the idea of 'using marketing' is ludicrous. You are marketing whether you know it or not, it is just that those firms ahead of you understand it better and do it better. Marketing and a marketing culture are fundamental to the PSF and the sooner this is accepted the better it will be for your firm and its people.

*Development in China's Accounting Industry*

At the third plenum of the 11th Central Committee of the Chinese Communist Party in December 1978, one of the important decisions made was provisions to allow the development of private businesses and foreign investment ventures in China. The direction to implement a socialist market economy made it necessary to revive the CPA profession. In December 1980, the Ministry of Finance (MoF) issued a preliminary set of guidelines governing the accounting practice, 'Provisional Regulations Concerning Establishing Accounting Firms'. It marked the beginning of public accounting practice in China.

In 1986, the State Council published the 'Regulations of the Peoples Republic of China on Certified Public Accountants', the first legal framework governing the management of accounting practices in China. The regulations covered matters concerning examination, education and experience requirements, registration, scope of business and professional guidelines to be observed by CPAs. By July 1986, there were 500 CPAs and 80 CPA firms providing auditing and accounting consulting services, mainly for foreign invested enterprises. By the end of 1988, the country recorded some 3,000 CPAs and 250 CPA firms.

Towards the end of 1988, the industry's regulatory body, the Chinese Institute of Certified Public Accountants (CICPA) was established. It fell under the jurisdiction of the MoF. During the early years, CPA firms were sponsored by either government bureaus or some large State Owned Enterprises (SOE) and hence their independence was compromised. In 1992, the MoF moved to restructure accounting firms in China, and in a few years time all firms became independent. The number of CPA firms fell from over 6,000 to 4,800 after the structural reform. This was the result of mergers in order to cope with the stringent regulatory requirements. In January 1994, the 'Law of the PRC on Certified Public Accountants' aimed at standardising the industry was implemented. Shortly after the new legislation, the Institute of Auditors and CICPA joined forces to consolidate legal regulations, practice standards, and administration between the two disciplines. Unification was complete in 1995.





**Convergence with IFRS**

In 2006, there were 6,289 CPA practices, out of which 618 were branch operations of a registered firm in China. Total market captured by the top 100 CPA firms was valued at RMB 11.81 billion, of which over 7 billion went to the top 10 firms, including the Big Four. Over 53% was captured by the Big Four. Beyond the top 100, the market was rather fragmented. Despite the number of CPAs China has trained, the industry was constrained by the number of CPA professionals qualified to practice in the country. At the end of 2005, out of 10 million people who had obtained the Accounting Qualification Certificate, only 140,000 people had acquired the CPA qualification. Out of this, only half were practising professionals registered with the CICPA. The top 100 CPA firms as a whole recorded 14,719 CPAs under their payroll, with the Big Four accounting for 1,671 of them. A survey reported only 70 firms had more than 40 employees in 2000, and for local practices, there were less than a handful of 20 firms which had more than 60 employees.

In February 2005, China announced that by 1 January 2007, all listed companies would have a single basic accounting standard. The move was welcomed by the foreign investment community as it meant improved transparency and financial disclosure in the balance sheets of Chinese companies. The imminent convergence with IFRS made the problem of short supply of qualified professionals even more acute. For indigenous firms, the immediate issue was to come to grips with the new rules and regulations that went into effect in January 2007. The MoF signed up overseas professional bodies, such as the UK's Institute of Chartered Accountants in England and Wales, to provide training for some of the country's most promising accountants. Ernst and Young introduced a program recruiting Chinese graduates from the UK and putting them through a professional qualification program conducted by the Institute of Chartered Accountants of Scotland. They would then be placed in the firm's Chinese offices. Even so, supply still fell short.

In spite of the Chinese government's pledge to drive development of a strong global network, the international financial markets had yet to let go of its bias towards an indigenous Chinese audit firm. In the financial services market, selection of an audit firm was not always a straight forward matter. While cultural affinity and client knowledge were important considerations in the appointment of an accounting firm for Chinese enterprises, they were not the sole decision makers when a SOE sought an offshore listing.

(Source: Chan, C (2008) Against the Big Four: Growth Strategies for Indigenous Chinese CPA Firms. Asia Case Research Centre, The University of Hong Kong) as well as potential partners and alliance structures. These are all marketing questions because the type of entry mode and alliance partner you select has a direct impact on the target markets served and the future viability of the venture. For example, research shows that over 50% of alliances fail and that many more do not realise the benefits that the parties had anticipated or desired. There are a number of factors that cause such poor results and although one cannot isolate one factor, research shows that if each party has a strong marketing mindset and understanding of their objectives before entering the alliance, the chances of success are much higher.

Some 50 years ago, Peter Drucker, probably the most influential management writer of our time, stated that an organisation has only 2 primary functions: marketing and innovation and that all other functions are costs. Implicit in this quote is that the primary function of any firm is to create and satisfy customers as without customers there is no firm. In the past, a take or leave it attitude may have sufficed within the PSF but in today's new environment, understanding and being responsive to customer needs is absolutely crucial. It is here that marketing comes to the fore. Research has demonstrated time and time again that a market orientation is the key determinant of business performance. Note the word market as opposed to marketing orientation. The difference is more than semantics. A market orientation is a much broader term that is concerned with a firm's understanding and response to the environment and how an organisation coordinates its internal functions to meet the needs of the market. It is this perspective that is so crucial to the PSF because traditionally most professional firms are inwardly focused and more concerned about efficiency and leverage than innovation and effectiveness. Additionally, since promotion is often perceived negatively by professionals, the term market orientation expands the concept of marketing and helps alleviate the negative connotations that marketing so often has within the PSF. It is important to stress again that marketing is about client value and that promotion is about communicating that value, but advertising is certainly not the only way to do so. A classic example is the success of The Body Shop. Founded by Anita Roddick in 1976, The Body Shop went from one shop to a multi-million dollar business that was listed on the stock exchange within 10 years without a single dollar being spent on traditional advertising. Public relations and environmental advocacy became the cornerstone of their promotional efforts. But imagine if The Body Shop had been selling traditional cosmetics (as opposed to the all natural product category it literally invented), would it still have been so successful? Probably not, because where there were a multitude of cosmetic manufacturers in the market





that had substantial resource advantages when compared to The Body Shop, it was their ability to identify a need in the market and create customer value that truly differentiated their firm from others. This is true marketing, creating and delivering customer value. This example should make clear that marketing cannot be turned on or off as this would be like saying, it doesn't matter what I eat as all food is the same. If you have a firm, you are involved in marketing whether you know it or not because to some degree you will be creating and delivering value to your clients, but just like your diet, whether you are doing a good job or not will depend upon your level of marketing discipline and effort. One must always remember that marketing is about clients and client satisfaction and not promotion. There is a substantial difference between marketing substance and marketing trappings. An increasing number of PSF are producing fancy brochures, web sites and for the larger ones, even hiring dedicated marketing staff. These are the trappings of marketing because without the value in place and true partner/firm wide support, a marketing mind-set and culture (which is the acid test of marketing substance) will never be allowed to flourish, and then meeting the needs of today's competitive situation will be a frustrating road to mediocrity and obsolescence.

There are many barriers to the whole-hearted adoption of marketing in the PSF and one cannot simply lay the blame with the restrictions created by professional bodies as these restrictions govern basically promotion, there is no code stating that you cannot deliver superior client value. Research conducted in Hong Kong shows that many CPA firms still equate marketing with promotion and believe it detrimental to the image of the professions. It will be a challenge of professional services marketing for years to come before this association is changed. This image is particularly prevalent in the more senior firm professionals and partners and it is at this level where support for the development of a marketing culture is most needed. Work conducted in New Zealand shows that most law firms are concerned with technical quality rather than service quality. Although both are certainly important, preoccupation with inward thinking is a dangerous game. Other research in the UK suggests that practitioners believe that marketing takes too much time and resources when 'other' things are more pressing. Again, the problem lies in the fact that these professionals have a fundamental misunderstanding of what marketing is and how it contributes to firm performance as what could more important than serving clients and maintaining relationships?

As is evidenced by the progression of PSF competition in the US and other places, the environment for the professional service provider will only become more challenging within the Asian region. Greater

## I Marketing Culture in the PSF—What it Looks Like

It should be clear now that adopting a marketing culture is not about the few rainmakers in a firm (assuming such people exist). It is about a firm-wide commitment and adoption of the belief that clients and client value should be at the heart of the firm's activities and processes. In other words, marketing is 'how we do things around here'; it is an organisational culture. More formally, organisational culture can defined as a shared pattern of beliefs and behaviour that are both explicit and implicit.

According to Bruce Marcus and August Aquila in their book, *Client at the Core*, building a marketing culture in professional services requires:

- Top management support
- Good marketing professionals
- Education
- A marketing structure within the firm

Research in the architectural industry by Morgan, Foreman and Poh (1994) state that the four major hurdles to implementing a marketing effort are:

- Ensuring all staff are trained in the fundamental advocacy of marketing in satisfying customer needs
- Recognizing the need for an integrated marketing approach using grounded market intelligence on which optimal decisions should be made
- Firms top management and partners providing a consolidated commitment to marketing
- Active involvement at all hierarchical levels in the formulation of marketing plans so that successful implementation can be enhanced

One can see from such requirements that it is not simply a 1–2–3 step process. Rather, it requires attitude and behaviour modification. In a revealing study, Lloyd Harris studied the barriers to adopting the ideas of marketing in both law firms and accounting firms. He found that resistance by seniors, professionalism conflict, lack of expertise, and structural difficulties to be some of the key obstacles in adopting more of a marketing mind-set. These areas fit very well with the four requirements suggested above by Bruce Marcus and August Aquila. This highlights the very important fact that instilling a marketing culture is as much a management and leadership issue as a marketing one. One cannot expect a firm-wide adoption of the marketing concept without top management support and strong leadership. What PSF is going to change its structure to a client centered or industry structure without it being pushed through by the most senior people within the





firm? The lack of expertise can be overcome with outside help as well as the hiring of marketing professionals. These professionals can act as change agents or catalysts for the changes that are needed with the support of top management. Linda Tay and Neil Morgan (who analysed market orientation in surveying firms) suggest two crucial factors that can aid a PSF in adopting a stronger market orientation:

- A greater risk tolerance among senior managers
- Careful organization of the marketing function

In their study of surveying firms, the authors found that in order to develop and accept innovative and client oriented changes in service and structure, senior managers had to be more willing to try new things and not be threatened by change. Unfortunately, in the PSF, resistance to change is legendary, particularly amongst seniors, yet without their support, enduring change will not happen nor be successful. It is here where the PSF differs substantially from traditional service firms or other commercial organisations. Senior managers within these firms are exposed to the ideas of marketing so much more than those within the professions and hence there is a marketing tradition and a willingness to accept risk. In the PSF, there is no such tradition. Rather, there is a tradition that the PSF serves its clients altruistically and that marketing is something we neither need nor do. Such an attitude leads down one path: extinction. Recent research by McKinsey shows that only the most profitable law firms will survive due to the ever increasing competitiveness of the professions.

Most successful marketing efforts of professional service providers also ensure that somebody within the firm has overall responsibility for the marketing function. This is usually with the appointment of a marketing director or manager. Even if this is not feasible within a small firm, someone must be given ultimate responsibility in this area. The danger here is that the partners in the firm hire a marketing person and then wash their hands off marketing and think that the issue is now settled, a 'we can leave it to him/her' attitude. This is not going to work. In the cases I have seen in Asia, too many marketing staff are given responsibility for external marketing activities (such as promotion) and not enough to guiding the strategic direction of the firm through internal activities such as training and development for all staff to understand their role in delivering client satisfaction. Moreover, adopting a marketing culture requires integration of people and information across the entire firm and at all levels. This will not happen by itself and certainly cannot be the sole responsibility of the marketing department. Another area that comes up is the coupling of marketing and business development (BD). In some firms, it is deemed briefing and hence will probably have to revise more frequently than was necessary. In this instance, the cost of being able to turn around drawings in 24 hours may be quite high (greater staff numbers, overtime pay, use of freelancers etc) and this may be reflected in the price paid. However, from a client's perspective, the fact that their needs were not fully listened to and acted on in previous briefings will feel like poor service even though the architect acted quickly. The client would probably have preferred to wait two days yet have the architect get it right. This example highlights the key issue in service quality. Focus on the needs and wants of the client and do not add in superfluous services that are fancy but not valued by clients and ones they are not willing to pay for.

In his book, *Practice What You Preach*, David Maister showed that quality and client relationships accounted for significant variations in the financial performance of lower and higher performing professional service firms, more than any other individual factor that he measured in his research. Service quality can generally be thought of as the relationship between client expectations and the perception of what was delivered (known as the perception gap). Additionally, one may break down service into a process component and outcome component. A client will judge the outcome of the service in terms of what was promised but also the process and how well the client and service provider worked together. The client may quite easily switch to another provider if he or she was unhappy with the process even though the outcome exceeded expectations.

Valerie Zeithaml and Mary Jo Bitner have come up with the most widely used and accepted model of service quality for services. According to these authors, service quality has five dimensions:

1. Reliability—ability to provide the promised service dependably and accurately
2. Responsiveness—willingness to help customers and provide prompt service
3. Assurance—employees knowledge and courtesy, and their ability to inspire trust and confidence
4. Empathy—caring individualized attention given to clients
5. Tangibles—appearance of physical facilities, personnel, and written materials

Research into these dimensions has been carried out in a number of service settings including professional services, and found to be relevant. The idea is that clients, when attempting to analyse the service experience and quality, will consider these different dimensions and perhaps even mentally, assign some sort of rating or evaluation. These dimension ratings are likely to be built up over a number of encounters







and over some time. These encounters are often referred to as moments of truth, the instances of interaction between the firm and client. It does not matter whether these moments of truth occur in a face to face setting or otherwise, it is these interactions that will determine the client's perception of service quality. In reality, a firm can measure the level of client satisfaction with what is known as the SERVQUAL scale. This is an instrument that uses an inventory of questions related to the five dimensions that can be used to objectively measure the level of service quality as perceived by the client. The difference between client expectations and perceptions (perception gap) represents the deviation between what should be and what is. It becomes clear then that having an understanding of client expectations and ensuring that the firm and client perceptions match is very important. Hence, creating measurable performance indicators and setting expectation guidelines prior to the start of a project can be highly valuable in improving client satisfaction.

Aside from the dimension of reliability, it is apparent that the dimensions focus on process quality. This is of particular importance to professional services where the outcome quality is often hard to judge. Zeithaml and Bitner provide a number of suggestions about how a service provider can influence client expectations. These are depicted and adapted in Table 4.1 along with specific strategies and how they may relate to the five dimensions discussed in relation to a PSF.

***Table 4.1 Influencing Client Expectations***

| Controllable Factors | Influence Strategies for the PSF | Quality Dimension |
|---|---|---|
| Explicit service promises | Make realistic and accurate promises that reflect the actual delivered service rather than some ideal<br><br>Elicit feedback from clients and others on the accuracy made in promotions and selling<br><br>Avoid direct competitive wars in price and service that escalates into over promising | These factors will have a big impact on perceived reliability and responsiveness. Do not over promise in an attempt to win business and refute your competitors claims if they are unrealistic. Work with the client to specify the key deliverables to manage their expectations |

may not understand fully what was offered and if problems arose, whether they were handled competently. In the traditional marketing text, service marketers are told to make tangible their service offerings so clients can use these 'tangible cues' in their decision making. So for example, one would not expect a lawyer to be located in a shopping mall and wearing jeans and t-shirt (although this can be seen in the US). This is fine, except that if we do not know what these tangible cues are, the PSF is shooting in the dark somewhat when trying to gauge what clients look for and what criteria they use to judge a firm pre- and post- purchase, when a project is completed.

Two major questions face PSF marketers:

1. Who participates in the buying process and what influence do they have?
2. What criteria are used pre- and post- purchase to evaluate a firm?

When considering who and how different people in the client firm influence the decision process, one needs to consider the nature of the purchase. A straight forward audit year after year is not going to elicit the same type of consideration from the client that the appointment of a provider for specialist tax advice in a foreign subsidiary. When selling legal services to a large multinational, the in-house lawyers will play a major role, yet when dealing with a medium or small sized firm, the owner/MD will probably be the key person. One must also consider people outside the organisation who influence the decision process of the client firm. For example, when assessing the competence of a firm, one may rely heavily on the tangible cue of recommendations (word of mouth marketing). These recommendations may come from business advisors, friends, or other industry/association professionals. The point is that you cannot simply limit your marketing efforts to the target firm if other factors have a major influence on their decision. Within the client firm, there will be a group of people (known as the buying centre) that potentially influence a buying decision. These people will probably be at different levels of the firm and in varying positions/departments. It is crucial for the PSF marketer to identify who these people are, what influence they have, and what kind of information/criteria is likely to sway their decision making. For example, one of the major trends affecting law firm services and purchasing is convergence. Large firms worldwide are culling the number of firms they deal with in an effort to improve their efficiency in dealing with outside firms. In order to get on that list of say 100 approved firms, the law marketer must have a deep understanding of what is driving the decision process and whom. If you are trying to become a legal





provider for McDonalds, which has numerous in-house lawyers, you may be wasting your time marketing specifically to the GC as he/she may not be involved in the decision making for matters that are not critical. If it is an intellectual property issue, then that is the person you may need to direct your efforts at. For the user of law services within the client firm (ie in-house counsel, specific department managers), they will want to ensure the firms they use are easy to work with, responsive, and provide access to a senior level partner who can answer their queries quickly and effectively. However, the user may not necessarily be the buyer or decider; in a smaller firm this would most likely be the MD and other senior staff such as the CFO. In larger firms, it may also be the CEO (depending on the significance of the purchase) as well as division heads. One of the major considerations for the buyer will be the price structure and terms of contract. No one wants to sit through pages and pages of hourly billing documents that make little sense or have little application to the work that was done. This has led recently to the concept of value billing. Many client firms are insisting that law firms and other professional service providers do away with billable hours and move towards fixed fee contracts and other similar structures that simplify the pricing process and even provide lower fees based on the promise of more work. This may sound like discount pricing for a bulk purchase and in some ways is. But the PSF marketer must understand that the commercial practices and terms that their clients are accustomed to using are practices they may have to adopt due to client pressures. There is nothing wrong with moving to value based pricing if it simplifies matters for both client and firm. In complex buying situations, deciders (often senior officers) want to know the value that the firm brings in resolving problems. Being able to articulate a clear value proposition based on the competencies of the firm is crucial if the PSF expects to be chosen ahead of its competitors. For example, a law firm may have specialist knowledge and substantial experience in M&A's and hence it becomes important to be able to communicate that to the client in a way that identifies the value and benefits that the client seeks. Having an appropriate target market and clear value proposition based on organisational competencies makes it much easier to stand out in the crowd and improve tender success rates. It will also make it much easier to target your communications to those involved in the buying process and hence influence them in a way that matters.

In terms of criteria used to judge a professional service provider, existing marketing texts geared for the professional services have two problems. Most of them use anecdotal information such as, understand client needs and be professional, advice that I am sure today is well of work) and company reputation may be crucial at the early stages when client uncertainty is at a high.

When looking at existing evidence in the evaluative criteria being used by purchasers of professional services, it tends to come back to three or four key areas, depending on where the research was done and which professional services were examined. Work done in the US (Day and Barksdale Jr, 1992) identifies four dimensions that are considerations in selection in the A&E industry. These are identified in Table 5.1 along with research that has been conducted in Hong Kong and Singapore.

***Table 5.1 Evaluative Criteria for the Selection of Professional Service Providers***

**Study A**
*Experience, Expertise, Competence (ie management, reputation, visible and active principals)*
*Understanding Client Needs and Interests (ie knowledge of project beyond RFP)*
*Interaction, Relationship, Communications (ie trust, team work, listens)*
*Contractual/Administrative Conformance (ie efficiency, on schedule)*

**Study B**
*Background of Firm (ie reputation, experience)*
*Past Performance (ie time and cost control)*
*Capacity to Accomplish Work (ie qualifications, personnel)*
*Project Approach (ie time schedule, work quality)*

**Study C**
*Technical Capabilities (ie experience, resources, creativity)*
*Management Capabilities (ie competence and service delivery systems)*
*Financial Capabilities (ie soundness)*
*Quality Attitude (ie quality control)*

**Study D**
*Task Performance (ie experience, creative)*
*Contextual Performance (ie social skills, conscientiousness)*
*Network Factor (ie reputation, relationships)*

(Sources:
1. Day E and Barksdale Jr HC (1992), How firms select professional service providers,Industrial Marketing Management, 21, 85–91.
2. Ling Y.Y (2003), A conceptual model for selection of architects by project managers in Singapore, International Journal of project Management, 21, 135–144.
3. Cheung F.K.T, Leung, J.F.K. and Skitmore, M (2002), Multi criteria evaluation model for the selection of architectural consultants, Construction management and economics, 20, 569–580.
4. Ng, T.S., and Chow L.K. (2004), Evaluating engineering consultants general capabilities during the pre selection process: A Hong Kong study, Engineering Construction and Architectural Management, Vol 11, No 3, 150–158.)





It is important to note from the above table that these studies were done in the B2B market and do not necessarily reflect the views of individual consumers. In fact, research done in the UK (Ellis and Watterson, 2001) shows that consumers were more concerned with firms having a traditional image and offering a range of services. This is in contrast to organisational customers who were more concerned with reputation of the firm and specialisation. This is in line with findings of the aforementioned studies. When looking at the different criteria mentioned in Table 5.1, there is a marked similarity in the results whether the research was done in the US or Hong Kong. It is probably safe to say that a number of the areas are already intuitively known by professionals but having concrete evidence will allow both the marketer within the PSF and the principals to make a legitimate push to put resources into the key areas that will have a tangible affect on firm performance. This has been termed as the knowing doing gap by Pfeffer and Sutton. The authors show that just because people know what to do does not mean they will actually do it. This comes back to the very beginning chapters of this book. Developing a marketing culture is something that has to be done from the very fabric of the firm and what it stands for. For instance, let us say you wish to strengthen the firm image in a particular specialism and it is decided that partners will give talks at certain industry/client events for a total of four hours per month. This does not sound like a lot, but when you take into account the preparation time and traveling it may add up to quite a bit, say in the region of twenty hours in total per month. Now, if your firm lives and dies by the billable hour and compensates accordingly, what incentive are the partners going to have to allocate five hours or more a week to be ready to present at certain industry events that will, over the medium to long term, raise the profile of the firm and enhance its reputation. The answer is none. Marketing, as has been stressed numerous times in this book, is not something that can be done in isolation or is purely the responsibility of the marketing staff. It takes a firm-wide effort and commitment to truly become client focused and market oriented. It also times time, and expecting instant results or a measurable ROI is not realistic when considering marketing as a whole.

Based on the criteria in Table 5.1 and the stages identified in Figure 5.1, the PSF will now have the basis for which it can form a coherent approach to improving areas that are deficient. It is crucial to ensure the identified areas are important to clients and that the chosen activities and tangible cues are appropriate to signify the ability to deliver on those criteria. One would not want to focus on creating an image of a modern firm when it is not something which is valued by fail and that many more do not realise the benefits that the parties had anticipated or desired. There are a number of factors that cause such poor results and although one cannot isolate a single one, research shows that if each party has a strong marketing mindset and understanding of their objectives before entering the alliance, the chances of success are much higher.

## I Forms of Collaboration

There are many ways to view strategic alliances, such as whether they are horizontal or vertical alliances, their purpose, partners' intent, or duration. In the professional services sectors, which are essentially knowledge-based, the most appropriate way to view alliances is probably based on their strategic significance related to market access and learning.

*Fig 6.1 Collaboration forms for the PSF*

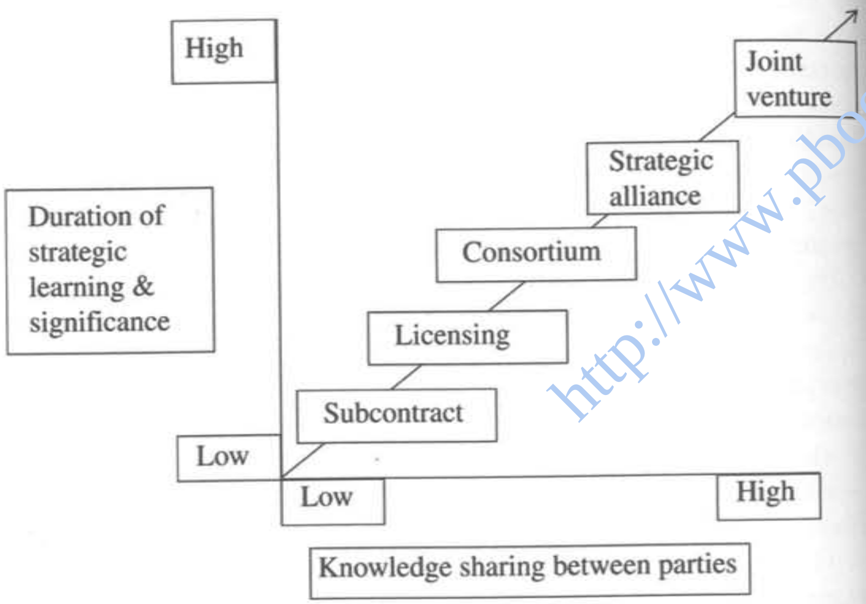


Figure 6.1 depicts five basic types of alliances and their strategic significance in terms of knowledge sharing and learning.

**Subcontract** — If a firm wishes to enhance its overall organisational capacity, it may subcontract or outsource some of its non-core activities to other firms who may be regarded as suppliers or even competitors. For example, an accountancy firm may hire a non-traditional accountancy firm to handle some of its more routine book keeping and auditing work. Some firms may even pass on less significant clients





to 'competitor' firms and charge a one time or ongoing fee for this client. More recently, some PSFs are aligning themselves with other types of service providers (including insurance or financial advisors) to help sell their services on their behalf. Typically, these types of relationships are short term and yield little strategic learning for any of the firms involved. Additionally, quality control in terms of both work and what is conveyed to clients is difficult to manage as all parties are independent.

**License** — Licensing allows one firm to benefit from the intellectual property of another firm in return for a fixed payment and/or royalties based on sales/fees. In the engineering field for instance, speed of access to new knowledge is an important factor to keep up with market trends and competitor actions. The difficulty with such agreements are often contractual in that the licensor will not want to 'give away all its secrets' and in many cases is only willing to reveal part of the proprietary process or technology to the licensee for fear of direct competition when the contract expires.

**Consortium** — Consortia normally involve a number of firms working together on specific projects and are quite common in the professional services field, particularly in construction and engineering. The advantages of such arrangements include shared expertise and funding, although differences in opinion may still occur. Firms may be competing or in non competing areas, although anti-trust issues has always been a concern for such arrangements.

**Strategic Alliances** — Alliances provide an alternative to acquisitions for accelerating growth and market access and should lower the risk when compared to acquisitions because of the smaller financial outlay, as well as the difficulty of merging firms together. Strategic alliances tend to be long term in duration and are aimed at two or more firms co-producing a service for the benefit of both parties. These alliances may be informal or formal and do not normally take the form of a separate company. Many of the largest professional service firms in the world such as KPMG, Ernst & Young, and Deloitte etc are engaged in a multitude of alliances on a global scale.

Similarly, network alliances are very common in the professional services field. Aside from Arthur Anderson which had a globally integrated structure, the other big firms used structures with differing degrees of international centralisation and in some cases firms would have exclusive rights to certain countries. A well known network alliance is that of Nexia International. It is a network of independent public accounting firms. Affiliated under the name Nexia International for their international business, the network's 106 independent member firms practice locally under their own partnership's name. As a non-

3. What are our long and short term objectives?
4. Who are the most viable partners?
5. What are their motivations and what do they want to learn?
6. What do we want to keep from them and how should we do so?
7. What form should we use to achieve our objectives?
8. What is the most appropriate structure and who in the firm should be involved?
9. How can we evolve together?
10. How shall we measure success?

*Post alliance*

1. Are our objectives being met?
2. Is this still the best partner?
3. How are we absorbing the learning; can it be transferred from tacit to explicit knowledge?
4. Is the partnership evolving in the right direction or are there problems ahead?
5. Are the barriers we have erected to prevent knowledge leakage working without detriment to the alliance?
6. Are all parties benefiting roughly about the same?
7. Do we have the right people managing the alliance and are our incentives geared towards making the alliance a success?
8. Is the exit strategy in place and applicable?

This is not an exhaustive list and there are a multitude of other factors that affect alliance performance, including issues such as trust and commitment. One may also want to weigh the options of alliances versus acquisitions. Another consideration is the measurement of success. Using only financial indicators as the guide to success only leads to a short sighted and biased view of alliance performance. A number of authors recommend using performance management systems such as the Balanced Scorecard or the Performance Prism. The idea is that the PSF take a multifaceted view of success based on learning, achievement of objectives, market access, business development as well as financials. Readers are referred to the vast array of material available on alliances although very little is aimed specifically at the professional services sector.

## III Conclusion—Leadership and Alliances

Leadership, and in particular leadership style, has a significant impact on firm performance and this is also true for the performance of strategic





alliances. Since knowledge sharing is such a fundamental factor in PSF alliances, it is important to understand what kind of leadership behaviours facilitate knowledge sharing between partners. In a study of Taiwanese and US accounting firms engaged in strategic alliances, Chen Li Yueh and Barry Barnes (2006) examined this very question.

The authors found that (1) transformational leadership behaviors are a significant predictor of internal knowledge sharing, and (2) contingent reward leadership behaviors are significantly and positively correlated with both internal and external knowledge sharing. The results also showed laissez-faire leadership behavior to be significantly and negatively correlated with the dimension of external knowledge sharing with customers.

Transformational leadership can be described by the 4 I's: (1) idealised influence (the ability to create an inspiring vision); (2) inspirational motivation (the ability to lead and motivate others); (3) intellectual stimulation (providing a challenging and interesting work environment); and (4) individualised consideration (considering people on an individual basis and showing empathy). The authors go on to state that:

> "leaders who communicate a strong vision and create buy-in through jointly envisioning a positive future are likely to improve knowledge sharing as will those who communicate clear expectations and create an awareness of organizational problems. In addition, leaders who promote careful problem solving and provide personal attention to employees will also be more likely to improve knowledge sharing. Second, leadership behavior affects the sharing of knowledge between partners in strategic alliances. In this case, leaders and decision makers should understand how important it is to clearly create agreement on knowledge sharing goals along with the rewards for achieving those goals."

Although a thorough discussion of leadership in this context is beyond the scope of this book, one cannot overlook the importance of leadership effectiveness given the relatively complex nature of strategic alliances.

to take an outside-in perspective and scan the environment in order to search for the latent needs of clients that may not even have been expressed yet. In many cases, clients are not adept at expressing their needs or have yet to recognise a need. It is here where the PSF can act proactively and look at changes in the environment (both their own as well as client industries) in order to develop services that will be valued by the market place and in the process allow them to differentiate themselves from their competitors. A good example of this type of innovation is when top US law firm Wachtell, Lipton, Rosen and Katz developed the poison pill to deter hostile takeovers. Much of what has been described here can be thought of as the innovators dilemma. In his book of the same name, Clayton Christensen (a Harvard professor) found that when incumbent firms listened to closely to their existing customers they often failed to capitalise on new opportunities and were surpassed by new incoming firms. This dilemma can be thought of as the dynamic between being market-driven and market-driving. A market-driven firm (which is akin to client-driven) pays close attention to the needs of its customers and the market place and creates new products and services to meet those needs. Often, these types of changes can be described as incremental and whilst beneficial do not provide a platform for a leap in firm performance. Market-driving, on the other hand, is where the firm sees a yet unexpressed need in the market place based on both a deep understanding of the market as well as its own intuition (consider the Sony Walkman) and develops new services that creates a market that essentially did not exist. This type of radical innovation allows the firm to reach new levels in performance. Clearly, radical innovations do not come along very often and in reality, a firm should seek a systematic development of new services that fit with the descriptions of new services given at the beginning of this chapter. It should be pointed out that new services which fit under the label of major innovations also present the most risk, particularly if the service area is beyond the current competencies of the firm. Hence, the PSF should take a structured approach to developing new services that are based upon the objectives of the organisation and its overall strategy.

According to Harry Mills (The Rainmakers Tool Kit), there are six criteria which a new service should be tested against:

1. Target market — who and how will they purchase the service?
2. Need — what is the real value?
3. Unique advantage — what are the unique advantages?
4. Speed — can we launch to gain first mover advantage?





5. Sustainability — is the service easily copied, can we maintain our advantage?
6. Management commitment — will top management commit the needed resources?

Some of these fit the research cited in Figure 7.1 and provide an easy reference list for firms wishing to consider the introduction of a new service.

One question that I am often asked in my work with professionals is whether there is a need to change when business is good and things are going well. This links into the strategic management of the firm. Strategic management and a long term orientation are often at odds with most professionals but it should not be. Looking ahead and considering new services when business is good is probably the best time to do it as the firm will be able to commit the necessary resources and take a hit if the service does not work out. The business world is filled with firms that were leaders in their field only to suddenly evaporate due to short sighted management. In fact, in his book, Practice What You Preach, David Maister shows that a long term orientation is one of the key factors for success of the PSF.

## II Managing Innovation and the New Service Development Process

Developing new services of any type should not be a hit or miss process. Such innovation should be built into the fabric of the firm whereby compensation is linked to development of new ideas, and the overall firm culture supports the necessary processes and activities for successful new service development (NSD). The PSF must consider the rationale for NSD in terms of meeting both internal (staff) and external customer needs as well as fit with the overall strategy of the firm and its objectives as well as capabilities. The PSF competes in two markets, one is for clients and the other is for talent. Whilst a firm may be happy providing standardised services for the same clients in the same industries over a long period of time, this may lead to stagnation amongst professionals within the firm which could eventually lead to a lack of intellectual stimulation and higher staff turnover. On the other hand, developing services in areas that the firm lacks expertise may give professionals the chance to learn new skills but will require the firm to import those competencies either through additional hiring or joint ventures. This can disrupt the culture of the firm and create other types of problems. It is therefore crucial for the professional firm leaders to consider carefully the NSD process and part time managers at best, as they are responsible for driving the majority of revenue for the firm by working on the firms' key accounts. Secondly, professionals are highly intelligent and independent workers and do not take well to what they perceive as an undue top down influence and control. David Maister suggests that firms take a bottom up approach to strategy, meaning that practicing professionals at all levels have a major say in the strategy process, particularly for their own practice areas. Senior partners should act as facilitators to ensure that strategy is being taken seriously. It is important to note that eliciting each technical area of the firm to embark on their own strategy process can contribute to the fiefdom mentality that already exists in many firms. Strategies at each practice area level should fit into the firms' overall strategy and incentives for information sharing etc should be put in place to encourage the necessary team work. Additionally, most professional firms have a number of practice areas and may require different strategies for each due to the necessities of the market place. Finally, professionals are the most vital asset of a PSF and it is their knowledge that sets them apart. There is strong case for strategy to be set at the individual level also in terms of what the professional should be achieving and how that ties into the firms' overall strategy.

Another issue that seems specific to the PSF is the very close interaction between provider and client and the high degree of customisation. Since serving and satisfying clients individually is such a high priority for professionals, most firms will willingly take on additional work offered by the client even if that work is time consuming and out of line with what it wants to do. At first, this may not seem like a problem but when one considers that all firms have finite resources and distinctive capabilities, working on projects that take up time and fill billable hours means potential opportunities elsewhere are being missed. This can come back to haunt you a few years down the road. For example, the mergers and acquisitions business in the US has been hit hard by the recent credit crisis and firms such as Cadwalader, Wickersham and Taft have been firing associates whilst other US firms have been adding lawyers to their international roster. Why? Because deal volume in places like Asia has been growing substantially and a number of firms have been developing their capacity in this area for a while. Whilst it may not be too late for the laggard firms to play catch up, it certainly makes things harder and whilst you are playing catch up your competitors are developing the strategies that will keep them one step ahead. It is very tempting for a PSF to ignore strategy when times are good and all sorts of work is coming in the door but it is important to realise that strategy is about trade-offs. No firm can be all things to all people (or many





things to a few clients) without having a clear understanding of the risks presently involved in what the firm is doing and not doing for the future. Developing a competitive advantage that can be sustained over the longer term takes time and will be based on the core competencies (distinctive strengths) of the firm. Recognising and harnessing those competencies in order to leverage the right business opportunities is not a one shot affair. Another problem for the PSF is the lack of tradition in terms of cross functional communication between different practice areas and even partners handling different clients. The partnership structure can be a major inhibiting factor here and each firm must figure out how they can best develop a suitable strategy. Another factor that impacts the PSF is that of regulation. In recent years, accounting firms have been fairly aggressive in treading the turf previously covered by law firms but with the implantation of the Sarbanes Oxley Act (2002), there has certainly been a slow down in this trend.

Strategy has been defined as:

> 'the pattern of major objectives, purposes, or goals and essential policies and plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be' (Jain, 2000, p.9)

One can see from this definition that strategy is not a plan or a set of objectives. These tell you where the organisation wants to go. A strategy tells you how you will get there. According to Michael Porter (a leading expert on strategy), strategy is about the creation of a unique and valuable position, involving a different set of activities. What he means is that an organisation must choose what position it will take in the market place (based on how it fulfills customer needs and with what services) and how the firms' activities allow it to gain that strategic position. Take the example of Ikea, the Swedish furniture manufacturer and retailer that has a strategic position of providing stylish and low cost (flat packed in many cases) furniture to its main customers who are young, middle income earners. Ikea's inventory management system and design expertise allows them to achieve this (their activities) and because these activities are based on processes, social capital, and other soft systems of the organisation, it is hard for their competitors to imitate them. This brings us into the realm of a sustainable competitive advantage, that is, what strategy will allow the firm to gain a strategic position which is not easily copied. It should be noted that strategy is not a static concept and with the ever-changing market place, a firms strategy process should be ongoing. This is not to say that your strategy should change every week, but rather that strategies evolve as the market changes. In some cases, a strategy may require radical change and can be seen as revolution (refer to Gary Hamel, *Strategy as Revolution*).

independent law firms, the service could be offered on an international basis (the network is called International Trademark Counselors). Essentially, the firm still acted as an intermediary between applicants and the government but offered its services through the internet where lawyer and client would not have to meet.

TML offered four major services including logo design, pre-filing searches, registration, and global watch. The logo design was a unique service that was totally out of the realm of a law firm but was used to help differentiate its service. The firm used freelance graphic designers to offer this service. It mainly targeted SMEs as it felt that larger firms would either use their existing legal advisors or in-house staff. When exhibiting at trade fairs, it often exhibited with other design firms rather than law firms in an attempt to stand out. TML did face problems; the government in Hong Kong set up an online system for trademark registration that was considerably cheaper than TML (although the range of services was limited). TML also faced traditional competition from other law firms and IP agencies. Additionally, with the burst of the dotcom bubble, business decreased substantially and was largely dependent upon the macro environmental conditions. In an attempt to deal with some of these issues, TML added a counterfeit surveillance service to its service range to offer their clients a proactive approach in dealing with trademark pirates in different parts of the world.

(Source: Ali Farhoomand (2004) Trademark Logo.com. Transforming legal services on the internet. Asia Case Research Centre, The University of Hong Kong www.hku.hk)

In the case of Robert W H Wang & Co, one could argue that they are pursuing a mixture of a niche strategy together with a substitution strategy. Niche, in terms of targeting the SME market, and substitution, in terms of providing an IP service through the internet. As a SPSF, there are a number of factors to consider when deciding which strategy may be appropriate. Using the above case as an example, if the niche strategy is appropriate, one must consider what competitive advantage underpins success in this market and what would prevent incumbent firms entering this market if it proves to be attractive. This would depend upon the growth and size of the SME market as well as the niche firm being able to provide a service which is differentiated from its competitors and which they would find difficult to imitate. On the other hand, a substitution strategy does not have to meet the same criteria. Assuming the market is large enough and dominated by incumbent firms, Robert Wang could be successful in offering an IP service through the internet





and it would be hard for the larger players to follow suit as they tend to rely on face to face interaction as a primary tool for enhancing their premium image and pricing. Additionally, since the recognition of IP protection in Asia is growing rapidly, the effort of larger firms is of benefit to smaller firms as they can benefit from second mover advantages and this is certainly the case in the Asian IP market.

In reality, a particular strategy may not fit neatly into the three generic strategies prescribed but that does not devalue them. Small firms tend to be more limited in their strategic choice than larger firms and by using the strategies described and their appropriate decision frameworks, a smaller firm should be able to enhance their strategic decision making in line with what the firm can offer and the conditions of the competitive environment.

## II Marketing Effectiveness and Success/Failure in the SPSF

It has been well documented that marketing in small firms is quite different from marketing in larger firms. The inherent resource constraints that small firms face means they rely heavily on networks of contacts and although they are aware of general marketing concepts they do not apply them in the same way that larger firms do. For example, planning tends to be a more formal process in larger firms yet more ad hoc in small firms. Whereas certain marketing experts may lament the lack of formal planning in smaller firms, much research supports a less structured approach in smaller firms. This is known as entrepreneurial marketing and in fact can be just as readily applied to large firms as well as smaller ones.

Not only do the marketing practices of small and large firms differ, they should, the limited resources of SME's means they cannot adopt scaled down practices of large firms or text book theory and expect to achieve satisfactory outcomes. The marketing competencies often associated with SMEs are:

| |
|---|
| • knowledge |
| • experience |
| • communication |
| • managerial judgment |
| • networking |

When considering the success or failure of SMEs, there are essentially two categories to be considered: external and internal. External factors would consist of environmental factors such as the economy and competitors. Internal factors include things such as management, There is a distinction between firms which target consumers and small businesses as opposed to those which tend to work with corporations which are larger in size. Firms which offer only a limited number of services to local consumers or businesses may see little need to consider international expansion whereas larger firms which serve international corporations may have little choice but to follow their clients overseas. The word globalisation can in fact be a misleading one when it comes to the PSF. A global market is one in which customer needs are fairly similar and a firm's offerings can be standardised to a large degree. In traditional terminology, the benefits of a global market offer organisations economies of scale and scope whereby they can reduce costs by producing products which are basically the same wherever they are sold and use advertising campaigns which are produced in one place and distributed everywhere. This logic does not apply to a PSF as there is little evidence to support the idea of scale economies (save for areas such as knowledge management in various practice areas) nor markets which could be described as uniform (global) as they are in consumer products. The vast majority of countries have their own laws, regulations, customs, and governing bodies when it comes to professional services and hence there is a need to customise the service offering in different countries based on the prevailing conditions. These markets can best be described as multi-domestic whereby there is clearly an international market for professional services but these are best met by firms with local knowledge and people on the ground as competition between countries tends to be independent of one another. Having said that, there is obviously room for global PSFs as a number of large auditing firms as well as law firms are adopting this strategy.

According to Lowendahl (2000), there are three categories of clients that may benefit from a global PSF:

(1) global clients that prefer the same service provider in the various country markets in which they do business
(2) local clients that require some globally standardised services
(3) local clients who simply prefer a global professional service provider for a variety of reasons like perceived quality, global knowledge sharing opportunities, or personal preferences

The third reason may be particularly pertinent to a wide spectrum of PSFs, whether they operate in global markets or in only a few geographic areas. This is because many potential clients are unable to evaluate the quality of a service provider and consider international presence a proxy for service quality. In this case, it can be beneficial for even a small PSF to join a recognised network of firms to help boost their credibility in the markets they operate. For many types of





professional services (such as auditing, legal counseling) which are recurring in nature, it would be wise for the PSF to set up a presence in the country in which the services are provided. For other ad hoc projects (such as those found in architectural or engineering projects), the firm may be able to conduct business on a global scale without ever having to set up a local presence. An interesting example is the increasing prevalence of online service exchanges such as eLance with over 40% of its services being provided on an international basis.

Whether a PSF will be successful when it engages upon an internationalisation strategy will depend upon a number of factors. Certainly, as bundles of idiosyncratic resources, the leveraging of human and social capital that the firm possesses will be fundamental in determining the level of success achieved. Moreover, given the independent and autonomous nature of professionals, coordinating and managing a geographically diversified firm can be extremely challenging and requires a leadership perspective that is often lacking in the partners at professional firms.



## IV Internationalisation Strategy for the Small PSF/Entering China

Engaging in some form of international marketing is a goal for many small firms but since such firms have limited resources they do not necessarily have the alternatives that larger firms have when it comes to adopting a market entry strategy. Most research on market entry is focused on large organisations and very little has looked at PSFs and the impact of internationalisation strategy on performance.

*Case In Point*

Identity Design is a small Hong Kong based design firm that works for a number of international brands in the areas of PR/event management and exhibition construction. Although not having offices overseas, the firm had also done work in other Asian and European countries by winning design tenders and then sending over project staff to the specific location during the event period. However, due to the increasing number of its local clients such as Sony spending more of their promotional budget in the mainland, the firm was under pressure to follow clients and set up a permanent office in China. Ms Chan, one of the directors of the firm, had certain reservations about setting up an office on the mainland. Firstly, she was concerned about the cost and local cultural conditions that she was unfamiliar with. Secondly, she was concerned about the opportunistic behavior of clients who could take a design concept and then ask cheaper developing a separate marketing mix for each segment. These decisions will depend upon the objectives of the firm and its overall strategy as well as the requirement to balance the needs of clients with those of the firm and its professionals.

*Case In Point*

Recently, there have been many articles written about the proliferation of private banking. Plans to open or expand new private banking units are frequently being announced by community banks, foreign banks, investment banks, brokerage firms as well as large regional and money centre banks. Some private banks set hefty minimum hurdle levels for access to their services with the hurdles being in the form of net worth, size of credit extended, size of trust account, size of investment account or a combination of all of the above. Other private banks require only a $10,000 deposit account to gain access. The notion of a private bank also can change depending on what part of the country you are in, whether it is the East versus the Midwest or whether it is a large urban area or a more rural setting. The risk to all the participants in the private banking arena is that this is beginning to confuse the client or prospective client because the notion of private banking has become almost diluted. It is losing its brand name significance and as such, many are wondering just how private is private banking?

Many of the banks, et al have long been aware of the issues inherent with the fading brand name recognition and have taken steps to distinguish themselves. A number of years ago at Harris Bank, we segmented our private banking units into three basic markets — High Net-Worth, Professional and Investor. Prior to this segmentation, our private banking group comprised of five separate banking units offering basically just loan and deposit services to the 1) medical; 2) attorney and CPA; 3) executive and other professionals; 4) special investor; and 5) the entrepreneurial markets. That original structure now seems archaic and perhaps limited but at the time it worked as it created an entity that was neither retail nor corporate. We made some aspects of banking more private. (Most notably missing from the original set–up, however, was a separate high net-worth unit.) Historically at Harris, private banking was part of the 'banking department' (that is, separate from the 'trust department', or from the 'investment department'), offering just banking products, and referred trust and investment services to other areas of the bank. To address this, we incorporated the trust and investment arms with the banking function under one organisational body with common management.





At the time, this was a radical move both from our competitors' viewpoint as well as from our clients' perspective. In conjunction with this, the market segmentation was further refined to the existing Wealth Management (High Net-Worth), Professional & Entrepreneurial, and investor markets.

The significance of these moves is quite dramatic in that the client is now serviced by members of the entire market rather than separate product specialists, or in worst case scenarios, silos. Professionals within the market (banking, trust, and investments) have common management, attend market meetings and educational courses and now are expected to know what each of the three market disciplines bring to the client. Prior to this, products were presented and sold on 'an ad hoc' basis and were often priced from the scheduled price list. From the new business person's perspective, they did not differentiate between a client sale and an external sale because many of the clients of one area of the bank had never been introduced to the other areas of the bank. Since the market approach has been in effect, individuals (representing banking, trust and investments) assigned to the client work in tandem with that client. As a result, a systematic marketing approach, along with relationship pricing and decision making, has been deployed. Clients who were primarily trust client could call up a banker who knew of them and understood the extent of their entire relationship with the bank. This now sounds academic, but for years important clients were often cloistered in certain business units and never knew the full extent of the bank's capabilities. Related to this is our current belief that private banking is no longer limited to loan and deposit services. Trust, investment advisory, custody, mutual funds, financial planning, risk management as well as deposit and loan availability should all be key product and services of any private banking organisation. This is true for the private banks serving only the highest net-worth families as well as to the private bank seeking executives with account balances of $10,000. Still another aspect is that each market can begin to specialise and thus begin to serve its client base more efficiently and uniquely. The professionals in the market act as advisors to the client as opposed to order-takers, with the implication that the professionals provide an added value in addition to the product or service already provided. Again, this is true for the professional servicing the highest net-worth family to the mid-level executive opening an account with a balance of $10,000.

Just how private a private bank should be is quite a complex question. Can a bank or any other institution purport to be or have a use other factors such as demographics or organisation size in order to better understand that segment by understanding what kind of characteristics clients have when they seek certain benefits. This will allow a firm to create a segment profile which is measurable and identifiable rather than just saying we wish to target clients who have a low risk attitude towards professional services without knowing who those clients are! This may require some research but it is worthwhile in the long term.

*An Example*

A small Hong Kong based CPA firm wished to expand its offerings in terms of secretarial services, auditing, and tax advice to the growing number of SMEs who were looking to expand their business overseas and set up new subsidiary firms both in Hong Kong and elsewhere. The partners identified the fact that there are around 300,000 SMEs in Hong Kong, yet many of these are shelf companies and of course, many would not be viable targets. After some basic research, the firm decided to create a package of services for small firms opening new subsidiaries that would range from company formation to ongoing tax advice and auditing. They also teamed up with a local consultancy firm which specialised in providing management advice for growing SMEs and entered into alliances with regionally located firms who could help its clients set up overseas subsidiaries. The key benefit they believed that clients would seek was a low hassle fixed fee arrangement that would minimise the SME's risk to purchasing professional services whilst helping the firm to grow. Based on secondary evidence that such firms are more likely to be members of relevant trade associations and seek advice from quasi-government bodies such as the HK Trade Development Council and the HK Productivity Council, the CPA firm partners developed a one year plan to attend, present seminars, and provide free advice through such associations whilst writing articles for media that reached this segment. The partners also joined new entrepreneur clubs and sat on committees that offered free advice to members. Additionally, the firm created specific brochures and a web site that explained the service benefits specifically for this market. By the end of the year, the firm's revenues from this venture grew to 20% of the firm's overall revenue and it is steadily being recognised as an expert in the SME market.

The above example shows the benefits of using a target market strategy. The niche strategy used by the CPA firm allowed it to stand out from







its competitors whilst at the same time remaining small enough not to invoke the interest of larger firms who may wish to tap a new attractive market. This is one of the keys when using a niche strategy as larger firms with more resources can quickly take away share from the firm that developed the niche.

## II Differentiation and Positioning

Differentiation and positioning are related but distinct concepts. Differentiation is essentially an extension of the firm's strategy and basis for competitive advantage discussed in previous chapters. Differentiation can be defined as'the set of meaningful differences that define and set apart a PSF from its competitors which are recognised and valued by their target markets'.

This definition highlights a few key issues when it comes to deciding a differentiation strategy. The differences that a firm chooses should be valued and meaningful to the market place and allow it stand out from competitors. Moreover, these differences should be recognised by clients and not easily imitated by other firms or they cease to provide a competitive advantage. In other words, differentiation is strongly related to how clients buy and the attributes they value from providers. For example, firms such as KPMG have differentiated themselves by offering a variety of services on a worldwide basis through a global network that provides them unmatched access to local knowledge and expertise that few firms could hope to achieve. Differentiation is a more complex issue than positioning in that it may involve a number of organisational processes and systems that cannot all be communicated effectively to clients and potential clients through the traditional communication channels that firms use. Positioning can be defined as 'the set of meaningful differences that a PSF chooses to communicate to internal and external parties that to a large extent decide the image of the firm in the market place'.

The nature of communication, information processing, and promotion messages dictates that a firm can only focus on a limited number of differences (attributes, benefits) and these should be carefully developed in order to create a competitive position and image that is readily understood by the market place and is not a generic me too position that is adopted by most other firms. Bruce Marcus says this about positioning (from the Marcus Letter, www.marcusletter.com):

- *The position must stem from the best possible understanding of the needs, aspirations, and expectations of the prospective clientele. There should be a perception of what your market most wants of a firm like yours—and that perception comes* they are often poor at expressing as yet latent needs. It is imperative for the PSF to have a solid understanding of both the professional services sector and what other firms are doing as well as their clients' industries so one can envision what new services and features may be valued by clients. Innovation is often the key to charging premium prices and being perceived as different from your competitors.

There will be many instances where customers may not recognise the value that you offer and it will then put the onus on the firm to communicate this value clearly. Even then, some customers are extremely price driven and, if this is the case, it may be better just to let them go. Not all customers are good customers.

According to Thomas Nagle and Reed Holden, authors of the seminal book on pricing (*The Strategy and Tactics of Pricing*), there are 5 C's of value:

- Comprehend—what drives sustainable value for customers
- Create—value for customers
- Communicate—the value you create
- Convince—customers that they must pay for the value received
- Capture—value with appropriate pricing

Taking the value-based road is not an easy one but evidence suggests it is one that leads to greater long-term viability of the PSF and indeed contentment amongst partners, associates and clients. It may require losing certain customers and rejecting certain work but in essence, this means working less hours and making more money. If clients cannot perceive the value you deliver, you may be better off passing them on.

Research by former Harvard professor and now consultant to the professions, David Maister, clearly demonstrates that increasing employee satisfaction causes increases in company financial performance. One key area related to satisfaction was challenging work and minimal repetitive type work. How satisfied do you think your people are likely to be when they are thought of as billable machines that live by their time sheet?

## II Pricing and Marketing Culture

Since services are essentially intangible, credence becomes a key factor as clients find it very hard to evaluate the quality of a service even after receiving it. Price can be a strong indicator of service quality, and in different situations charging a higher price may in fact stimulate demand. For example, Valerie Zeithaml (a professor of marketing at





the University of North Carolina and a recognised expert on services marketing) has shown that people will react to professional fees in different ways. These reactions will be based on the amount of uncertainty faced by the purchaser, limited information and time pressure. For example, if the need is urgent, buyers are less conscious of fees. She suggests that high fees may be preferred if customers perceive high risk and that customers will tolerate higher fees from professionals which have strong reputations and greater experience.

These findings suggest that time spent on non billable activities that enhance the position and reputation of the firm and its professionals can be crucial in being able to implement value based pricing approaches effectively. Additionally, spending time on innovation and being able to differentiate your firm will be time well spent over the mid to long term as the value of your work increases from a market perspective and your people will be doing what they truly enjoy. This will be reflected ultimately in the profitability of the organisation.

A report by the ABA in 2001–02 found the following negatives of billable hours:

- Affects the culture of the firm and reduces the collegiality
- Discourages pro bono work
- Does not encourage case or project planning
- May not reflect value to the client
- Fails to discourage layering and duplication
- Penalises the productive lawyer
- Creates itemised bills that do not reflect value
- Creates conflict of interest between client and lawyer
- Fails to promote risk/benefit analysis

Scanning this list shows that billable hours negates the value that is provided by a service and hence directly contradicts the ideas of a marketing culture discussed in chapter 3. There is little doubt that the professions in most countries are operating in a mature market and such markets are characterised by intense competition, slowing growth rates and in many cases consolidation. Being innovative in service approaches and pricing are inextricably intertwined and demanded by clients. Figure 12.1 shows opposing forces to implementing billing alternatives in the legal industry. Clients (both GCs and corporate management) are cited as the most effective pressures for the adoption of alternative billing whereas nearly 60% of outside counsel are either hesitant or completely unreceptive and only 9% welcoming. These findings demonstrate again the need for a change of mindset amongst professionals and the acceptance of a marketing culture. In my own experience of consulting and delivering workshops in this area, I have