

BUSINESS SERVICE FIRMS AND MARKET SHARE

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ABSTRACT

Traditional thinking suggests that profitability is linearly dependent upon market share, an assumption not carefully tested for services. This assumption is examined in this study for business services in light of the apparent opportunity in this sector for entrepreneurs. Cross-sectional data from secondary sources suggest that a V-shaped relationship may be a better description of variation up to nine times average firm size in this sector. This interpretation of results is important to the strategy of small business managers because it relates to the plans they might make in growing their businesses. Normative recommendations promise improvements for firms entering the critical intermediate share stage. These include focusing on revenue per employee as an objective, developing professional management assistance, formal projectification of work (thus utilizing "virtual organizations"), and paying attention to organization while growing.

INTRODUCTION

It has been suggested that the business service sector has represented opportunity for potential entrepreneurs (Wilson, 1997). Average firm sales in this sector have been assessed to be about \$900 thousand (\$896,723) with about 18 employees (Wilson & Smith, 1996) – a seemingly comfortable size for a sole proprietorship. Making matters even more interesting for entrepreneurs has been the favorable supply and demand characteristics of this sector. Because of the tendency to be small businesses, competitive firms could be structured around the capabilities of as few as a single person; on the demand side, there has been a steadily growing market of industrial customers – fueled in part by tendencies of large firms to downsize.

A previous study of market share's impact on profitability in the business service sector suggested a linear dependence of profitability on market share (Wilson, 1997). That is, it appeared firms could improve their profitability by increasing market share. The nature of the approach used in that study, however, virtually forced a linear dependence. A subsequent review of the data suggested that a simple linear variation might not be the most appropriate interpretation of profitability/market share results.

This behavior is important because growth tends to be an objective of businesses, especially small ones. It has been observed, however, that businesses tend to have problems in growing. Many

organizational life cycle theorists believe that organizations encounter a predictable series of problems that must be managed if organizations are to grow and survive in a competitive environment (Jones, 1995). These observations may be especially relevant in the business service sector. That is, these problems would appear to be particularly severe in businesses that are dependent not only upon the performance expertise of the principal, but his/her management guidance as well - as tends to be the case for the average business service firm. In fact, a subsequent review of cross-sectional market share data indicated some problems in profitability may occur as these service organizations grow. The purpose of this paper is, therefore, threefold. First, the dependence of profitability upon market share for firms in the business service sector is re-analyzed. Second, the probable cause of this observed behavior is discussed. Third, in light of the observed behavior and probable cause, recommendations are made for managers of small, growing business service firms. Results should be interesting to practitioners who must develop strategies and subsequently organize to implement them. The same results may be important to academics interested in performance in growing firms, especially business service firms.

BACKGROUND

Business Services - Business services are those services provided for business customers. "Business customers" in this case refers to industrial, commercial, institutional, and government organizations that purchase certain services to sustain their ongoing activities. The U.S. Census of Services lists eight production categories that constitute approximately 80 percent of services in this sector - computer and data processing, management consulting, advertising, R&D laboratories, personnel supply services, detective and security agencies, building services, and equipment rentals. Usually accounting services, engineering and architectural services, and at least some portion of legal services have been added to this listing to define the business service sector from a production standpoint.

To some extent, these businesses may be ideal for creative, independent professionals. They tend to be built around a key individual, or individuals (Quinn, 1992), and the industrial customer base tends to be easier to target than consumer-oriented businesses (Haas, 1995). Further, downsizing may provide continued growth in this sector in the future under current economic conditions. On the one hand, this practice provides insecurity for employees of the downsizing firm. On the other, it provides opportunities for private vendors. It has been suggested that outsourcing would grow 23 percent over a recent twelve month period (Ozanne, 1997). In other words, the work of a downsized staff does not go away. Rather surprisingly, sometimes it is done by the same people except under different employment conditions - it was reported that when DuPont reduced its labor force over a seven year period, approximately 30 percent of "downsized" ex-employees returned as independent vendors or contractors (Clark, 1997).

Service Organizations - In general, Pasmore (1988) observed that while organization design is not always completely rational, it is "choiceful." That is, a number of design alternatives may exist for an organization. Actual organizations of course starts with firm formation and evolves over time. It was suggested that "Often the intuition of the founders leads them to arbitrary choices of what markets to enter, what technology to use in producing goods, who to hire and how to organize." Earlier Lindblom (1959) characterized such a decision process as a successive limited comparison, or a "scientific muddling through," approach - essentially proposing that normal decisions tend to be made from simple usage of relatively available information. To the extent that evolution reflects conformity with the environmental demands of a firm, the resultant organization might be expected to represent some optimal structure for the available resources, competition and opportunity that presented themselves. Normann (1983, 184) was perhaps the

first to dwell on effective service organizations and their management. He reportedly observed two types of effective managers in service organizations – those who grew up with, or founded, the organization and those who could motivate employees. In his opinion, the “best was a combination” of these characteristics. In perhaps an alternate approach, a formalization of role specialization has been suggested for professional service organizations (Kotler & Bloom, 1984).

Quinn (1992, 73-74) noted a company could achieve dominance using fewer resources by leveraging the intellect of key people by using them in different adhocracies specifically focused on customer needs. In this regard, Mintzberg (1983, 261) indicated that in adhocracies, managers are functioning members of project teams, with special responsibility to affect coordination among both team members and with other teams. Distinction between line and staff blurs, and the support staff plays a key role. Daft (1992, 479), in interpreting Mintzberg, suggested adhocracies develop to survive in complex, dynamic environments. Team-based structures typically emerge, and although there may be an elaborate division of labor, it is not formalized. Coxe (1980), in fact, described such teams and their management in architectural firms.

Quinn (1992, 262) further suggested that leveraging upon key personnel could be a general strategy. That is, most of the “great” laboratories, consulting firms, business schools, or even universities grew to prominence around the skills and personalities of only a few – two to five – key people. Virtually all the value-added contributions of these organizations reportedly came from deep professional knowledge, reliability and precision delivered with unswerving dedication (270). Employees with trained intellect and skills were seen as the true value producing capabilities of a firm. They and their customers, along with the codified knowledge that bound them together, were the true assets of these organizations (271).

Projects appeared important in these businesses, and the concept of the project as both an organizational unit and as a work unit in business services was suggested as applicable (Wilson, 1996). For example, Harvey and Rupert (1988) identified the “test” project as being an essential element of final selection of an advertising agency. Day and Barksdale (1992) also cited “satisfaction with previous projects” and “has worked on similar projects in the past” (emphasis added) as an indication of quality used by clients in supplier selection. Lundin et al. have noted the increased tendency to utilize projects in industry (Lundin & Midler, 1998) and the use of temporary (virtual) organizations in them (Lundin & Söderholm, 1995). Peters (1992), in his discourse on effective organizations, went so far as to say “the project is *everything*.” Nevertheless, Wheelwright and Clark (1992) indicated that project portfolios must be managed to the degree that they maintain a strategic focus. That is, both the organization and its projects must serve the purpose for which they were created. A long-term goal of this portfolio management approach was the development of critical capabilities for the organization.

Profitability and Market Share - Market share's association with profitability and the attendant impact on strategy have provided for some interesting discussions in the marketing literature. In the PIMS description of market share's effect on strategy this attention catching observation was made, “On the average, a difference of 10 percentage points in market share is accompanied by a difference of about 5 points in pre-tax ROI” (Buzzell, Gale & Sultan, 1975). At about the same time, however, Day (1975) indicated that such an association was not automatic and indeed share gains could be “pyrrhic victories” if financial resources were inadequate to take advantage of gains.

From another perspective, Porter (1980) reasoned that perhaps linear market share dependency was not to be expected. Rather, low share businesses might be expected to do well because they were focused, differentiated firms and high share firms might do well because they were cost leadership

firms. Firms in the middle, on the other hand, might not do well because they were neither, thus leading to "U" shaped behavior. The strategic implication, therefore, was not to get stuck in the middle, but rather to pursue one strategy or the other – a view endorsed by Peters (1988). Kotler (1995, 382), citing both the work of Porter (1980) and Roach (1981) described a "V-shaped" profit v. market share curve that related to agricultural equipment firms. High profitability at low share was associated with focus, while similar profitability at high share was linked to specialized production, as well as marketing skills and distribution in the segment.

In their discussion of profitability/market share as it related to PIMS and other observations, Buzzell and Gale (1987) did not assert small share businesses could not be profitable. Indeed, they cited references that tended to indicate the contrary (Hammermesh et al., 1978, Woo & Cooper, 1982). Nevertheless, on one item there appeared to be little give -- the relationship between market share and profitability uncovered in the PIMS study was the most likely existing relationship (92).

These discussions, of course, were primarily for manufacturing firms and for primarily large firms at that¹. It is not clear where service firms lay in share considerations. Shostack's (1977) seminal article suggested that services were "different" and a break away from product marketing theory was in order. Thus, some consideration to share growth strategy would naturally seem to be in order. In this regard, Heskett's (1987) observations on services seemed to indicate there were no automatic advantages to getting large. Managers of large service businesses appeared to have even more problems than managers of small businesses – "bigger is not better in those situations in which the factory must be taken into the marketplace. . ."

Cross-Sectional Studies - Cross-sectional studies have become a rather accepted approach for making comparative assessments of approaches to strategic management. Possibly the best known use of this approach has been the PIMS studies conducted at Harvard (Buzzell & Gale, 1987). Consequently, these observations have become a rather standard inclusion in texts on strategy (see, for instance, Kotler, 1995). Wilson (1997) has recently used this same methodology to make observations on marketing strategy in small businesses – employee productivity, as well as market share, were found to be statistically significant in determining profitability levels.

METHODOLOGY

An ordinary least squares approach was used to examine the relationship between profitability and market share, especially at low multiples of average share for firms in the business service sector. A simple regression expression in which pre-tax profitability's dependence on market share was constructed as was done in the previous study (Wilson, 1997). The data base used in this study came from two sources – Census of Service Industries (1992) and RMA Annual Statement Studies (1993). Although the latter source carries a disclaimer, it has been used previously in research studies with apparent successful results (Wilson, 1997; Davidson & Dutia, 1991) and is a standard reference in small business centers and loan departments in banks. The dates of the data used in the study were fixed by the availability of census information—1992 was the latest

¹ There is much material written about market share and strategic advantage that has not been covered in this selective coverage of the literature. One of the reviewers, for instance, suggested that the paper by Prescott, Kohli and Venkatraman (1986), Strategic Management Journal be included. That research found that the relationship between market share and profitability was dependent upon the structure of the industry.

year for which information was available. The RMA compendium of 1993 was for 1992 annual reports and thus reflected the same timeliness. The census information was used to determine average firm size for the respective segments and RMA data to determine profitability of various sized firms². That is, one aspect of the RMA information was a compilation of income information into six size ranges, \$0 – 1 MM to >\$25 MM. Thus, the combination of profitability v. firm size and average firm size could be used to develop a profitability v. relative market share profile for business service segments as reflected in Table 1.

“Relative market share” was used as an independent variable and should be discussed within the context of this study. Usually market share is measured as a percent of total market. Relative share, which appears to have current attraction (see, for instance, Kotler, 1995), is measured as a percent of largest firm’s share. Neither data source presented data on largest firm size, but average firm size was available. “Relative market share,” therefore, is presented here as a multiple of average size. This approach facilitated normalization of data to a single scale while capturing relative size and was consistent with the earlier study (Wilson, 1997). The sample characteristics also need to be clarified because intermodal averages can be skewed by several large firms. That possibility seems unlikely here where at least 190 firms determined the average (Please see Table 1, where the median for the number of firms in each size range is 242).

Profit before tax was used as a dependent variable both because it was consistent with previous studies (Wilson, 1997; Wilson & Smith, 1996) and because of its dependence upon marketing effort – as opposed to return on investment, which tends to be more financially oriented. A major question about these data tends to be related to internal consistency and comparability. In other words, were the figures digested from legal services, for instance, comparable to those for engineering and architectural services? In this regard, a significant consideration is firm organization and treatment of salaries. The preface to RMA suggests equivalent treatment in this regard, so financial data and ratios should be comparable. Finally, simple regression was used to test behavior because of its precedence. That is, from a theoretical (Buzzell & Gale, 1987; Kotler, 1995; Porter, 1980; Peters, 1988) and empirical (Buzzell, Gale & Sultan, 1975; Kotler, 1995, Wilson, 1997) standpoint, a simple profitability/marketshare analysis has been used. This work can thus be compared directly with previous studies.

RESULTS

Description of Data – Sixty-eight (68) cases, representing census information and financial results from 2908 RMA firms, were compiled and analyzed. These sixty-eight cases were comprised of information availability in individual SICs representing the eleven business service segments referred to previously – computer and data processing, management consulting, advertising, etc. The 2908 RMA firms were the total number of firms that contributed to these sixty-eight cases. Relative market shares in the range zero to ten were studied with midpoints in range were used to

² Data from Robert Morris and Associates’ (RMA) Annual Statement Studies used with prior authorization. As a condition of use the following disclaimer, which appears in each publication of RMA studies, is included. “RMA cautions that the Studies be regarded only as a general guideline and not as an absolute industry norm. This is due to limited samples within categories, the categorization of companies by their primary Standard Industrial Classification (SIC) number only, and different methods of operations by companies within the same industry. For these reasons, RMA recommends that the figures be used only as general guidelines in addition to other methods of financial analysis.” Copyright Robert Morris Associates 1997. The authors of course are responsible for interpretation of the information used in this study.

analyze results. T-tests on the point estimates of average values of profitability versus trend values for the best straight line through the points established the level of significance for the individual points.

A fairly obvious conclusion in perusing the data was that a significant variation from linearity was involved. Table 1 shows five of seven points had statistically significant variations from the trend line. Further, the groupings—two plus, two minus, and three plus suggest curvilinear, perhaps U or V-shaped, variation. This relationship was thus explored further.

It is important to note in passing, however, that these results relate to *profitability* and not *profit*. In this regard, two points in Table 1 might be analyzed. An average size business service firm has sales of \$896,726 (Census of Services 1992, Table 2A). Thus, a firm of 0.5 times average size with a pre-tax return on sales of 6.57% would have pre-tax profits of about \$29,600. A firm of 1.5 times average size with a pre-tax return on sales of 5.16% on the other hand would have a pre-tax profit of about \$69,400. A typical firm growing by this amount therefore would generate 135 % higher pre-tax *profit* dollars even though *profitability* had decreased 21 percent. The overall results thus suggest that the apparent *efficiency* in generating profit decreases at intermediate share and not that the firms generate a lower amount of profit dollars.

Table 1 - Sector Profitability for Small Relative Share

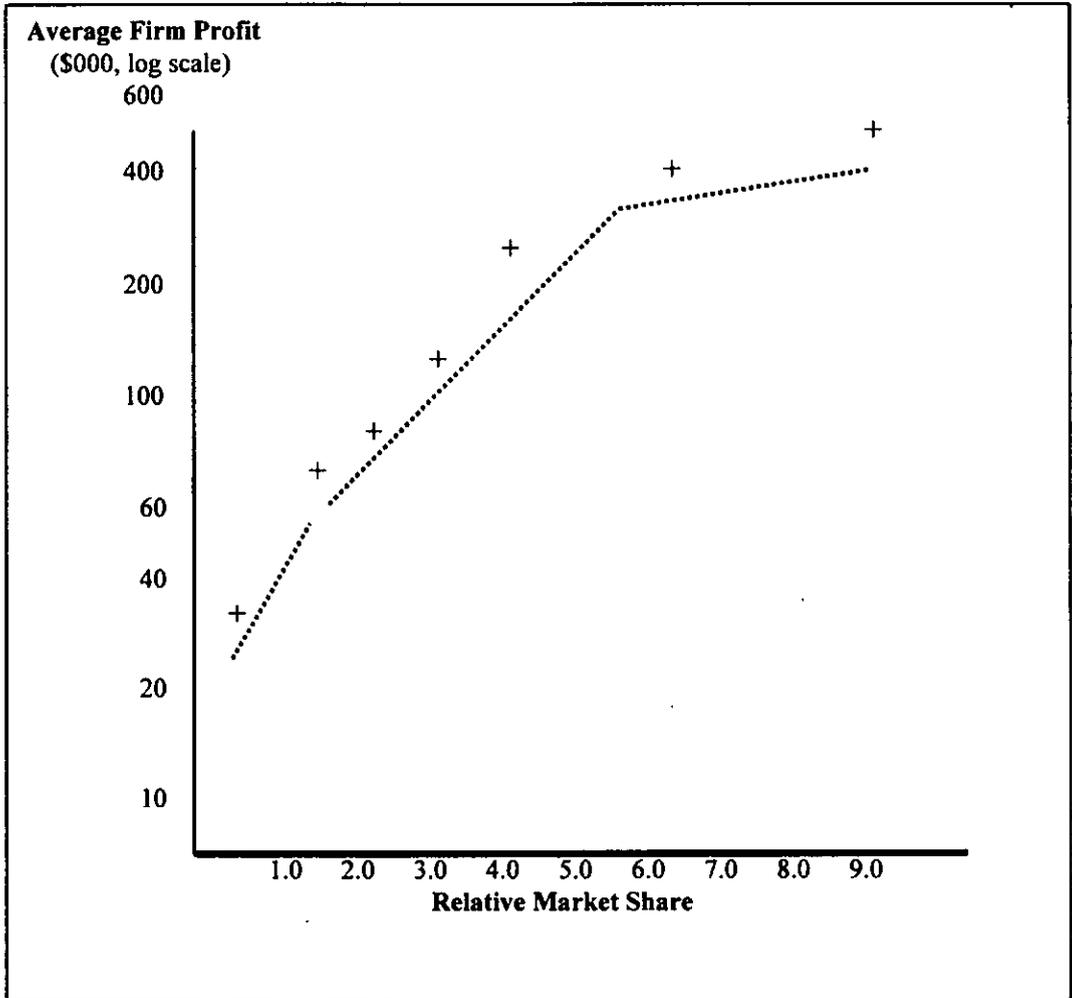
Range in Rel. Share	No. Firms Represented	Mean PBT(%)	Trend Value(%)	t -Value	Ave. Co. Profit (000)
0 - 1	640	6.57	4.63	3.18*	\$ 29.5
1 - 2	862	5.16	4.86	0.49	69.4
2 - 3	242	4.03	5.09	- 1.74*	90.3
3 - 4	273	3.96	5.32	- 2.23*	124.3
4 - 5	317	6.80	5.49	2.15*	274.4
5 - 7.5	384	7.58	5.95	2.67*	424.8
7.5 -10.5	190	6.19	6.58	0.64	499.5

Definition of Terms:

Range in Rel. Share	- Range in relative share used as the independent variable in analyzing data.
No. Firms Represented	- Number of firms in RMA data base whose profitability is reflected.
Mean PBT (%)	- Average of profit before tax for all firms within the size range.
Trend Value	- Value of profit before tax taken from best straight line through data as percent.
Ave. Co. Profit	- Calculated average profit for average size firm within size range.

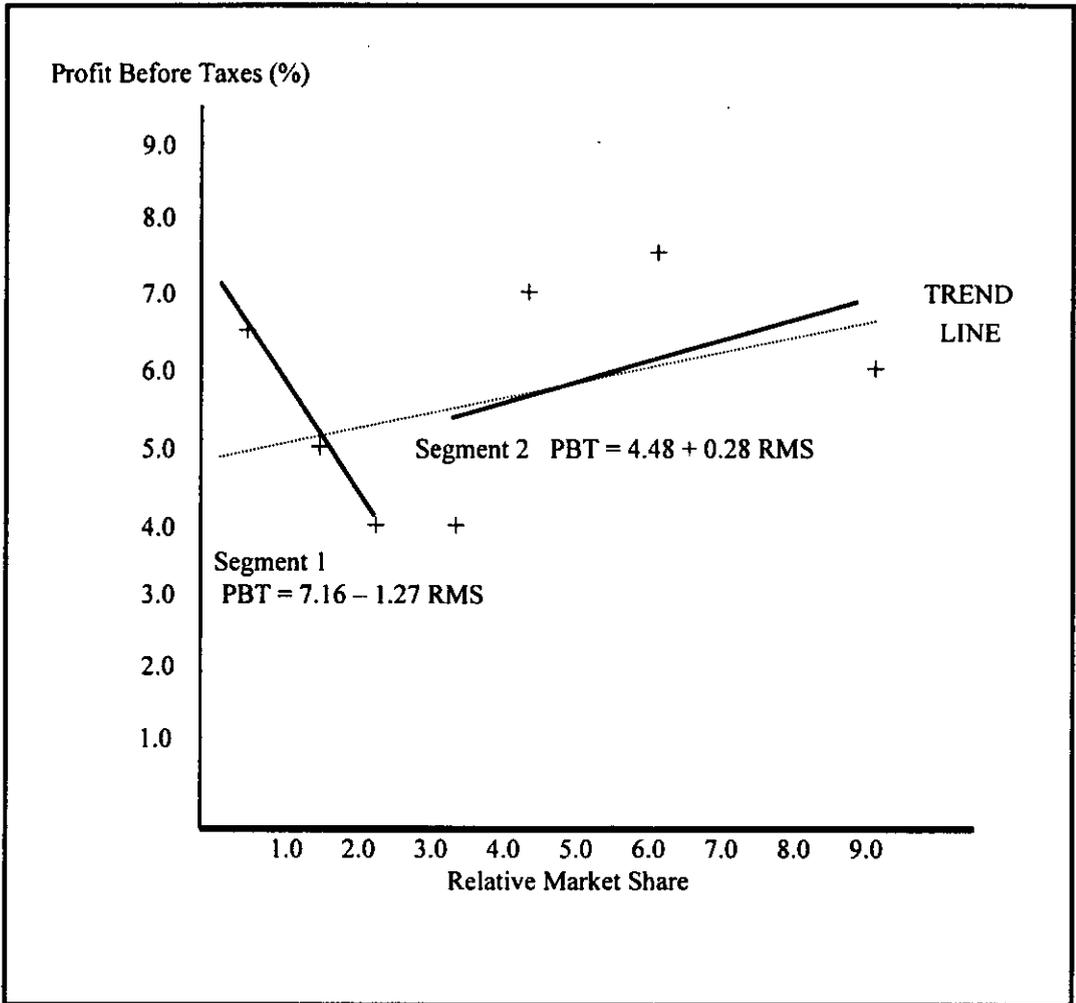
Figure 1 has been constructed for the complete range of data and profit for this study. It is seen to be a monotonously increasing function of share. In general, firms would, therefore, have an incentive to continue growing even though their apparent efficiency in generating profit dollars might decrease as suggested here.

Figure 1 – Average Company Profit for Small Relative Share



Market Share – Linear or V-Shaped? – Nevertheless, it was firm *efficiency* that was of interest in this study. It has been suggested there are two schools of thought on market share’s impact on profitability. On the one hand, PIMS advocates (Buzzell & Gale, 1987) suggested rather strongly that linear variation should be observed. That is, there should be a continuous increase in profitability with increasing market share. Porter (1980) and Kotler (1995), on the other hand, suggested that the variation may be U or V-Shaped. That is, both small specialists and dominating firms may be profitable, but for firms in between profitability may suffer. Kotler (1995) has published data that support both arguments and reconciled observations. Essentially, it appeared to be a matter of how “markets” were measured – either in total or by segment served (383). If total market was used as a measure, V-shaped behavior seemed likely; if segment served was used as a base, it was reasoned that linear behavior might be expected.

Figure 2 – Profitability for Small Relative Share



In this regard, the share measurements of this study were most closely associated with the total market. In accordance with theory, the results suggested indeed that there were statistically significant deviations from linear variation. The trend line is shown in Figure 2 along with the original data and sample standard deviations. Clearly, the best straight line fit was not good (as suggested above) and as can be seen from examination of Figure 2. In terms of usual statistical measures, the overall trend line had an $R^2 = 0.13$, which indicated 13% of variation could be explained by the trend relationship.

Non-linear behavior was tested and an attempt was made to fit two straight lines (a “V” behavior) to the data. A number of combinations were tried. Virtually any division of points that broke the trend line into two segments improved goodness of fit as measured by R^2 of the segments compared to the trend line. For instance, the two lines of Figure 2 had R^2 's respectively of 0.996 and 0.195. This particular treatment produced the best overall combination of R^2 's for the available information. It was thus concluded that although there might be some question about

how important market share might be in overall variation, it is virtually certain that share addition initially was associated with a decrease in profitability before increasing monotonously.

Further, because the original information had a cross-sectional base of business services, it was suggested that this behavior may be common in individual segments. That is, it may just as likely occur in law firms, for example, as it does in engineering and architectural firms. Clearly the ability to fit the data in the initial portion of the curve with a straight line was better than with larger market share data. It is not obvious why this occurred. Perhaps the behavior was associated with the points at which organizations became effective again. These points of course would be blurred in cross-sectional results. Rationalization, however, was beyond the scope of the present research. Nevertheless, it might be noted that even the R^2 in the second segment is better than that for the overall trend line. Thus, using two segments to describe the data was obviously better than using one.

DISCUSSION

The results clearly suggested that initially there is a profitability decrease with market share for business service firms at low market share. That is, a V-shaped variation best described the profitability v. market share relationship of business service firms at market shares under 10X average market share. These results are important because of the general definition of "small firms". If a size of 200 employees is taken as an upper limit for a small business, then virtually all the data used in this study related to small firms and thus small business service firm behavior. These observations should be relevant in assisting in the formation and implementation of small business strategy and providing benefit to small business and entrepreneurship education. Further, because of the role of business services in the U.S. economy (Wilson & Smith, 1996) and their likely continuation due to present corporate practices (Clark, 1997; Ozanne, 1997), these results are important because of their magnitude of impact.

Actual profit dollars, on the other hand, tended to increase monotonously with share. Thus, there could be an insidious tendency for firms to grow without regard to their efficiency in growing profit dollars. That is, because profitable firms tend to increase profit dollars, there may be a tendency to disregard profitability in its growth. Table 1 suggests, for instance, that profit may increase 135 percent in going from one half average size to average size while profitability decreases 21 percent.

These results are important for two reasons. First, the tendency for business service firms to become less efficient as they grow should be recognized by managers. Second, the decrease in profitability at low relative market shares (0.5 to 3.5) should be regarded as opportunity costs by managers. That is, if growth could be handled constructively, there may be no reason for the profitability to decrease. This topic is not incidental – the business service sector, in addition to providing opportunities for entrepreneurs, represents 5.6% of gross domestic product (Wilson & Smith, 1996).

There are precedents, of course, for expecting this type variation in the industry, so results are consistent with at least part of the literature. At the macro-level, V-shaped share curves have been postulated (Porter, 1980; Peters, 1988; Kotler 1995). In terms of factors mentioned in the PIMS study, there is reason to suspect that two items generally associated with share effects would be weaker for service businesses due to their labor intensity -- economies of scale probably would be much weaker and market power at least somewhat weaker. That would leave a third factor, quality of management, as a factor to associate with high market share businesses. If larger service

businesses had better managers, then positive share observations should be obtained. That association would not appear to be automatic – if twenty years of literature on marketing and managing service businesses has taught anything, it is that service businesses may indeed be different and a real challenge to manage as Shostack's (1977) article suggested. Thus, growth of these business services organizations needs to be considered.

At the micro-level, organizations are known to go through turmoil as they grow (see, for instance, Jones, 1995). Jelinek (1979), in a longitudinal study of Texas Instruments, in fact found transitional stages were required in the evolution of this firm. It is likewise known that transitions in business service organizations occur, and that they may relate to organization size. Coxe (1980), for instance, studied architectural firms; he recognized three stages that went from "no management" for firms of less than five people, to "shared management" by principals in the fifteen to twenty people range, and "formal management" by firms of over 100 people. Promotion, of course, tended to be associated with qualitative performance. These observations would appear to relate to the present study; share growth from 0.5 average size to 3-4X average size tended to produce decreased profitability. Using an average business firm size of eighteen employees (Wilson and Smith, 1996), calculations would suggest that firm sizes of nine to 63 people would be in a precarious profitability position. This size range fits into the middle segment of Coxe's observations and thus, would appear an area of organizational concern.

Although individual business service organizational situations would require individual attention, it is likely that the literature provides some guidance in this respect. It would appear that organizations might be quite individualized both because of the nature of services (Heskett, 1987; Shostack, 1977) and the importance of key individuals in these organizations (Quinn, 1992). Further, it might seem that these organizations might need to evolve over time (Passmore, 1988; Lindblom, 1959). That might not be the case, however, in a normative sense. Normann (1983) suggested there are preferences for the management style of effective service organizations, i.e., "combination" founder-motivators were found effective in his observations. Mintzberg (1983), in fact, recognized adhocracies as an organization approach would seem to fit the nature of these businesses at their start up stage. Subsequent development apparently would depend upon the accepted mission of the organization (Mintzberg, 1989).

RECOMMENDATIONS FOR MANAGERS

Small business managers may not be so much interested in these general observations, but what might be done more specifically about this problem. The question becomes, "Can something be done to prevent a profitability decline in my business service business as the firm grows?"

Three premises might be established. First, as the firm grows, the ability of the organization's founder to let go and adapt is crucial in an organization's survival (Jones, 1995). Second, individuals are important in the formation and conduct of these businesses (Quinn, 1992). Third, many professional service firms have designated people as (Kotler & Bloom, 1984):

- "Finders": those who find business,
- "Minders": those who take care of and develop the account,
- "Grinders": those who service the account,
- "Binders": those who hold the firm together and lead it³

³ Original reference, David H. Maister (1982). Balancing the professional service firm. *Sloan Management Review*, Fall, 15-29.

Initially, it is the founder who plays all these roles, but as the firm grows the combined responsibilities become great. This inability to efficiently function in all these roles is thought to be associated with the probable cause of the observed decrease in profitability.

There are four contributions management might make that could assist in sustaining profitability during the critical low share period. First, and perhaps most important, the firm should focus on sustaining revenue per employee. This focus must be a primary objective during growth. It has been suggested that a 10,000 thousand dollar increase in revenue per employee could be associated with more than one-half point increase in pre-tax profitability (Wilson, 1997). Thus, as people are added to a firm, efforts must be made to cover their salaries, which infers significant effort in this area by key people, the *finder* function.

Second, professional management, the *binder* function, might be sought earlier in the growth.⁴ This suggestion might seem contradictory to the first recommendation, but addition of professional assistance early in the growth curve would permit more time for key people to find and implement work. Third, it has been recognized that projects are becoming more important in society (Lundin & Midler, 1998). Greater use might be used of this organizational form to implement tasks. Peters (1992) has noted, "the project is everything." It is unlikely, however, that formal management around projects is yet used to full advantage in small businesses. Thus, greater formal use of this approach – its management (Wheelwright & Clark, 1992) and the virtual organizations that go with it (Lundin & Söderholm, 1995) could do much to not only improve the *grinder*, but also the *minder*, function of the organization.

Finally, there remains the formal form of the organization. Daft's (1992, 479) observations on adhocracies developing to survive in complex, dynamic environments would seem to make them a preferred form. Team-based structures typically emerge, and although there may be an elaborate division of labor, it is not formalized, which is essential in projects and virtual organizations. Mintzberg (1989, 218), however, in his original observations on this organizational form noted it did not lend itself well to efficiency. That is, adhocracies handle the extraordinary and not the ordinary. He suggested firms, therefore, might do one of two things. Either they might find their specialties and move on to a professional organizational form, or remain problem-solvers and (supposedly) charge accordingly for that specialty. The *binder* function would, thus, be enhanced with this appropriate form of organization.

There were, of course, limitations to this study. The information was "macro" in scope and cross-sectional. The nature of the data thus did not lend itself to studying variations in individual sectors, nor in individual markets. Neither was it possible to reflect upon firms who might have made conscious efforts to grow their businesses in an effective manner. Such studies would require detailed, survey research and thus remains as a future project. Nevertheless, the general observations of this study should be of use in strategy formulation and implementation as well as in entrepreneurship education as have tended to be the case in the past (Buzzell & Gale, 1987).

CONCLUSIONS

Cross-sectional results suggest that a decline in profitability, as measured by PBT, occurs in the range 0.5 to 3.5X average firm size for business service firms. Such a decline is not unexpected, but represents opportunity costs to firms in this size range. In order to escape this trap, owner

⁴ Note added in proof – Storey (1994, 10) cites observations that British firms do indeed tend to add professional managers when they reach the size of 10-20 employees.

managers need to overcome the tendency to be all things in a finder-minder-grinder-binder description of activities. Normative recommendations for improvement centered on four themes from the literature – focusing on revenue per employee as an objective, developing professional management assistance, formal projectification, and leaning toward either an adhocracy or professional model of organization for the firm – depending upon the specialization of the business.

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