

Strategic Management of Professional Service Firms

Bente R. Lowendahl

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This book builds on Lowendahl's PhD dissertation completed at the Wharton School of the University of Pennsylvania. The main thrust of the book centres on the proposition that professional service firms are different and that the tools and techniques put forward in traditional strategic management courses offer little help in this particular context. As Lowendahl puts it, in this context "strategic management assumptions are at best misleading and at worst disastrous".

The significant difference between professional service and other firms is argued to lie in the fact that value is created by people and their expertise rather than by machines and tangible resources. In 'brain-driven' organizations, relationships between people are critical to competitive success and firms need to compete not only in the market for client contracts but also in the market for excellent professionals. This creates a particular set of challenges for management; indeed, the whole notion of 'management' takes on a different complexion in organizations where management is often considered to be a low status activity, akin to administration, which draws the individual away from his or her professional roots.

The opening chapters of the book provide a useful synthesis of discussion around the concept of a 'profession' and outline the case for arguing that professional service firms are significantly different from manufacturing firms. In particular, the author emphasizes unique characteristics of professional service organizations in terms of outputs, inputs and interrelationships. Outputs are intangible, idiosyncratic and innovative, so perceptions of high service quality depend very much on the expectations of clients. The core resource base of the firm lies in professional expertise and individual judgement which is controlled by the individual rather than the firm, and there is typically high levels of information asymmetry between the client and the professional. These features create particular sets of challenges and the book likens the problems of managing professionals to the problems of 'herding wild cats'. In this context, it is seen as critical to find the kinds of professionals that can pull together and develop a strong and cohesive culture to retain the best experts and outperform rivals.

Drawing heavily on the resource-based view of strategy, Lowendahl proposes that there are three generic strategies pursued by successful professional firms: client-relation-based strategies, solution or output-based strategies, and problem-solving or creativity-based strategies. Very much along the lines of Porter's 'stuck in the middle' hypothesis, he argues that, even though these generic strategies are not mutually exclusive, it seems difficult for any firm to deliver superior performance based on multiple strategies simultaneously. This perception is partly empirically derived from multiple case study observations in the management consultancy, engineering consultancy and insurance brokerage industries but is also justified on the grounds that each strategy requires a singular organizational and managerial configuration and that different configurations cannot coexist in a given firm. In just the same way that Porter's cost leaders and differentiators are difficult to pin down in practice, so one suspects that it may be difficult to distinguish solutions-based and creativity-based service providers.

Although it is possible for professional service firms to move from one configuration to another over time, this is considered, at least *a priori*, to be difficult and there is explicit call for professional firms to establish clear strategic priorities. Firms that try to be 'everything to everyone' will find themselves in a negative spiral as frustrated profession-



als leave the company and, as often as not, set up in competition. No empirical evidence or case study discussion of firms attempting to make such a transition is offered and this perhaps represents an important test of Lowendahl's propositions.

Although some of the argument rests on conjecture, the book does highlight the complex challenges of managing knowledge-intensive firms and provides an interesting perspective on organizational forms and strategic management. As the author points out "flexible organisations, empowered individuals with substantial responsibilities for the totality of the firm, management as a set of distributed and temporary roles and constantly changing activities are phenomena that are likely to beam much more common over the next two or three decades". The analysis of professional service firms does appear to offer some interesting insights into the kinds of problems that organizations of the future are likely to face and provides some useful pointers to the sorts of strategies that may prove successful in this kind of environment.

Judith Jordan

University of the West of England, Bristol, UK