

Use of Leadership and Differentiation Strategies by Professional Service Firms: A Case Study

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Strategic researchers have paid little attention to professional service firms. This paper provides a strategic analysis of a professional service firm. Using Porter's Five Forces Model as a framework, two strategies are recommended for such firms, in usual circumstances; cost leadership and differentiation. It is argued, from an analysis of a large consulting firm in Taiwan that managers in such firms often need to improve their project management capabilities and enhance their corporate reputation. To improve operational effectiveness, it is recommended that managers strip safety time from every task during the early stages and get rid of unreported early finishes, and insert a project buffer at the final stage to protect the project. Moreover, clear descriptions of what the firm does and how it adds value for clients should be provided, as a marketing tool to differentiate the firm from its competitors. It is hoped that these lessons will prove useful to managers in the area.

1. Introduction

Strategy is the creation of a unique and valuable position in the marketplace (Porter, 1996). Strategic management can be defined as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives (Pearce & Robinson, 2003). Since strategy is essential to business, there has been a great deal of business literature written concerning the development of competitive strategies of a firm (e.g., Barney, 1991; Porter, 1979; 1980; 1985; 1996; Ray, Barney, & Muhanna, 2004; Schroeder, Bates, & Junttila, 2002; Siaw & Yu, 2004; Skaggs & Youndt, 2004). However, among this literature few studies have examined strategy in professional service firms, especially engineering consulting firms. One of the likely reasons for the shortage of studies on professional service firms is that these private service firms have little incentive to reveal their financial status, as a result which it is difficult to get them to respond to surveys that inquire about explicit data about their performance (Boxall & Steeneveld, 1999). Since engineering consulting firms have seldom been investigated, the focus in this research is on the evaluation of the strategic position of an engineering consulting firm, one of the professional service firm families. The aim of the research is to contribute to collective knowledge of strategic management in such firms.

The remainder of the paper is organized as follows. The literature on strategic management is reviewed, followed an examination of the circumstances and strategies of the engineering consulting firm. The research concludes with recommendations about strategy for managers in professional service firms.

2. Literature Review

Among the many fads and fashions in strategic management, SWOT analysis has enjoyed consistent popularity (Novicevic, Harvey, Autry & Bond, 2004). SWOT is a technique for both internal and an external analysis. SWOT is an acronym for the internal strengths and weaknesses (of a firm) and its external opportunities and threats. It is based on the assumption that an effective strategy derives from a good fit between a firm's internal strengths and weaknesses and its external opportunities and threat. A good fit maximizes a firm's strengths and opportunities and minimizes its weaknesses and threats (Pearce & Robinson, 2003). SWOT analysis is a general tool designed for the preliminary stages of decision-making and as a precursor to strategic planning in various kinds of applications (Skeese, 2002). The SWOT summary of the firm's situation encompasses the findings of internal and external analysis that provides a planning perspective for controllable and uncontrollable variables (Novicevic, Harvey, Autry & Bond, 2004). It has been a framework of choice among many managers for a long time because of its simplicity (Pearce & Robinson, 2003). Besides, a large number of academics have also applied SWOT to open new avenues for strategic research (eg., Nair & Prasad, 2004; Novicevic, Harvey, Autry & Bond, 2004; Skeese, 2002; Valentin, 2001).

Five Forces Analysis

Porter (1979) proposes that the nature and degree of competition in a given industry is determined by five forces; barriers to entry, threat of substitutes, bargaining power of buyers and suppliers, and the rivalry among existing competitors.

The purpose of the Five Forces Model is to obtain a comprehensive understanding of a given industry by analyzing the external environment. The model has proved to be a very useful way of analyzing the market forces that influence an industry (Vining, Shapiro & Broges, 2005). From this analysis, conclusions can be drawn about both the competitive situation and the profit potential of a particular industry (Porter, 1980; 2001). Numerous academics had applied the Five Force Model to organizations in different industries in different countries (eg., McCosh, 2003; Porter, 2001; Siaw & Yu, 2004; Skeese, 2002; Vining, Shapiro & Broges, 2005). Bearing in mind these comments about strategic management, the company that formed the case study for this paper, the engineering consulting firm, will be examined in the next section.

3. Analysis

Before the strategic management techniques are applied to the engineering consulting firm, it is necessary to be familiar with the background of the subject, Wildcats Engineering Consulting Firm. The subject was intensively visited during the first half of 2006. Fifteen staff members and managers, including the general manager, were interviewed in this research. Records and reports held at the firm were also examined.

Background of Subject

Transportation congestion is a serious problem in most metropolitan areas, especially

in Taiwan, the country with the world's second densest population. One of the more effective solutions to traffic congestion is the formulation of superior transportation planning. The fundamental elements in urban transportation planning are transportation system management and the estimation of travel demand (Ou, 1999). In Taiwan, traditionally, these transportation-planning tasks have been executed by public sectors such as the Bureau of Transportation. However, in the past two decades, all transportation planning projects in Taiwan have been carried out by private engineering consulting firms because the Taiwanese government wants to reduce its full-time staff and human resource expenses. The public sector serves as the clients, and transportation engineering consulting firms serve as the contractors.

The subject of this research case study is Wildcats Engineering Consulting Firm, one of the three major transportation consulting engineering firms in Taiwan. Wildcats Engineering Consulting Firm was established in 1989, with its headquarters in Taipei. The organization specializes in providing professional planning, engineering, operation and management services for transportation system and land development, and employs almost 100 staff members. Among them, there are approximately 70 professionals providing service to public sectors clients. Nearly all professionals at Wildcats hold a master's degree in transportation management or urban planning.

According to the firm's mission statement, Wildcats is committed to providing the best possible service in helping the clients to pursue better transportation, a better environment, and a better life for all. The firm's organizational structure is as follows: The Board of Directors sanctions the President, who directly controls the departments of the firm. The four departments include the Transportation Planning Department, Traffic Engineering Department, Urban Planning Department, and Administration Department. The staff of each department is authorized to handle projects, and the managers of each department are responsible for controlling the projects.

Wildcats Engineering Consulting Firm bids for transportation planning projects. The Taiwanese government is the major client of Wildcats Engineering Consulting Firm, since the implementation of transportation planning is the responsibility of the public sector exclusively. Once the company has won the bid, it must submit the final report to the public sector client by the due date, which is decided by the contract between the client and the contractor. In most cases, the deadline is rather urgent for the contractor because the public sector client wants to receive the transportation planning reports as soon as possible.

SWOT Analysis

SWOT, the general analytical tool, provides insights into more sophisticated strategies by identifying the strengths, weaknesses, opportunities, and threats of a company. According to the human resource records of Wildcats Engineering Consulting Firm, the strength of the firm is its outstanding human capital with nearly all professionals at Wildcats holding a master's degree. Individuals who receive their education from

the best universities are assumed to be more knowledgeable and to have higher intellectual potential to learn and accumulate firm-specific knowledge (Hitt, Bierman, Shimizu, & Kochhar, 2001). Wildcats many qualified professionals with educations from prestigious universities in Taiwan and the United States. This high human capital produces the highest quality of service to clients and thereby contributes significantly to the firm's performance (Hitt, Bierman, Shimizu, & Kochhar, 2001; Pennings, Lee, & Van Witteloostuijn, 1998).

Wildcats Engineering Consulting Firm's major weakness is the lack of good project management methods. As mentioned before, professionals at Wildcats have to devote a lot of time to deliver high quality service. The absence of useful project management methods increases the professionals' work hours and reduces their job satisfaction. Management lay great emphasis on output, which can reduce an employee's job satisfaction, and under certain circumstances can make it more likely that they will leave the company (Sager, Griffeth, & Hom, 1998). In the long run, it tends to result in high turnover rates, which is destructive to the company.

The greater awareness that exists at present about the need and importance of transportation planning represents an opportunity for of Wildcats Engineering Consulting Firm. The importance of transportation planning has been emphasized in Taiwan. Reliable transportation planning and forecasting is a critical prerequisite to examining transportation-related issues, such as evaluating the effects of alternative traffic congestion alleviation strategies and estimating the travel demand for a potential new transportation service (Ou, 1999). Now the public sector pays more attention to transportation planning, and is willing to investigate more planning projects, which means a larger market for engineering consulting firms with the specialty in transportation planning, giving opportunities for a firm like Wildcats.

However, by learning from previous transportation projects, public sector officials obtain more knowledge in the field of transportation, and can become a threat to a firm like Wildcats. The Taiwanese government raises project quality demands while calling for tenders, and requests a degree of interaction with the contractor during the transportation planning process. As clients deal more intensively with Wildcats, the professionals will need enhanced skills for dealing with clients, understanding problematic situations, and making quick decisions (Skaggs & Youndt, 2004). A high degree of interaction, customization, and labor intensity characterizes Wildcats Engineering Consulting Firm, with the 'higher human capital' attributes of education, experience, and skill being necessary to ward off the increasing threat or dangers from knowledgeable clients.

Based on the SWOT Analysis, Wildcats should make use of its major strength of having superior human capital, to differentiate itself from other competitors and to better cope with market opportunities and external threats. In addition, Wildcats should employ better project management methods to remedy its weakness. Differentiation and cost leadership strategies for Wildcats will be discussed in subsequent sections.

Five Forces Analysis

The purpose of the Five Forces Model is to obtain a comprehensive understanding of a given industry by analyzing the external environment (Porter, 1980). Each of the five components of this model can be examined within the context of the engineering consulting firm industry

The entry barriers to engineering consulting industry are relatively low since there is little need to create distribution channels and to invest large unrecoverable capital while establishing a new consulting firm. Moreover, there are no obvious economies of scale for existing professional service firms. Analysis of these elements shows that engineering consulting industry is not a difficult industry for newcomers to enter.

However, consulting engineering firms that comprise the new entrants are usually smaller in size with a lower overhead structure, and often do not have the breadth of discipline necessary for large projects (Boxall & Steeneveld, 1999). New entrants usually lack experience and outstanding human capital to bid successfully for large projects. Often, engineering consulting firms in the smallest tier will be subcontracted by the larger companies for very specialized work or will handle some excess work when the larger companies are over-committed (Boxall & Steeneveld, 1999). In the industry, these new, small entrants do not seriously threaten larger firms such as Wildcats, which is a well-established mature professional service firm. Overall, the threat of new entrants for Wildcats is mild even though the entry barriers to the industry are low.

The second element in the Five Forces Model is the availability of substitute products. The availability and pricing of substitute products can have a significant impact on business strategy (Porter, 1980). In the engineering consulting industry, the substitutes for the transportation planning service are the planning offices at government and academic research institutes. Due to the shortage of qualified public sector personnel who specializes in transportation planning, such as travel demand forecasting and transportation system analysis, the public sector does not have the capability to execute transportation planning by themselves – that is why they contract out transportation planning projects. Alternatively, academic research institutes usually employ their graduate students as research assistants. These rookie research assistants are assumed to lack the practical experience and social connections needed to generate feasible and practicable planning of transportation. Therefore, the transportation engineering consulting industry faces a mild threat of substitutes.

Third, in many industries, especially in manufacturing, suppliers may exert significant influence through the availability of raw materials and the subsequent impact on costs (McCosh, 2003). However, very little in the way of raw materials from suppliers are needed in a professional service industry. As a professional service firm, Wildcats Engineering Consulting Firm faces a negligible supplier threat.

Fourth, there is a serious threat from powerful buyers, who can squeeze the profitability of Wildcats Engineering Consulting Firm. The public sector buyers are very powerful

because they are the only buyers of transportation planning service. To benefit the public, the government has a strong incentive to request higher quality or more service from transportation engineering consulting firms, whilst simultaneously trying to lower purchasing costs. The powerful public sector buyers enjoy absolute advantages often at the expense of the profits of the firms that constitute the consulting engineering consulting industry.

Fifth, intensity of rivalry, given by the number of competitors, degree of product differentiation, cost conditions, and overall competitive diversity can have a substantial impact on decisions about which strategy to adopt (McCosh, 2003; Porter, 1979). In Taiwan, there are several large consulting firms that have the abilities and capabilities for large transportation planning projects. Due to powerful buyers, rivalry among existing competitors results in price reduction, service enhancement, and social networks being employed or used to win the government contracts. A study of this aspect of the industry shows that rivalry among in transportation consulting engineering firms to be high.

The above analysis demonstrates that the major external threat for Wildcats comes from its client, the government. The government demands high service quality when calling for bids. It also requests a high degree of interaction with the contractor during the service process and asks for after-sale service after the projects are over. Having a single powerful buyer increases the rivalry among firms in the industry as well as limiting profits in the industry, even though Wildcats benefits from mild threats from new entrants, suppliers, and substitutes.

Discussion

Executives choose strategies that they believe will make their business profitable. The concept of generic strategies includes cost leadership, differentiation, and focus (Porter, 1985). The two most prominent sources of competitive advantage can be found in cost leadership and differentiation from competitors (Pearce & Robinson, 2003; Robinson & Pearce, 1988). Based on the above analysis, two recommendations for overcoming the internal weaknesses of, and environmental threats to Wildcats are made; the improvement of project management capabilities for cost leadership and the enhancement of its corporate reputation for differentiation.

Cost Leadership: The Improvement of Project Management Capabilities

SWOT Analysis shows that the lack of good project management methods in the firm's operations process is its major internal weakness. To enhance operations efficiency, project management should become a way of thinking and a philosophy that should permeate the entire spectrum of project activities (Jaafari, 2001). The fact that Wildcats has to pay significant amounts of overtime wages at the "fire fighting" stage is a waste of 'safety time' during the early period of a project.

Mechanisms to reduce the 'safety time' at Wildcats can be put into two categories: student syndrome and unreported early finishes (Umble & Umble, 2000). Student syndrome, or procrastination, wastes safety time (Goldratt, 1997). During the early

stage of projects, little urgency is felt to work on the tasks immediately. Often the task is delayed until a significant portion of the available safety time has been consumed (Umble & Umble, 2000). Consequently, the professionals have no choice but to work overtime if they want to finish their project in time. Second, unreported early finishes squander safety time. When early finishes occur, they are not reported because there are consequences for reporting them. If employees at Wildcats report early finishes they will lose their negotiating ability for future task time estimates, or they will receive more projects in the meantime. Therefore, early finishes are 'wasted' because they go unreported (Umble & Umble, 2000).

There are two assumptions that underlie much of the behavior of Wildcats management in this area. First, the way to complete a project on time is to finish each task on time. So, managers add safety time to each task. Second, reducing overall safety will jeopardize on-time completion. As a result, protecting the scheduled completion of individual tasks is not the goal, rather, it is to ensure the rapid and successful completion of the project (Elton & Roe, 1998; Goldratt, 1997; Umble & Umble, 2000). Therefore, elimination of safety time for individual tasks is recommended. Eliminating safety time heals the student syndrome and reduces the possibility of early finishes due to excessive safety (Elton & Roe, 1998; Goldratt, 1997). On the other hand, eliminating individual task safety time does not imply that the project is left vulnerable. A project buffer is employed to protect the integrity of the project schedule (Elton & Roe, 1998; Goldratt, 1997; Umble & Umble, 2000). A project buffer is safety time added to the end of the project to protect the completion date of the project (Elton & Roe, 1998; Umble & Umble, 2000). Stripping safety time from every single task releases more time to create the project buffer, which in turn absorbs unexpected delays.

It is suggested that managers at Wildcats should strip safety time from every task during the early stages to eliminate the various things that waste safety time, and insert a project buffer at the final stage to protect the project. During the early stages of the projects, the professionals at Wildcats should finish their tasks as quickly as possible to overcome the various things that waste time at this stage and also try to improve the quality of their transportation planning. At the final stage, project buffers can absorb unexpected delays as a result of which the professionals should not have to work overtime. Overtime labor cost will thus be reduced, and high-quality output will remain protected.

Operational effectiveness and strategy are essential to superior performance, which is the primary goal of any enterprise (Porter, 1996). The improvement of project management capabilities enhances operational effectiveness at Wildcats Engineering Consulting Firm, and generates a low-cost advantage that will withstand the likelihood of pricing pressure from buyers (Pearce & Robinson, 2003; Porter, 1985).

Differentiation: Enhancement of Corporate Reputation

A successful differentiation strategy allows the business to provide a service of perceived higher value to buyers (Pearce & Robinson, 2003). One of the resources that fosters differentiation is corporate reputation. Both scholars and practitioners suggest that

favorable corporate reputation results in business survival and profitability (Balmer, 2001; Gray & Balmer, 1998; Van Riel & Balmer, 1997), and is an effective mechanism to maintain or accomplish competitive advantage (Bailey, 2005; Fombrun, Gardberg, & Sever, 2000; Ou, Abratt, & Dion, 2006; Van Riel & Balmer, 1997).

Corporate reputation is relatively stable and long-term, and is gained through collective judgments by outsiders of an organization's actions and achievements. It implies a lasting, cumulative assessment rendered over a long time period (Gioia, Schultz, & Corley, 2000). Balmer (1995) affirms that the benefits of a favorable corporate reputation include maintaining consistency in consumer demand, adding value to corporate offerings, contributing to corporate financial margins, and attracting top-notch personnel.

The particular characteristics of many services, especially their intangibility, warrant close attention to the issue of corporate reputation (Dibb & Simkin, 1993). Companies in the service sector realize that it is easier to market their services if they have a favorable corporate reputation since their intangible product, the service they provide, is difficult to measure and is frequently ill-defined (Laroche, Bergeron & Goutaland, 2001; Laroche, Yang, McDougall, & Gergeron, 2005; McDonald, De Chernatony, & Harris, 2001). As a company in the professional service industry, it is no doubt that Wildcats, as a consulting engineering firm, can use its company name as a form of brand identification in the of transportation planning service industry.

Wildcats Engineering Consulting Firm establishes its reputation by enhancing client satisfaction with its service. As mentioned before, public sector clients often ask Wildcats for technical assistance or for other additional consulting service; Wildcats receives little, if any, monetary reward for these services after contracts expire. Wildcats Engineering Consulting Firm provides after-sale support and service to its clients to ensure customer satisfaction and corporate reputation. While supplying after sale support to clients increases a company's good reputation, that is not enough. In order to enhance its corporate reputation, it is recommended that Wildcats align all marketing activities and communications with its business strategy and client needs. It is suggested in this respect that Wildcats ensures that its communications, both to the inside staff and to the outside clients, are clear, consistent, and reinforce what the company wants the corporate reputation to be.

Clear descriptions of what Wildcats does and how Wildcats adds value for clients should be used as a deliberate marketing tool for each of the services offered, in order to differentiate Wildcats' services from other competitors. Wildcats must convince its clients that its services are superior to the services of other consulting engineering firms. A clear description of what Wildcats does and how it adds value for clients enhances client satisfaction and the probability of future business. Differentiation strategies include delivering high quality service to clients, providing value-added descriptions to clients, working as a team with them and aligning all marketing activities or communications with the whole corporate strategy. All of these things should be

able to improve the competitive advantage enjoyed by Wildcats. Moreover, they can help Wildcats counter balance the strength of its powerful buyers, that constitutes the major the company faces.

Conclusion

Cost leadership and differentiation are recommended for professional service firms to overcome internal weaknesses and environmental threats. In the context of such firms, cost leadership refers to the improvement of project management capabilities and differentiation to the enhancement of corporate reputation. The fact that the case study company has to pay significant amounts of overtime wages at the “fire fighting” stage is because so much the safety time has been wasted during the early period of projects. The things that waste safety time at professional service firms are of two types: student syndrome and unreported early finishes. Stripping safety time from individual tasks is recommended. Eliminating safety time in every single task solves the problem of the student syndrome and reduces the possibility of early finishes due to excessive safety. At the same time, a buffer of safety time, which is generated by stripping safety time from every single task, is added to the end of the entire project to protect the completion date of the project. Therefore, during the early stages of the projects, time wasting e is reduced, and high-quality outputs are produced. At the final stage, the safety time buffer absorbs unexpected delays; therefore, no overtime is needed. Labor cost will be reduced, and high-quality output remains protected. Moreover, the low-cost advantage will help Wildcats withstand the likelihood of pricing pressure from its powerful buyers.

Differentiation is recommended to offset competitors in this case. Service sectors realize that it is easier to market their products if they have a favorable corporate reputation since their products are intangible. To differentiate the company’s service from other competitors, the enhancement of corporate reputation is needed and recommended. Differentiation strategies include continuing to deliver high quality service to the clients. Other recommended strategies include providing value-added descriptions to clients, working as a team with clients, and aligning all marketing activities or communications with corporate strategy. All of these efforts should improve a service firm’s overall competitive advantage, and can help the firm cope better with its powerful buyers.

It is essential for executives to undertake a strategic analysis of their firm. Specific --and frequently different--plans should be combined into a final comprehensive and internally consistent overall strategy to maximize the effectiveness. The present study has hopefully added to our knowledge about strategic management in the professional service industry. The ideas presented in this research are common strategic management techniques, which are available for strategic decision makers to exploit. Managers in professional service firms hopefully will find the recommendations that flow from our analysis useful in their particular firms. Managers in other industries may also follow the general procedure this paper to develop the most appropriate strategies for their particular circumstances.

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