

# Influence factors for operational control and compensation in professional service firms

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## Abstract

Professional service firms have distinct operational challenges due to the type of work that is transacted by the employees of these firms, and due to the nature of the employees themselves. In this paper, we develop and present factors that influence professional service operations in firms and compensation structures for professional service providers. We establish professional service influence factors, which we posit will impact agency relationships in professional service firms. That is, we hypothesize that professional service influence factors (PSIFs) will moderate the effect of task programmability and outcome measurability in predicting the use of behavior- or outcome-based compensation schemes (control strategy). Logistic regression is used on data provided by 192 professional service providers in order to examine the impact of the agency variables and moderating factors on control strategies. The results indicate that company- and profession-based factors have moderating effects on task programmability when predicting control strategy. We discuss the implications of our findings.

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## 1. Introduction

Professional service firms are an increasingly important industry group. In the [United States](#), the [Department of Labor \(2006\)](#) statistics report that employment in professional and business services increased approximately 56% over the last 15 years.

A review of the literature finds a distinct characterization of professionals. [Abbott \(1988\)](#) points to the knowledge system and abstraction as the tenets of this occupational group. Knowledge systems provide valuable expertise, based upon which, the group can restrict entry into the market for providing the services of the occupation ([Law and Kim, 2005](#)). Also important is the abstraction of the knowledge such that the professional can redefine problems and tasks so that the knowledge applies to particular cases. [Shapiro \(1985\)](#) suggests that professionals exist due to their education level and professional societies, which restrict membership to the profession by special requirements. In addition, [Larson \(1990\)](#) points to the connection of credentials to education level as an important structural link that helps

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establish professions and professionals. These characterizations translate into a distinctive industry group, but also a distinct environment for managing operations.

The success of any service operation involves managing day-to-day operations that include managing and controlling customer service. In professional service firms, the managers have the role of defining professionals' task boundaries and managing coordination between the administrative core (Mills et al., 1983), thus guiding them to act in the best interest of the firm. One of the three main goals of professional service firms is to deliver a high level of customer (client) service (Maister, 1993, p. 4). According to Maister, control for customer service in a typical service operation can take a variety of forms which are often integrated elements in a service quality program, for example, measurement, coaching, employee training, reward systems, and other methods. However, professional service providers are relatively autonomous in their work and it may require that managers influence and govern behavior of these professionals via more subtle influences. Furthermore, nowhere is customer service more important because "...a [professional service firm] tends to sell to its clients the services of particular individuals...more than the services of the firm," according to Maister (1982, p. 15).

The complexity of professional services work moderates consumers' (Patterson, 2000) and managers' abilities to judge the performance of professional service providers. So how do managers of professional service firms manage customer service behavior of their employees? What are the sources of information for these employees' customer service behavior and control? Service providers obtaining and cognitively processing good information regarding customer service performance is crucial due to the nature of professional work, that is, the work of selling oneself. Furthermore, professional work often takes place in an environment where formal, direct supervision and control are absent.

Mills et al. (1983) propose self-supervision as the primary management control mechanism in professional service firms. They focus their argument for self-supervision on the personal relationship between the professional and the client. They assert that this self-supervision may be disrupted or impeded by formal controls (roles, rules, and standards imposed by a bureaucracy). Agency theory (Fama and Jensen, 1983; Jensen and Meckling, 1976) has been used to explain these relationships in professional service firms. Sharma (1997) proposed that agency helps

explain the relationship between professionals and their client firms. Power asymmetry (favoring the professional), peer oversight, and coproduction of the service products alters the agency relationship. Eisenhardt (1989) identified environments with goal conflict, outcome uncertainty, and unprogrammed/team-oriented jobs as theory-relevant contexts for agency models. Lastly, Melnyk et al. (2004) call on researchers to consider agency theory as a context with which to position metrics for directing and controlling operations.

In addition to management and control of service providers by firm managers and clients, the nature of professional service work compels other influences to impact their motivation and behavior. For example, among their other functions, professional societies promote information that helps shape norms of professional behavior, including customer service behavior. In the case of the New York State Bar Association (NYSBA), they demonstrate significant influence over attorneys in that state. In *NYSBA's (2005) The Lawyer's Code of Professional Responsibility*, Canon 7 (p. 57) is titled "A Lawyer Should Represent a Client Zealously Within the Bounds of the Law," and Ethical Considerations 7–4 through 7–18 is subtitled "Duty of the Lawyer to a Client." These 15 Considerations are "statements of axiomatic norms" for standards of conduct between attorneys and clients. So, this document provides several statements regarding the expectations and requirements of how Bar members should serve their customers in New York state. In addition, the following is Ethical Considerations 1–4 (NYSBA, 2005, p. 5):

A lawyer should reveal voluntarily to those officials all knowledge, other than knowledge protected as a confidence or secret, of conduct of another lawyer which the lawyer believes clearly to be a violation of the Disciplinary Rules that raises a substantial question as to the other lawyer's honesty, trustworthiness, or fitness in other respects as a lawyer.

Substantial statements and encouragement regarding, in this case, peer monitoring from a large and powerful professional society helps reduce the risk that incompetent practice in the profession will go unchecked and unreported. Therefore, employers of members of such a society should enjoy lower costs of monitoring their service providers than if they were allowed to practice unaffiliated and without expectations of professional community oversight.

The purpose of this study was to identify general sources of influence that impact professional service

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