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Panitz, Eric
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Strategic Types and Growth Strategies Used by Public Accounting Firms

Eric Panitz, PhD, DBA

ABSTRACT. Results of a survey of accounting firms suggests that market penetration is the preferred strategy among accounting firms followed by market development, service development and diversification. Using the Miles and Snow typology, prospectors were most aggressive in their preference for any strategy, followed by analyzers, defenders and reactors. Most small accounting firms were self typed as defenders or reactors suggesting their use of marketing concepts and strategies is limited. *[Article copies available from The Haworth Document Delivery Service: 1-800-342-9678.]*

INTRODUCTION

Recent years have witnessed a significant departure by accounting firms from traditional offerings. In response to market demands, larger accounting firms have expanded the scope of their services dramatically to include an increasingly wider assortment of business services.

In order for accounting firms, especially smaller firms, to take full advantage of growth opportunities they must become more marketing oriented. To do this, these firms must recognize and accept the importance of marketing as a business tool and use marketing principles and concepts to develop and implement marketing strategies enabling them to be re-

Eric Panitz is Professor of Marketing, College of Business, Ferris State University, Big Rapids, MI 49509.

Address all correspondence to: Eric Panitz, 3981 Wedgewood SW, Wyoming, MI 49509.

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sponsive to market needs. In England, it seems that larger accounting firms are making a greater effort to formalize the marketing process and activities within their firms (Diamantopoulos et al. 1993). Marketing strategies must be compatible with the firms objectives and resources (Cravens, Hills and Woodruff, 1982). Further, they must be compatible with the firms philosophy of strategy development or the firm's marketers must first develop acceptance of the marketing concept within the firm.

With different degrees of responsiveness, accounting firms have recognized that using marketing precepts to develop new services and markets helps with client retention, the accounting firms profits and increases the likelihood of improving their clients viability as an enterprise. This assures the accounting firm of a continued stream of revenues and enhanced profitability because of the higher margins associated with nonaccounting business related services (Scherschek, 1982).

Growth strategies for accounting firms fall into four categories described in the product market matrix as market penetration, service development, market development and diversification (Festervand, Vitell and Reidenbach, 1988). Further, the extent to which each of these strategies is applied by a firm depends on its approach to strategy.

Strategic typologies have been offered by several investigators (Anderson and Paine 1975; Ansoff 1965; Blau and Scott 1962; Chandler 1962; Etzioni 1961; Miles and Snow 1978; Segal 1974). However the description of strategic types offered by Miles and Snow of a continuum of varying organizational intensity in a dynamic relationship to its environment has proved to be the most useful in assessing a firms approach to marketing strategy development (McDaniels and Kolari 1987). Four types of organizations were proposed by Miles and Snow to represent their continuum of an organizations competitiveness in the market place. These types are called Reactors, Defenders, Analyzers and Prospectors. Some investigators have refined this typology (Kroll et al. 1989; Wright et al. 1990) to include a fifth category called the "Balancer." The Balancer is a combination of Analyzer, Defender and Prospector. It is not unusual that such a refinement has been proposed, since the original typology represents a continuum of activities reflecting a company strategy. Thus one might assume that additional combinations of the original typology might be identified. Because the Miles and Snow typology has been demonstrated to be reliable and valid within the context of self reporting mechanisms (Shortell and Zajac, 1990), and to be able to compare results with prior studies where desirable, this study remains with the original typology.

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Purpose of This Study

This report presents the results of a survey of accounting firms which identifies their preference for each of the growth strategies and attempts to relate this preference to a self report categorizing the firm's strategic type. Validity of the self report method for the Miles and Snow typology has been supported by the work of Shortell and Zajac (1990). The four strategic types will be described followed by a description of the four marketing strategies. The results of the survey will then be presented followed by the implications for accounting firms.

STRATEGIC TYPE ALTERNATIVES

The Miles and Snow typology suggests four approaches that organizations can use to develop a strategic approach to the marketing of their services. The key dimension underlying this typology is the rate at which an organization changes its services or markets to maintain an alignment with its environment. According to Miles and Snow, reactors lack a consistent strategy, responding to environmental pressures when forced to do so. Defenders have narrow service market domains and tend not to search outside their existing domains for new opportunities but will look for growth within existing markets. Prospectors continually search for new service opportunities and often are the change and innovation creators in their industry. Analyzers are a combination of defenders and prospectors operating in both stable and changing market domains.

It is reasonable to assume that different organizations would have different market orientations. Miles and Snow (1978) identified these differences, which subsequent studies have confirmed (Snow and Hrbniak 1980; Hambrick 1981, 1982, 1983) at the level of corporate strategy development (Hambrick, MacMillan and Barbosa 1983, Meyer 1982 and Slocum et al. 1985). Limited references have been made to marketing strategy and the relationship of marketing oriented behaviors or views toward specific marketing elements in the context of strategic type within services industries. McDaniel and Kolari (1987) examined the relationship between strategic type and a variety of marketing elements among banks. In examining strategic types among banks, McDaniel and Kolari (ibid.) indicated most banks identify themselves as analyzers (155). Approximately one third as many respondents self reported as defenders (57) with only slightly more (67) reporting as prospectors. Because of difficulties identifying any consistent behaviors, respondents self identified as Reac-

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tors were not included in the McDaniel and Kolari Study. This study relates strategic types among accounting firms to the four generic growth strategies described as the product market matrix (Pride and Ferrell 1991; McCarthy and Perreault 1990; Kotler 1984).

GROWTH STRATEGY ALTERNATIVES

The four growth strategies are not mutually exclusive. Larger firms often elect to pursue several of these strategies simultaneously. Smaller firms will have to be innovative in creating effective approaches to use these strategies to enhance growth.

The market penetration strategy is the most desirable for small firms because it represents the least costly and lowest risk approach to growth. Three methods have been suggested for growth in markets where the firm currently competes. First, increase the volume or frequency of services currently provided to the client. Second, persuade current clients to use services the firm offers, but which the client is not using. Third, increase market share by attracting non users within the markets (client types) the firm currently serves.

Focusing on client types suggests that accounting firms might specialize in services offered. This suggests accounting firms need to segment their markets to determine which firms have similar requirements and thus need specialized accounting services different from organizations or firms who are not direct competitors. For example, hospitals may differ from automobile dealerships which differ from fast food franchises or machine shops.

The market development strategy takes existing expertise and modifies it slightly so that it can be applied to new markets. Next to penetration this strategy has the least risk. A major effort with this strategy is the identification of new markets (segments) where the firms expertise can be applied. Further, new markets can be viewed as entry into new geographic areas (by opening new offices) where the firm currently does minimal business.

The service development strategy requires that the firm add new capabilities that are desired or needed by clients currently served. This strategy has increased risk compared to the previous strategies as the new capabilities must focus clearly on customer needs. Further, the need must be great enough and with sufficient numbers of customers to justify new service offerings.

The diversification strategy suggests that new services be added which are directed at new markets. Of the four alternatives, this strategy carries

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the highest risk as both new services and new markets must be addressed. This strategy can be achieved by offering new services or by acquisition of existing firms or personnel with expertise in the new areas.

Based on the above discussion, strategic types are thought to relate to the preference for use of the growth strategies. Prospectors will be the most aggressive in the use of strategy alternatives followed by Analyzers, Defenders and Reactors respectively. Further, those strategies requiring geographic expansion through opening new offices or diversification by acquisition will be the least desired.

METHODOLOGY

A national sample of 500 CPA firms was chosen on a random basis to receive the survey. A total of 164 useable responses to this mail questionnaire were received for a response rate of 32.8%. Respondents were asked to rate questions about their firms strategy type, and marketing strategies and activities. Strategic types were determined using the self report method of McDaniel and Kolari (1987). In this evaluation, respondents were asked to identify one of four typology descriptors which best represented their company. Each strategy is operationalized by one or two statements which represent activities that that particular strategy might involve. No attempt was made to cover all possible strategies, but rather to represent a strategy with the selected statements. Strategy statements were evaluated by requesting a rating of importance, of 1 (unimportant or never) to 7 (very important or always), to their firms growth. Seven statements which could be classified into one of the four growth strategies (Table 1) were selected for evaluation which represent the operational implementation of the four marketing strategies. Each statement was evaluated for overall response differences. This was followed by Oneway ANOVA for differences between the four strategic types. Post hoc analysis were performed with Duncan's Multiple Range Test ($p < 0.05$).

A preliminary evaluation of the data obtained suggested that the reactor types were closely related to defenders based on proximity of centroid values in a discriminant analysis using 49 variables to be reported elsewhere. A highly significant hit rate was obtained in this analysis (80.6%). For appropriate comparisons to prior studies, reactors were combined with defenders.

RESULTS AND DISCUSSION

The results of analysis by type of strategy preferred for CPA firms growth are presented in Table 1. The most preferred strategy is penetration

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TABLE 1. Aggregate responses categorizing accountants preferences for alternative growth strategies.

growth strategy	descriptor	Mean ± standard deviation
penetrate	to increase the amount of business obtained from current clients using present services	5.172 ± 1.331
market development	to offer existing services to new types of clients	5.264 ± 1.418
	to open new offices	1.822 ± 1.181
service development	develop new services within current areas of operation	4.693 ± 1.549
	to develop new sets of expertise adding to current operations	4.086 ± 1.638
diversify	offer new services such as management consulting	4.221 ± 1.652
	merge or acquire other firms	1.883 ± 1.214

of current clients, followed by market development and product development. Rarely do these respondents engage in geographic market development or diversification through merger or acquisition.

Each of the seven suggested tactics differentiate the four Strategic types (Table 2). No difference was found between Prospectors and Analyzers for a penetration strategy preference, nor was there a difference between Defenders and Reactors. The first pair did differ from the second pair suggesting greater aggressiveness on the part of prospectors and analyzers within current markets.

Prospectors differed from Analyzers by offering existing services to new clients to implement a market development strategy, while Defenders and Reactors were not significantly different in preference for this strategy. While Prospectors rated opening new offices higher than the other three, the overall ratings were quite low for all groups. Prospectors had equivalent (no significant difference) for statements representing market penetration and market development. This implies that accountants would prefer to apply existing knowledge and services to new clients in new markets than to expand their knowledge and services base through new service development resulting from expanded capabilities. It is also inter-

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TABLE 2. Mean responses of four strategic types in relation to marketing growth strategies.*

growth strategy	descriptor	Strategic type: defend n = 70	prospect n = 28	analyze n = 47	react n = 19
penetrate	to increase the amount of business obtained from current clients using present services	4.86[a]	5.85[b]	5.32[b]	4.78[a]
market development	to offer existing services to new types of clients	4.47[a]	6.01	5.47	4.94[a]
	to open new offices	1.69[a]	2.57	1.63[a]	1.72[a]
service develpoment	develop new services within current areas of operation	3.57	5.23	4.66	2.89
	to develop new sets of expertise adding to current operations	4.18	5.60[a]	5.42[a]	3.50
diversify	offer new services such as managment consulting	3.62[a]	5.54	4.53	3.44[a]
	merge or acquire other firms	1.75[a]	2.27	1.79[a]	1.78[a]

* standard deviations omitted for clarity
[a,b] = values with similar letters are not significantly different

esting that the emphasis of prospectors is on the lower risk strategies which require minimal incremental investment in skill acquisition.

Service development was the strategy which showed the greatest differences between the groups. Prospectors were the most likely to develop new services within their current operations followed by Analyzers, Defenders and Reactors respectively. Prospectors and Analyzers did not differ in adding new sets of expertise to current operations but both differed from Defenders and Reactors. This result is not unexpected as new expertise would need to be added by both Prospectors and Analyzers as a means of implementing new services for existing customers.

Diversification strategy utilization resulted in responses similar to market development with merging or acquisition of other firms least preferred, but among the low ratings, most preferred by Prospectors. Offering new services such as management consulting, which essentially takes the firm into new markets (even with existing clients) was, as one might expect

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highly rated by Prospectors, followed by Analyzers with no significant difference between Defenders and Reactors.

The results obtained may be compared with those obtained by McDaniel and Kolari (ibid.) in their study of the banking industry. However, they did not include Reactors in their study and did not examine all four strategies. These investigators reported differences similar to the results presented here for diversification strategies (merger/acquisition) and for new services with Prospectors having the highest response values. Of particular interest is that most of the accountants responding to this questionnaire were self classified as defenders or reactors while bank respondents had a majority of analyzers.

The results presented here suggest that each of the four Strategic types view generic marketing strategies differently. Where significant risk may be perceived (acquisition/merger/open new offices) each type has great reluctance (lower respondent scores) to use that strategic activity, preferring alternatives within that growth strategy.

The major difference between this study and previous work on banks (McDaniel and Kolari, ibid.) was that Defenders had lower ratings on their responses to penetration and service development strategies. These are areas which McDaniel and Kolari (1987) suggest defenders might effectively implement strategies and be highly competitive. Since most of the respondents in this study were defenders, these results suggest that many smaller accounting firms are reluctant to engage in growth strategies that enable them to grow with the market much less at a greater rate than the market. Support for this suggestion also comes from Panitz and Bayou (1993) who reported that use of external sources of authority were a major tool used by accountants to persuade clients of the necessity of their services. Further efforts at relating strategic types to various marketing strategies and marketing activities in various services industries is warranted.

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