of MBA or master's degree students – are not uncommon (Jarvenpaa et al., 1998; Jarvenpaa and Leidner, 1999).

Yet little work has been done specifically on the effect of virtual teams on distance and service delivery in PSFs (Gibson and Gibbs, (2006) and Levina and Vaast, (2008) both include professional service firms, though PSFs are not the focal point of either study). Within the context of a PSF, on distance, a likely consequence of virtual teams is an increase in physical, temporal, and cultural differences. Even if experts are sourced from existing offices – and there would be no such requirement to do so – a shift towards virtual teams indicates the prioritization of an individual's capabilities rather than their proximity to the client or other team members. Thus, a potential tradeoff of the virtual team model is less time on site with the client, which may hinder building trust and sourcing new business opportunities, and less time with each other, which diminishes knowledge transfer and firm identity. In addition, virtual teams require more coordination effort and more attentive leaders, both of which require firms to invest in new capabilities not directly tied to client services.

In summary, virtual teams provide an opportunity for PSFs to bring together geographically dispersed experts to best align with client needs. Depending on the locations of these experts, time zone differences may also create opportunities for around-the-clock productivity. However, significant research highlights the challenges of operating such teams. Despite these challenges, PSFs continue to deploy virtual teams, which, in aggregate, increase the physical, temporal, and cultural distances that need to be managed.

Platform-based and entrepreneurial ecosystems

Ecosystems are a distinct form of governance that could be applied to a variety of contexts including market transactions, innovation, startup ventures, and ecology (Jacobides et al.,

2018). In social sciences, the notion of ecosystems became popular due to a realization that a constellation of actors and stakeholders, rather than just buyers and suppliers, needs to be taken into account in understanding how value is created and sustained. We first discuss a subset of ecosystems, namely platform-based ecosystems (Kretschmer et al., 2022; McIntyre and Srinivasan, 2017), before discussing ecosystems involving venture startups.

In innovation and technology studies, a platform is conceptualized as an interface that can serve to mediate transactions between actors, and/or facilitate innovative activities (Cusumano et al., 2019). A platform ecosystem refers to a community with the platform leader and its network of complementors that produce complements to enhance platform value. Technology firms such as Apple and Google are platform leaders, and app developers are complementors. The platform-based ecosystem is bound together by design rules and an overarching value proposition (Kretschmer et al., 2022), in which complementarities and co-specialization are considered major forms of synergistic value proposition. Complementors that develop products and services using a platform can formulate alternative strategies to capture value for themselves (Gawer, 2009; Gawer and Cusumano, 2002).

While the global presence of platforms may be noted, the platform-based ecosystem literature rarely acknowledges geographic distance or location-specific advantages in their research. This may, in part, be due to the view that digital means virtual. This lack of geographic focus is reflected on generalist online labor platforms, which facilitate the crowdsourcing of talent, such as Amazon Mechanical Turk, Upwork, and Fivrr. These services boast global talent pools but only make vague reference to the values of such – perhaps due to the seemingly contradictory consumer messaging of high quality and low cost. Even platforms for professional work, such as Lawyers on Demand, make little reference to the role of geography for freelancers despite different regulatory environments across regions. Instead,

both industry and literature position the model as providing more flexibility for the firm and better work-life balance for the freelancer (Smets et al., 2017).

Next, entrepreneurial venture ecosystems, as a second type of ecosystem, are more explicitly embedded in geographic locations, and are compared to industrial clusters (Autio et al., 2018). Aside from historical studies of how and when location-specific entrepreneurial ecosystems emerge (Huggins et al., 2024), our interest is in advantages of co-location once ecosystems become established, even in the age of digital technology. In particular, startup ventures and venture capital can internationalize. But especially at early stages, venture founders and their investors are co-located, in order to exploit social capital necessary to communicate difficult-to-codify private information and know-how before and after making investment decisions. One study found that "spiky globalization", noted by the intensity of venture capital flows between two regions across countries or within a country is underpinned by migration flows of entrepreneurial talent between those regions, such as Bangalore and San Francisco (Iriyama et al., 2010). Increasingly, startup venture ecosystems are relevant to professionals, not only because they advise venture founders as lawyers and accountants, but also because some professionals become entrepreneurs to exploit opportunities provided by digital technology (Autio et al., 2018; Goto et al., 2024).

To summarize, the ecosystems lens is not homogenous, providing related but separate types of platform-based ecosystems and entrepreneurial venture ecosystems. What is common between the two types is the identification of relevant actors who are not necessarily in direct transactions as buyers and suppliers, but also other actors (e.g. platform leaders and complementors, venture capital investors and venture founders). Moreover, ecosystems put an emphasis on ecosystem-wide design rules for interaction among actors (Jacobides et al., 2018). In particular, entrepreneurial ecosystems rely on social capital that is embedded in a specific

location, or bridges two subnational (e.g. city) locations that have human capital flows in the form of migration.

3. Combining three lenses into an integrative framework

Having reviewed the three theoretical frameworks, this section has two objectives. First, we compare the notion of distance and location across the three theoretical lenses. Second, we then develop a causal model of how distance and location are affected by, and affect, various dimensions of professional service delivery. Here we make a distinction between the impact on *professional practice* (how work is carried out) and on *professional governance* (how firm-level structure and governance are affected). Third, we demonstrate the utility of this causal model by applying it to two contemporary contexts, namely advances in artificial intelligence and enhanced geopolitical risks.

Distance: geographic or beyond? Bilateral or multilateral? Barrier or enabler?

In this section, we briefly review three aspects of distance that need clarifying before we can develop a causal model: whether or not distance refers to geography or also something beyond that; whether we should consider bilateral or multilateral distances from the perspective of a firm; and whether distance is a barrier to be overcome or an enabler.

Distance is evidently a geographic concept. But in much of scholarly research in social sciences, different types of non-geographic distances are identified, and in management, firms take account of them when formulating their international strategy. For example, in global strategy, Ghemawat developed a CAGE distance framework, in which the four dimensions of cultural, administrative, geographic, and economic distances matter equally when adapting products and services to local national markets (Ghemawat, 2007). In international business, multinational corporations (MNCs) entering new markets are seen to overcome "institutional distance", i.e. the degree of difference in national institutions between the home country and

the host country (Kostova et al., 2020; Kostova and Zaheer, 1999). Global professional service firms are a type of MNCs that could adapt their practices and strategic positioning to host-country jurisdictions (Faulconbridge and Muzio, 2016; Muzio and Faulconbridge, 2013). Here, institutions are not merely formal regulations; they are also normative and cultural-cognitive (Scott, 2001). In this paper, given the multi-dimensional nature of institutions, we argue that it is difficult to sum up these differences into a single "distance" measure. For this reason, we focus on geographic distance, with travel time and time zones to be taken into account. Sometimes, geographic distance may correlate with institutional and cultural distances, although this is evidently not always the case due to factors such as past colonial ties, languages spoken, and religious affinity.

Next, even if we restrict our definition of distance to geographic distance, our interest lies in the firm – a PSF – as the unit of analysis for decision-making, and any firm has multiple ties involving distance to consider, including with clients, employees, external providers, investors, and other actors. Taking account of the overall geographic spread of the firm's activities may also highlight some trade-offs and tensions. In many professional service settings, the quality of decision and advice depends on highly relational content that is often held as private and privileged. For this reason, it is considered advantageous for consultants to be embedded in client sites, for lawyers to hold face-to-face meetings, and for venture capitalists to invest within their own regions. Trust that develops over time in repeated encounters, rather than one-off transactions, is the basis for lowering transaction and coordination costs. At the same time, as PSFs globalize, proximity to clients is balanced against distanced delivery of some associated services in offshore locations or with virtual teams, making the distance from clients not the only thing to be taken into account. Multiple distances, for instance, that combine proximity (to the client) and distance (from back office operations)

within one value chain operate with a combination of different logics of distance-as-enabler and distance-as-barrier.

These different logics for relying on or avoiding distances are well articulated in the three theoretical lenses. In each, geographic distance is a decision parameter in PSF's internationalization strategy. Distance is something to be exploited or leveraged in at least two lenses. The GVC framework regards distant (offshore) locations as something to be exploited to enable value creation and capture via labor cost arbitrage. The virtual teams literature also recognizes geographic dispersion as enhancing access to global talent. At the same time, geographic distance implies a barrier to good communication and information sharing. GVCs' emphasis on proximity to client is a response to distance-as-barrier. Virtual teams have a toolkit of leadership styles and other skills to overcome cognitive and cultural barriers that arise from distance. The distance-as-barrier perspective is also central in ecosystems. In ecosystems, geographic distance, say between a venture founder and a VC investor, may be overcome by social capital ties. In both cases of virtual teams and ecosystems, location is sub-national – for example, London rather than the UK, New York or San Francisco rather than the US, Bangalore and Mumbai rather than India. Thus, instead of tracking country-to-country distances, the geographic distance we have in mind are bilateral *region-to-region ties* (across countries, but also within a country) that may be proximate or distant, that may also correlate with institutional, cultural, and cognitive distances affected by human capital flows (i.e. migration for education and work) and resulting social ties. We may do well to remember, for example, that the bilateral ties between San Francisco and Bangalore are due to immigrant entrepreneurs and investors operating in both locations, consistent with the idea of *brain circulation* rather than *brain drain* (Saxenian, 2006).

To summarize, distance-as-enabler is a logic that exists most strongly in GVCs, and also in virtual teams, while distance-as-barrier is a logic in use in virtual teams and ecosystems.

An integrated causal model of distance in professional service firms

It is clear by now that PSFs face both constraining and enabling forces from the existence of geographic distance in their operations. The tension in location decisions that arise from the two logics of distance-as-enabler and distance-as-barrier is resolved by firms' strategic decisions and is reflected in their governance structure. Before we spell out different types of resolutions, a brief description of the evolution of PSF strategy and structure, with respect to distance, may be instructive.

PSFs, such as law firms, audit firms, and architectural firms, came late to internationalization, surviving as regional (sub-national) firms that consolidated to become national firms before they crossed national borders. Regional firms served clients, individual and corporate, who were located in the same region. In legal services, large national firms first internationalized by developing "best friends" relationships with other equally ranked law firms in a different jurisdiction, so that existing clients' cross-order and international matters could be handled by making referrals firms in its network. Thus, a London-based magic circle firm, such as Slaughter & May, has best friends relationships with Cravath or Wachtell in New York City, and with a number of European law firms (Williams, 2019). As depicted in Figure 1a, the PSF-client map can be drawn within a national border, and there are dotted lines that signify informal best friends (i.e. mutual referral) relationships between PSFs in two or more different jurisdictions. In this case, the use of GVCs, virtual teams, and ecosystems are all minimal/low (see Table 2). Social capital ties between a PSF and its clients may exist within a geographic cluster or an ecosystem, but social ties among law firms and other actors may or may not exist.

INSERT FIGURE 1 AND TABLE 2 ABOUT HERE

There are two different reasons that any firms, including PSFs, wish to internationalize. The first reason is access to inputs, and the second is access to final markets. For the first reason,

firms wishing to access talent in offshore locations make use of GVCs. As depicted in Figure 1b, GVC linkages that cross national borders may be with PSFs' own subsidiary "knowledge center", or with an independent third-party provider. In this case, the use of GVCs is now high, while the uses of virtual teams and ecosystems are low. This assumes that the onshore front office located close to clients carry out work that is modularizable from the support work done by the back office offshore.

The consideration for access to global talent may also lead firms to form virtual teams, with a team for each client project (see Figure 1c). In consulting, for instance, this means that a project leader is located onshore near or at the client site, with members of the team distributed across multiple countries, not just in one offshore location; for example, talent for software development may reside in a different location from talent for sales and marketing. Now, the logic of distance-as-enabler is leveraged in virtual teams. Virtual teams with members in the same time zone can continue with synchronous communication, while teams with members in different time zones would rely more on asynchronous communication and a clear sequential division of labor. It is possible that in the latter, the use of GVCs is high as well as the use of virtual teams (see Figure 1d).

Another technology-mediated mode to access global talent is to rely on transactional platforms such as the online labor platform (see Figure 1e). In such platforms, the use of platform-based ecosystem is central, but may be combined with the use of GVCs to exploit labor cost arbitrage. Entrepreneurial startup ecosystems leverage social capital within a geographic ecosystem to function well, and does not make use of GVCs nor virtual teams (see Figure 1f).

Access to final markets – new clients in new locations – is enabled by firms creating new offices in a new country, or acquiring or merging with firms in that country. Cross-border mergers are rife among law firms, and audit and consulting firms have continued to extend

their international presence, opening practices in more emerging markets in different continents. This leads to a situation in which some low-cost locations that had initially been chosen as offshore locations become also locations for final market access. The logic of distance-as-enabler has come full circle to specify the same location for access to both inputs and final markets. In this case, GVCs is now low, while virtual teams may or may not be relied upon, and the use of ecosystems is high. This form of PSF may be called a decoupled regional PSF (see Figure 1g), in contrast to a globally integrated PSF in which the uses of GVCs, virtual teams, and ecosystems are all high (see Figure 1h).

The above account picked on specific combinations of the three theoretical lenses that are empirically prevalent, and our next task is to identify the factors that lead PSFs to choose one type of organization structure over another. The choice may arise with external factors such as geopolitics and technology, but it is important to remember that the successful adoption of each structure requires adaption to the service delivery model. For instance, generally distant delivery requires greater codification and modularization of professional work, without which the nature of offshore-onshore interaction would have to be iterative. Moreover, time zones affect the nature of interaction, whereby being in the same time zone facilitates synchronous interaction and communication, regardless of distance (e.g. the UK and South Africa). These considerations give fine-grained nuance to a simplistic notion that the non-modular and tacit nature of professional knowledge requires proximity, or that the client's demand for customized advice undermines the potential for exploiting distance in professional work.

Our causal model facilitates an explanation of the co-evolution of professional practice and professional governance. In particular, best friends relationships leave bespoke and tacit professional practice untouched, whereas the use of offshore knowledge centres and online labor platforms requires a shift to modularizing and codifying some aspects of professional

work. Virtual teams afford a variety of interdependent tasks within a team depending on time zone, leadership style, and trust within the team. Globally integrated PSFs require global standards in professional work quality, whereas decoupled regional PSFs could afford some variation in professional practice from region to region. These implications of professional governance for professional practice are evident in Table 2, in which the distance-as-enabler logic promotes codified and modularized practice, while the distance-as-barrier logic facilitates tacit and customized practice.

Strategic and structural responses by PSFs

In order to highlight some key causal factors that lead PSFs to shift from one governance structure to another, we now turn to applying the above causal model to specific pressures for change, starting with artificial intelligence (AI), then responding to geopolitical risks. This exercise highlights the shift from one distance logic to another, as explained in Table 2. In short, AI has reduced the importance of distance-as-enabler, at least in so far as labor cost arbitrage is concerned. Moreover, geopolitical trends have increased the salience of distance-as-barrier.

1. *Artificial intelligence*

As noted earlier in this paper, much of the initial outsourcing of work was to exploit opportunities for labor cost arbitrage. Artificial intelligence (AI), and specifically generative AI, can now perform many of the operations the offshore offices were designed to take on. Instead of a lawyer in London giving fully elaborated instruction to a recipient based in India, the lawyer can now query the generative AI software from the monitor on her desk in the office or at home. Using chain-of-thought prompt engineering, legal work becomes more conversational, like querying another lawyer in the same room.

The use of digital technology, and AI in particular, may therefore open the possibility of re-onshoring of the BPO, LPO, and KPO work that had been offshored in the 1990s and early

years of this century. And reshoring is due, not simply because work done by low cost labor is substituted by machines, but also because machines augment onshore professionals' work. This would alleviate challenges associated with both temporal and cultural aspects of virtual teams and may reduce operating costs. Regulatory, cyber security, and data privacy requirements may further drive this transition as it may not be permissible, in the eyes of governments and/or clients, for the data used both in training and communicating with large language models (LLMs) to cross national borders. As a result, while all digital technology is distance-agnostic, AI in its current state of technology with concerns about safety and trustworthiness might lead PSFs to contract, rather than expand, its reliance on distant delivery. Counterintuitively then, advances in technology may lead to a more decoupled regional or national PSF structure akin to the traditional professional service model, in which loosely connected offices primarily service local clients under the banner of a global brand name.

Will the increasing potential of distant delivery continue in the age of artificial intelligence? Our answer for now is that the conversational and interactive nature of generative AI software including GPT4 highlights the importance of proximity between humans using and interpreting the software tool and humans giving advice to clients using machine outputs.

2. *Geopolitical risks*

Apart from the technological characteristics of generative AI for professional service use cases, the storage of data for training AI models within national borders has become an important consideration for geopolitical reasons. The US and the EU, for example, are at different stages in developing AI regulation, with the EU AI Act ("EU AI Act," 2023) creating binding sets of rules based on defined risk categories while the US has a patchwork approach of executive orders and laws (House, 2023a, 2023b) that as of today remains more friendly to the AI industry (Ryan-Mosley et al., 2024). Meanwhile, China has thus far has taken a piecemeal approach, creating product-specific regulation when new products emerge, though

a more comprehensive system may be forthcoming (Yang, 2024). These regulatory frameworks may lead to different regional rates of AI product development as well as limit the transferability of AI technology over concerns of national defence. The race for AI talent (Mozur and Metz, 2024) may also create imbalances in the ability to develop and implement AI in professional services based on local availability of capable workers.

Finally, LLMs may perform best when trained on large sets of native language documents (Du et al., 2024) and thus the models and tools available might also be location dependent and not work well across offices office of global firms. These conditions suggest that national goals may vary and that tensions may arise between regions where different policies are in place. This fragmented environment may favour firms consolidating operations within national boundaries and may lead to a governance model of regionally autonomous partnerships with loose connections among them.

There are of course some caveats to a focus on governance structure in this section. In particular, structural alignment may be necessary but not sufficient to bring about collaboration within virtual teams. Evidence exists that shared goals and social norms are also necessary for collaborative communities to emerge (Adler et al., 2008) and virtual teams to function well (Ben-Menahem et al., 2016). Also, we largely ignored the shifting boundaries of PSFs, whose governance structures are becoming complex not only with global presence, but also because international expansion takes place via diversification into multiple service lines (e.g. the Big Four with a legal advisory subsidiary, or consulting firms with an AI technology subsidiary).

Notwithstanding these complications, a combination of AI technology (with its heavy reliance on data) and geopolitical risks has led PSFs, and other MNCs, to rely less on distanced delivery using GVCs and virtual teams in recent years.

Discussion and conclusion

In this paper, our aim was to clarify various causal mechanisms attributed to distance in professional service delivery. Geographic distance is a physical fact, but it is often a proxy for other kinds of distance. We focused on geographic distance to clarify the two logics of distance-as-enabler and distance-as-barrier which exist in varying degrees in the three theoretical lenses we chose to review, namely global value chains (GVCs), virtual teams, and ecosystems. Combining these three frameworks enabled us to identify eight organizational governance structures in use by PSFs. Each *professional governance* structure is associated with specific types of *professional practice*. For instance, distanced delivery via offshoring or in virtual teams, particularly if asynchronous due to different time zones, render professional service work packages to be more codified and modular, whereas proximity and/or synchronous interaction enable professionals to engage more effectively in complex work involving interdependent and at times tacit tasks. To fully develop a causal model of why PSFs shift from one structure to another, we need to identify a list of key factors that facilitate or pressurize PSFs to adopt each structure.

Short of a full causal model, we road-tested the model by applying it to the contemporary context of generative AI and geopolitical risks. We find that the nature of professional work and practice have changed as a result of both digital technology and the adoption of offshore knowledge centers by exploiting distances. The most recent phase of technological advances, namely generative AI, and geopolitical trends, shift PSFs' attention away from use of the distance-as-enabler logic towards the distance-as-barrier logic.

There are of course some limitations to our study, which can be highlighted here by making explicit its scoping conditions. First, we focus on geographic distance, that tends to be bilateral rather than multilateral. In reality, PSFs face multiple clients and offices with different distances, and it is possible that aggregate distances and the number of distant relationships

matter in our proposed governance structures. Second, by focusing on geographic distance, we did not fully elaborate its multidimensional character, with associated institutional and cultural distances. Third, while we account for the impact of time zones, we otherwise do not factor in the magnitude of distances nor the physical terrain that exist in covering those distances (e.g., whether travel is possible by car or flight) which may in turn have an impact on in-person meeting frequency. They become important if the number of distant relationships contributes to PSFs choosing their governance model. Future studies could take on these issues.

In conclusion there have always been tensions between lowering transaction costs by exploiting advantages of coordination at distance and doing so from trust in proximity. PSFs, as they internationalize, have learnt to balance between expanding distances with the distance-as-enabler logic on the one hand, and consolidating distances with the distance-as-barrier logic on the other. Managing distances via making location choices can be fluid in strategy and structure. But in the current geopolitical and technological climate, the balance has tipped towards consolidating (rather than expanding) distances.

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Table 1. Summary of Key Theories, Concepts, and Implications for Distance

Theoretical lens	Key insights	Key concepts	Implications for distance and location	Examples in professional services
Global value chains	Disaggregated steps in service delivery can be geographically dispersed, to take advantage of low-cost locations, and/or to be proximate to final markets.	Governance (hierarchy, captive, relational, modular, market) Upgrading (of capabilities) Modularity	Location chosen to access low-cost labor Location chosen to access final markets	"Knowledge centers" in consulting and investment banking "In China for China" firms in venture capital.
Virtual teams	A group of experts located across geographies, engaged in executing work that requires within-team coordination and collaboration, mediated by digital technology.	Task interdependence Shared goals	Broad geographic coverage to access expertise and talent	Global delivery teams in consulting Virtual teams in R&D Hybrid teams that turn virtual or co-located at different project phases
Platform-based and entrepreneurial ecosystems	Platform leaders (owner of digital platforms) can have global presence, capable of orchestrating complementors to create value for the platform Location-specific entrepreneurial ecosystems with stakeholders who interact using social capital and networks	Platform leaders Complementors Complementarities Network effects Co-location advantages Social capital	Wider geographic coverage to access talent Co-location to exploit social capital Migration flows between regions build social capital	Online labor platforms (e.g. Upwork, Fiverr, Lawyers on Demand) "Best friends" network of law firms (e.g. between Slaughter & May and Wachtell)

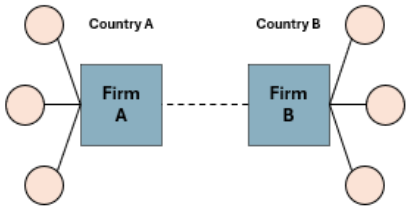
Table 2: Organizational Structures arising from Different Uses of Distance Logics

Structure Name	Degree of Use (H/L)			Dominant Distance Logic	Resulting Proximity to Client	Degree of Dispersion within the Firm
	GVC	VT	Ecosystem			
Best Friends Relationship	Low	Low	Low	Distance-as-Barrier	Near	Low
Offshore Knowledge Centers	High	Low	Low	Distance-as-Enabler	Near	High
Virtual Teams	Low	High	Low	Distance-as-Enabler	Mixed*	High
Offshore + Virtual Teams	High	High	Low	Distance-as-Enabler	Mixed*	High
Online labor platforms	High	Low	High	Distance-as-Enabler	Far	High
Entrepreneurial Ecosystem	Low	Low	High	Distance-as-Barrier	Near	High
Decoupled Regional PSF	Low	High	High	Distance-as-Barrier	Low	Low
Globally Integrated PSF	High	High	High	Distance-as-Enabler	Mixed*	Low

***** Virtual teams can be utilized to create small offices near clients that are supported by staff located distantly, or simply to bring together distant professionals to service a given client, regardless of location

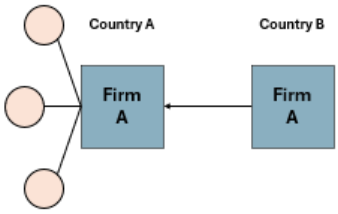
Figure 1: PSF-Client Maps of Organization and Governance Structures

1a. Best Friends Relationship



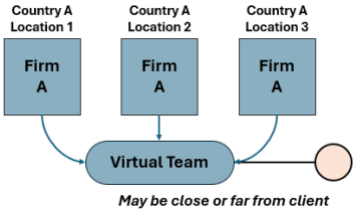
A PSF only services clients within their local jurisdiction but builds a referral network to pass along clients with needs in other jurisdictions

1b. Offshore Knowledge Center



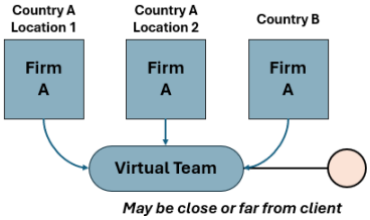
A PSF builds an offshore office in Country B to take advantage of labor cost arbitrage, while still supporting the client through locally sourced teams

1c. Virtual Teams



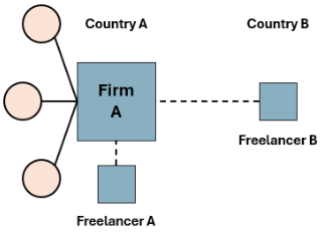
Clients are served by PSF teams working together virtually from multiple office locations; Offices may lie within or span across countries and may not be equidistant from client

1d. Virtual Teams & Offshoring



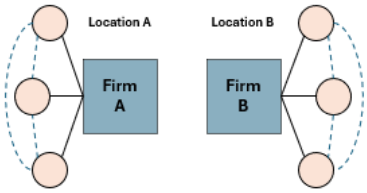
Clients are served by PSF teams working together virtually from multiple office locations, some of which are in an offshore office in Country B

1e. Online Labor Platforms



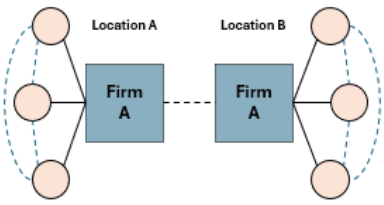
A PSF services clients through local offices but augments local staff with freelancers sourced on online labor platforms to take advantage of labor cost arbitrage

1f. Entrepreneurial Ecosystems



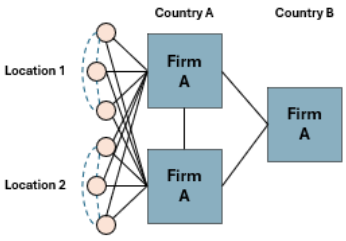
A PSF is embedded in a local ecosystem; business is based on local knowledge and referrals among PSFs and clients which may be startup ventures

1g. Decoupled Regional PSFs



A PSF has multiple offices, each serving a local ecosystem; loose ties and virtual teams can be created across offices to provide expertise on an as-needed basis

1h. Globally Integrated PSFs



A PSF has multiple office locations supported by offshore support; local area knowledge is supported by expertise provided through virtual teams