

CHAPTER 1

What Makes the Asian Professional Service Firm Unique?

Professional services (ie doctors, lawyers, accountants, architects, engineers) are fundamental to the continued prosperity of Asia. In Hong Kong, for example, there are over 200 professional associations in the region and more than 10,000 establishments employing over 80,000 professionals. In fact, this sector of the economy has been nominated as one of the four pillar industries by the SAR government, recognising that such knowledge based assets are a key part of Hong Kong's future. This is true of many other Asian countries.

However, the substantial growth in this area is not without its concerns. An over-supply of professionals has already affected places such as the US to the extent that commercial management practices so often perceived as anathema to the professions are common place and key to the success of these firms and their future place in the market. Ever since the *Bates* decision in 1976 allowing law firms to advertise, the increase in the competitive nature of this sector has been palpable as clients become much more demanding (and discerning) and the old boys network of referrals are no longer sufficient to maintain professional practices, especially as services between firms are seen by clients as undifferentiated and fungible (an audit is an audit)! Research by McKinsey and Co in a study of law firms stated that all but the most profitable are in danger.

However, there is hope. In a study of professional service firms (PSF), researchers from Harvard Business School found that a 5% improvement in client retention could boost profits by 25–85%. The idea that marketing is a key factor in superior organisational performance is not new and substantial research now demonstrates that a market orientation is the bedrock of company performance. This has been demonstrated in both manufacturing and service industries, including the professional services. However, two of the major challenges facing professional firms in adopting a more market-oriented stance are the restrictions placed by the respective professional associations on the use of marketing activities (such as promotion) and the mind-set of existing practitioners. Research shows that many in the professions deem marketing to be below them and not fitting

with the image of an industry that has longed pronounced that profit is not a primary goal but of altruistically serving clients.

I Marketing and the Professional Service Firm

This perspective is understandable when one realises that the perception held by many professionals of marketing is one of advertising and promotion, the type of things that we as consumers are exposed to every day. Unfortunately, this perspective is a difficult one to break and will take a mixture of education and practice. Readers are referred to the writings of people such as David Maister and Bruce Marcus for a more complete view of the professional service firm and the place of marketing within it.

There are two aspects of this problem that must be addressed. The first area relates to marketing practitioners and educators. We, as marketers, must make clear that the scope of marketing as a business process is very broad and that promotion is only a small part of this equation. This need becomes even more pressing when one considers the many restrictions placed on promotions by professional associations and regulatory bodies. Indeed, research conducted in Hong Kong recently showed that many consumers would perceive professional services advertising negatively and would not consider a professional that advertised aggressively. World renowned management guru, Peter Drucker, said as far back as in the 1950's that an organisation has two primary functions—marketing and innovation. This message has been ignored by most industries until recently. The word marketing in this context refers to how an organisation will create and deliver customer value, what customers it will serve, and how it will retain them. Additionally, one of the major differences between professional service firms and other service firms is that they compete in two markets, one for customers and one for talent. Professional workers demand intellectually challenging work and an environment that stimulates learning and development. For a PSF, the need to balance these two environments is critical for long term development and this is where strategy and marketing can be so crucial even to a firm which has too much present business and is consistently over loaded.

The second area relates to leaders of professional service firms, those who are responsible for the strategic direction of their organisation. They must take the lead in communicating the need for a strong customer centric organisation and break the resistance and apathy that has so often gripped the professions by harnessing forces for change. These forces include the competitive nature now apparent in the

professions, the move by most professional associations around the world to reduce restrictions governing marketing activities, and in Hong Kong, the opportunities presented by such initiatives as CEPA.

The marketing of professional services is already a mature industry in the US and growing rapidly in places such as the UK. In Asia, although still in the embryonic stages in terms of acceptance and understanding, the need for a systematic approach to strategic management of professional service firms will only grow, and those firms that take the initiative in building the necessary capabilities will benefit greatly in comparison to those firms that continue with the old way of doing things.

In some ways, marketing is an unfortunate word when considered in the light of a PSF. The word conjures up notions of discount coupons, image above substance, and advertising that the professional would describe as crude. Perhaps it is useful to think of marketing as the engine of a car. Whilst the body and exterior are important because they signify certain characteristics of the car (stylish, fast etc), it is the engine that determines the true performance of the car. In the PSF, marketing is the engine that holds all the pieces together:

- It tells you what clients to serve and with what services
- It helps you choose markets
- It guides your business development activities
- It determines how your people interact
- It guides your hiring and HR strategies
- Is the major contributor to firm performance
- Paints a picture how you and your organisation is viewed by the world
- Influences the type of work you do and the level of stimulation you provide your people

The list is certainly not exhaustive but shows the importance of marketing as it should be: the key value driver of the firm. Notice how in the above list there is not one mention of promotion. The true substance of marketing has little to do with promotion, particularly in the PSF whereby client interaction with your staff determines the degree of success you will have. Tim Ambler of the London Business School says that trying to measure the ROI on marketing is like measuring the return on eating, if you don't do it you die! In other words, you may well be able to measure the return on specific marketing activities such as promotion or implementing a CRM system, but thinking you can consider marketing as a whole distinct from the rest of the organisation and attempting to consider

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)

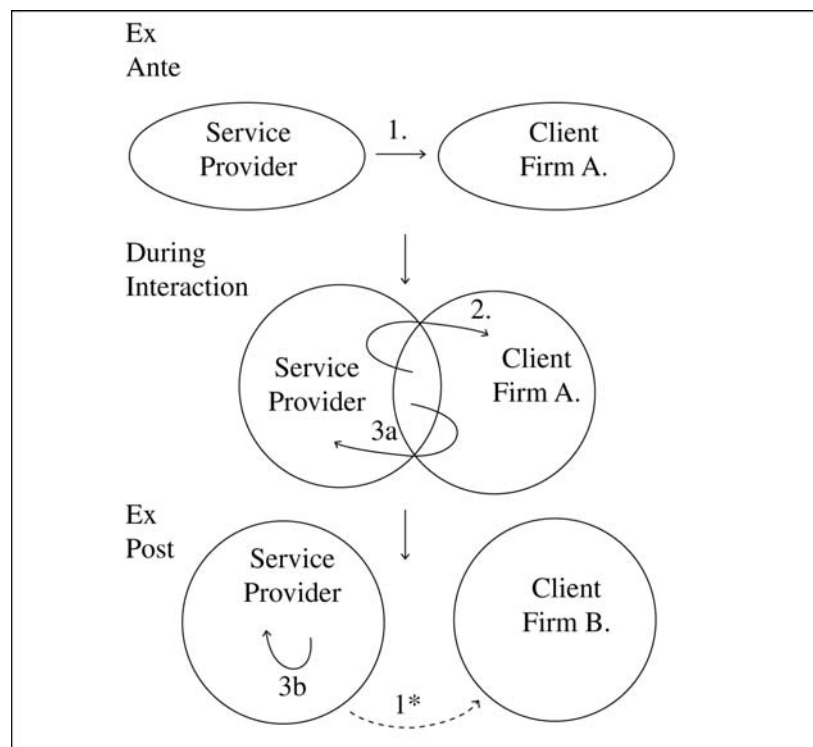
II The Professional Service Firms' Difference

To me, strategic management, strategic marketing and marketing in general are all cut out from the same cloth. Not only are they heavily intertwined in terms of the processes described by text books on marketing, there is substantial overlap in what they describe and prescribe. The problem for the PSF is that many of the theories and applications developed in these domains were developed from and for manufacturing firms and product marketers. Only since the 1980's has service marketing become a distinctly studied domain. Still, many of the existing concepts have been adapted from manufacturing marketing (such as the ideas of standardisation and low cost leadership) and their relevance to professional service firms is not really understood. If you are a PSF leader looking for guidance on the strategic management and marketing of your firm, there are not many sources or tools to choose from. For example, some of the most prominent strategic management tools have been developed by renowned US academics and consultancies (such as Michael Porter of Harvard and the Boston Consulting Group founded by Bruce Henderson); these include such concepts as the value chain or BCG matrix for portfolio management. From my experience and conversations with many professional firm leaders, these tools are almost impossible to apply or use adequately in the PSF context. Take the BCG matrix as an example. This concept espouses the use of market share and market growth rate as a means to analyse an organisations portfolio of businesses in order to suggest viable strategies etc. Yet for a law firm (which just landed a huge M&A deal) or an engineering firm (which just secured a global infrastructure project), the analyses are useless as you can go from being a leader in this area one year to nowhere the following year, based on your success rate in landing new projects and the huge dollar values often equated with such deals. That is, a business area can go from cash cow to dog in the blink of an eye. There are inherent problems in other tools as well. The three generic strategies developed by Michael Porter (cost leadership, differentiation, and focus) also creates a number of problems. Cost leadership is something akin to McDonalds and Dell whereby they are able to create a low cost structure based on extremely efficient processes and systems that produce the lowest cost structure in their industry and provide a competitive advantage. Whilst it is not impossible for the PSF to offer highly standardised and routine services (think H&R Block for tax filing services), the very nature of professional services and their key assets (people) makes this very hard. Whilst focus is a viable opportunity, differentiation in the PSF is different from manufacturing firms. I can differentiate my car by saying it is the safest (Volvo) or

the most quiet (Lexus) but I cannot say ‘we do better audits’ (the CPA firm). Differentiation is harder to identify and achieve for the PSF as high quality and expertise is the foundation of most PSFs, and indeed clients expect a certain degree of service quality as a given. Whilst I do not have all the answers to these issues, it is clear that PSF marketing and management requires different ways of thinking and at the very least, substantial adaptation of traditional marketing and management concepts.

In *Managing the Professional Service Firm*, David Maister highlights two key issues driving the challenges of managing a PSF. First, he describes the high degree of customisation needed in the majority of professional service projects. He then mentions the high degree of face-to-face client interaction which makes quality assurance a challenge and the needs for special skills of top performers. These two issues highlight the very real differences between PSFs and even other service firms. Bente Lowendahl in his book, *Strategic Management of Professional Service Firms*, expands on these two issues, and in doing so has created a useful summary depicted in Figure 1.1.

Fig 1.1 Value Creating Processes in the PSF



(See Lowendahl, BR (2000) Strategic Management of Professional Service Firms (2nd Ed), Copenhagen Business School Press)

The first process (ex ante) involves the ability of the firm to market and sell a credible promise. According to Lowendahl, the more innovative and idiosyncratic the service, the larger the knowledge gap will be and hence the more complex this process will be. During the interaction process, the firm must now deliver on what it promised and this can be problematic due to the knowledge gap between service provider and receiver and hence establishing clear expectations for project milestones and processes is necessary. Unfortunately, for the PSF, there is a need to strike a balance between offering customised solutions, yet drawing on the stored knowledge of the firm and using processes and systems that have been proven to work in previous experiences. This kind of productivity may be hard to judge in relatively innovative work and the burden is on the provider to make sure it sets clear expectations and is able to manage the quality of work necessary. Lastly, the PSF should become a learning organisation whereby learning that has occurred in previous work is institutionalised within the firm for the benefit of productivity and serving future clients.

It is precisely because of these core concepts just discussed that the strategic management and marketing of the PSF is both an anomaly and challenge for most marketers. The firm cannot be judged solely on profitability and hence markets and their requisite strategies cannot be judged by applying existing marketing theories with no regard for these idiosyncrasies. The reputation of the firm is crucial and this relies predominantly with the people who work there. In others words, the people are really the products but in no way can they be treated as commodities and be told to do this or that. Most professionals crave learning and they expect the firm within which they work to provide that opportunity. This may be particularly so for the junior level staff who act as apprentices within the firm. Even more so than traditional companies, the PSF requires marketing to be accepted fully and by all members of the firm if it is to succeed. This type of integration cannot be achieved if a firm develops a marketing strategy void of the intangible and tangible elements that are so critical to firm operations.

III A Last Point—Asian Culture

The discussion so far has talked about professional services with no consideration of the unique Asian business environment and its affect on the management and marketing on the PSF. From a tactical perspective, whilst professionals in North America and Asia are somewhat skeptical about the benefits of advertising, research shows that consumers in the western world are much more accepting of professional advertising than their Asian counterparts. In fact, one

study conducted in Hong Kong suggested that only quacks would advertise! This is supported by the view that Chinese societies are collectivist and rely heavily on word of mouth communication for information. Although issues such as promotion are discussed later in the book, it does highlight some cultural variances.

From a broader perspective, research has shown the working attitudes of people in Asia to be different from those in Europe or elsewhere. Oliver Yau (a professor based in Hong Kong) has discussed Chinese cultural values and their marketing implications. For instance, he states that Chinese consumers are less likely to blame service providers for bad outcomes and more likely to assign such experiences to fate. This 'man to nature' orientation suggests that the Chinese are less likely to complain and hence formal mechanisms to measure satisfaction/dissatisfaction maybe inappropriate when measuring marketing effectiveness. For the PSF, this suggests the intimate nature of client interaction should be used as a tool to closely monitor the satisfaction of work delivered.

These examples are meant to point out that in many cases, the unique nature of the PSF is exacerbated in the Asian region because of cultural differences, and hence creates even greater challenges to the management of such firms. If appropriate, varying cultural issues will be highlighted in the following chapters and their marketing implications discussed to deepen the relevance of the concepts being analysed for the benefit of the reader based in Asia, for which this book is catered towards.

