PERFORMANCE ELEMENTS OF CONTRACTING AND CONSULTING FIRM OPERATION

by

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ABSTRACT

The paper explains three elements of performance in small consulting and contracting companies, communication, personnel skill diversity and client valuation. Financial results were compared with the frequency of reporting of performance measures communicated internal in the company. The result of this test is that there is no statistical correlation between company performances by reporting performance measures. Skill diversity, being defined as the number of identifiable tasks an employee can complete, was compared with project performance data determined that there was no correlation between the number of skills an employee possess and the profitability of a project. Finally, in the valuation of clients, it was determined that the clients older than two years and younger than six years were the most valuable to the firm.

TABLE OF CONTENTS

LIST OF TABLES

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INTRODUCTION

The effective and profitable operation of small scale consulting companies is a subject frequently misunderstood in the business community at large, and occasionally by those who seek to operate them. Small companies often start and rely on a combination of a founder(s) vision, charisma and favorable market forces. However these traits often falter or cease to exist once that original founding presence is removed from the company. The personal attributes of the founding leaders presence often holds the seeds of high performance organizations in the behavior of that individual. These behaviors can include such aspects as strong communication skills, personnel development, client focus, empowering subordinates, trust and confidence, quality orientation, innovative thinking, acknowledgement and recognition of others. The key concern is when do aspects of personal high performance individuals become the attributes of high performance companies and how do we transfer those attributes to the organization? The inspiration for this investigation was found in Collins (2001) "can a good company become a great company?"

This paper will research and discuss specific high performance attributes concerning communications, personnel and clients. Through researching and quantifying these performance issues a greater insight and understanding will be obtained. The application of these findings will facilitate better strategic planning and management of the company and similar companies, by quantifying the research topics against the companies measurable performance data. To complete this task a literature review of the three chosen topics of performance will be undertaken. A comparison of the literature review with my own observations and experiences along with an analysis of accounting, timecard and communications data from my employer TDB Consultants Inc. will be undertaken in this report. TDB consultants Inc is a fee for service company engaged in forestry, scaling geomatics, engineering, construction and vegetation control. TDB was founded in 1987 it employees in the range of 100 people. The proposed outcome will be to determine if there is a connection with the leading attributes of performance that are being studied and the ultimate financial performance of the firm that I work for. All project and time card data will be coded and common sized to protect confidential employee and company data. This research has been undertaken with the full knowledge and endorsement of my employer.

I have chosen to research and analyze communications, personnel and clients since these three elements are at the very heart of a fee for services operating company. The way we communicate within the organization will dictate our effectiveness in delivering our services in a timely cost effective manner. The personnel and the skills they posses will determine the efficiency of the work we conduct. All service companies require clients to serve so therefore the understanding of how to value the client is critical.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

COMMUNICATION

Communication has long been an acknowledged hub of human endeavor with a great deal of the technological research and advancement of the twenty first century dedicated to facilitating the speed and amount of information we can share and distribute. Advances in technology have facilitated increased communication of information to stakeholders; however, it has not necessarily improved the quality of the communications to the intended recipient. The question of why communication is important to organizations is often wrapped up in the external context of communication with clients and suppliers, when the greatest issues around communication can be in developing trust and aligning values of the employees with the firm.

Edwards and Cables (2009) research looked at why there is employee value congruence between an employee and that of their employer. Their research established that trust is the most viable explanation, followed by communication and attraction. Value congruence means the employee believes that they share similar values as their employer, providing the employee with the sense of community and culture with their employer. Employer- employee value congruence positively influences employee job satisfaction, allowing employees to identify themselves as part of the organization, reinforcing their intent to remain with the organization after taking physiological need requirements into account. The principal value of employee, employer congruence is increased employee job satisfaction, lower costs associated with employee turnover and higher productivity. (Edwards and Cables 2009)

The question now is how do we build trust in our organization or firm so that we may have satisfied, productive employees? Thomas, Zolin, Hartman (2009) states that trust is based on our beliefs about other people, which are modified and shaped through the information we receive.

The way organizations build trust is through open communication, (Johnston 2005) and specifically how they communicate with their employees through supervisors and management. In spite of well meaning proactive management, organizations will make mistakes that will result in performance, assessment and communication mistakes, leading to unmet expectations. (Strong, Ringer, Taylor 2001). Employee satisfaction with their employment and organization can largely be driven by the effectiveness and meaningfulness of the communication provided. Communication demonstrating timeliness, honesty and empathy prevented employee dissatisfaction in spite of negative subjects of communications such as employee layoffs. (Strong, Ringer, Taylor, 2001) Timeliness of communication enabled employees to manage their own affairs and job performance. Honesty and integrity are recognized by the accuracy of the communication and in recognition of employee achievement.

Thomas, Zolin, Hartman (2009) recognize this element as quality of information and specifically attach it to the supervisor employee relationship. If the employee cannot trust their supervisor, or if open communication is nonexistent, the employee will be less likely to involve themselves in supporting organizational goals, thus lowering a firm's performance. Empathy in communication is demonstrated by not delaying or failing to communicate information to the employee that relates to them or their job. Consistently failing to do this can place the employee in the position of having continual difficulty in performing their job, portraying management as unconcerned regarding their plight. This can also be viewed from an alternative attitude of openness whereby the employees are willing to share their thoughts and ideas without fear of repercussion if they are contrary to current opinion. The important summation of Strong, Ringer, Taylor (2001) is that managerial mistakes should not lead to dissatisfaction consequently employees will not expect management to know all the answers when communication of information is managed effectively. Potential managerial mistakes arise when management is unsure of the answer or is uncomfortable reporting the truth to the employees. This approach will assure an unfavorable employee view of from their communication, regardless of the content of the communication, thus creating a negative outcome. From this perspective we can view the sharing of information as either being transactional or transformational in nature. Transformational communication is characterized as two way personalized communication between management and employees that will aligning employee and management goals. (Brien, Montagno, Kuzmenko. 2004)

In our organization, communication is frequently cited by employees and mangers as a significant shortcoming. When we consider this in the transactional sense we limit communication to what we think employees need to know. The common fault is that managers make numerous assumptions about what information is available to the employee prior to the transaction. This often leads the employee to believe management is not empathetic and failing to demonstrate open communication. When viewing it from a transformational view, we have to look at the position of the management's trust in the employees. Some managers view the access and distribution of information as a trust issue; to freely and openly share or communicate this information can potentially render the manger vulnerable, thus relating communication back to a trust issue. From either perspective, communication when freely given, and in appropriate amounts, builds the employees' trust in the organization and their commitment. When communication is not effectively handled it will damage the trust and commitment to the organization. This can result in those who withhold information or knowledge having lower employee satisfaction and performance, resulting from their own behavior.

Employees' expectation of communication varies within levels of organizations expectations regarding quality and quantity vary between levels of management. When employees are communicating with direct supervisors and coworkers, they are looking for quality information. When employees perceive they are getting information that is timely, accurate and relevant they are less likely to feel vulnerable. When the employee is communicating with upper management of the company, the amount of communication is more important than the accuracy as is required from the employees' direct supervisors. From this we can infer that communication allows the employee to understand the company as a whole and make there own determination as to what is relevant or important to themselves as an individual.

The difficulty with communication is often based on how it is diffused through the organization. When communication of policies is left up to individual departments or managers, the message can be modified and policies may not be uniformly implemented, leading to employee impressions of management dishonesty and lack of empathy. Herring (2008) states the one attribute that qualifies a company as a top company to work for is the work environment that results from communication practices. For organizations to excel they should learn to lighten up and open up.

There are various new strategies afforded by technology to promote openness and transparency of communication from management. Variations of e-mail, intranet and company blogging can facilitate the sharing of information to the workers on an ongoing basis from upper management. These formats can be open to the employees to make postings. Technological advances can also be a powerful tool for upper management to disseminate frequent information regarding the company's direction, challenges and company wide policies that affect all employees. This method has proven valuable since it disseminates important information without that information being modified or presented differently. This can occur when separate groups within an organization compare what has been communicated to them with any anomalies or variation, causing unnecessary problems that need to be addressed later. Smith, Hall (1991) found that communication as a management function is often a "political football subject to the whims, vagaries fads, and temperaments of top management". This is the frequent attitude of supervisors and managers in an organization whereby they associate the successful financial outcome of a project with their own persona and communication style. In many cases, this poor communication style of the manager may be compensated for by employees who have to go above and beyond to extract the information they require. Smith Hall (1991) has stated that the worst mistake that a communicator can make is to assume that his or her work speaks for itself.

Communication will speak to the engagement of the organization and will be a strong index of its long term viability. Communication is not simply a vehicle to transfer pertinent job specific information but a method to instill culture and unity in an organization. The facilitation of communication is not restricted to formal policies, documents or even electronic forms but utilized at its primary level in conversation. Zurawski (2004) has broken the functioning of workplace conversational communication into facilitating characteristics, impeding characteristics and best practices. Facilitating characteristics are openness, informality and questioning. Impeding characteristics are one way communication, exercising positional power, one sided relationship and a negative communication climate. Impeding and facilitating characteristics are intertwined with the issue of building trust. Our behavior will either build or compromise the trust of our employees through the manner and methods we choose to communicate with them.

In our organization, the values and desires revolving around communication focus on issues of communicating firm goals and values and overall strategies. This would fall under the category of higher level management to employee communication rather than the supervisor to employee communication relationship. The status quo has been to have management and company wide objectives communicated to the employees via supervisors. However, supervisors are largely focused on operational issues and often do not have the time or consistency to effectively deliver company wide information. This information is frequently interpreted as incorrect due to the inconsistency of messaging. This presents the opportunity to develop and further implement management to employee communication, promoting the consistency of messages and a volume of information. This provides the employees with the opportunity to choose how engaged they wish to be.

One way that organizations seek to communicate and engage their staff around key company goals and operations is through the use of performance measurement systems. Performance measurement is a group of activities that ensure goals and objectives are consistently being met in an effective manner. Why organizations and companies engage in performance management can be summed up with, "What gets measured gets done"(Behn 2003). Organizations engage performance management to provide a frame work to efficiently and consistently reach their goals consistently without losing focus or being redirected. The development and implementation of performance measurements in larger corporations or organizations is neither new nor innovative. The filter down effect of large corporations and organizations instituting performance measurements provides service suppliers a way to maintain their competitiveness and grow their business often in the response to their clients instituting their own performance measurement system and process.

The challenge in instituting performance measurement systems in smaller organizations arises from many sources. The first is whether or not there is enough management expertise to implement and understand what is required to effectively execute a performance measurement system. Secondly, there may be limited managerial skills within the leadership of the organization. Typically in small organizations or companies managers have excelled through technical not managerial abilities. The third issue are the financial resources needed to implement process. Lastly, the will and resolve of the organization to see the process through can be lacking in smaller organizations. The education and implementation of performance measurement programs has both positive and negative effects. Martinez & Kennerley (2010) described these negative effects can be as follows: Time consuming, considerable financial investment, multiple measurements make the process bureaucratic, complicated measures can be difficult to understand, misleading measures can divert attention from critical issues, mechanistic can discourage entrepreneurial ship and become monotonous continually looking at the way performance is measured.

The implementation of various performance measurement systems must consider the nature and understanding of the true performance drivers of the business. This is a case of "one size does not fit all". For performance measurement systems to be effective managers must carefully consider the nuances of the enterprise the system seeking to measure and enhance Martinez & Kennerley (2010). From this we can infer that the clearer and more direct the relationship between the goal being measured by a system and the managers understanding of how that goal relates to a positive financial outcome, the more proactive managers would be in achieving these system measurement goals.

Luft (2004) suggests that a weak performance measurement system may be appropriate when the cost of implementing such a system outweighs the benefits. When the managers charged with using such performance measurement systems have a strong understanding of their job, they can make decisions outside of the performance measurement system to achieve organizational goals effectively.

The dilemma is how and when an organization should institute performance measurement systems when there are pockets of high manager understanding and performance coexisting beside areas of low performance and understanding. Webb (2004) found that when there were strong links between the performance measures and clear and achievable firm goals, managers would work harder at achieving both financial and non-financial goals. When the links were weak or less obvious and the performance measurements were not clearly linked to achieving the firms financial and non financial goals, the managers would not work as hard to achieve the goals in the system. Weak links indicate that managers do not feel a strong correlation between the performance measures and producing a strong financial outcome for the company (i.e. tracking public opinion by a land mine manufacturer as a management performance measurement to gauge consumer satisfaction). The danger that Luft (2004) proposes is that performance measurement systems that had weak links between the performance measures and positive financial outcomes can reduce reaching financial outcomes as well for the following reasons. Managers, who know how to reach their financial goals but see the performance measurement system tracking data that they cannot use on an ongoing basis, will view this lack of decision making information as a barrier to meeting difficult financial goals. Managers reach financial and non financial goals in a weak system and know that achieving the non financial goals will not result in increased profitability, thus spending additional resources in tracking a non benefit measurement. When managers know how to reach financial goals and they know the strategy and the performance measurements being undertaken will not work; the managers view this as poor decision making on behalf of the leadership and view a company's ability to achieve those goals as unlikely due to that leadership. If the company's managers have effective information systems in addition to a weak or ineffective performance measurement system there may be little or no negative impact of having an ineffective system. The benefits of instituting performance measurement systems and communicating the results are numerous, not the least being the process of communicating and developing the performance measures will improve and sharpen the managers understanding of the performance drivers of their business unit. Luft (2004)

Hypothesis #1: There is a direct correlation between communication of performance measurement indicators with management team and improved company financial performance.

PEOPLE

Personnel are at the core of all organizations no matter how technologically advanced companies may be. It is a logical assumption to believe that the more skills a worker has, the more productive they are for the firm. In organizations, skill diversity can be seen as a necessity, or a competitive advantage.

In controlled environments such as shops and factories, processes can be well analyzed and understood with each step choreographed. In these environments skill diversity can be facilitated in a number of ways such as rotation of jobs, cross training or work teams. Multiple skills can also be considered not only in the context that a worker is capable of performing tasks A, B and C but also encompassing different types or levels of skill combinations. Scott & Cockrill (1997) states skill combinations can be viewed from:

- Horizontal Role integration: assuming new tasks at the same skill level A, B and C

- Upward vertical role integration : assuming new tasks associated with a higher skill level social ensiling: team working communication, problem solving ; and
- Downward vertical role integration: adding tasks associated with a lower skill level

In the field of contracting and consulting, we know what fields we are competing in through tendering and client relations process. However, what we do not know is how successful we will be obtaining the work through these processes, what specific skills will be needed and the amounts of those skills. The parameters in which multiple skills are utilized in the context presented by Scott & Cokrill (1997) are also directly affected by the project size and scope. A large project requiring many thousands of man hours is afforded the luxury of specialists who are highly productive in their field. Whereas, a small project will be forced to rely on the different levels of skill integration, simply because there is insufficient work on site for individual specialists to compete efficiently. In addition to a large project affording the luxury of deploying highly productive specialists, large projects also have the benefit of having sufficient value to have dedicated management and organizational structures that can best utilize the workers skills efficiently.

The fundamental question behind skill diversity is: does a workforce that possesses multiple skills per employee equate to a positive financial outcome for the company? As a competitive business advantage, we as a firm have viewed diverse skills as a necessity for competitiveness and employee retention. Acemoglu and Pischke, (1998) compared levels of training and employee turnover and found that employees quit less often when there is more formalized training. Multiple skills, however, do not necessarily result in a positive financial outcome in highly competitive markets where there is potentially an abundance of skilled workers and firms all vying for the same work. This diversification can evolve from a competitive advantage to an undervalued expectation as the marketplace matures for a particular service sector. An example of this would be the training of a multi skilled worker to perform different tasks at a remote location and being able to bill for each of those tasks as a separate service rendered. This activity could evolve into the client expecting multiple skills and the service provided only billing for a single service, thus transferring the benefit of multiple skills from the service provider to the client service recipient. Multiple skills has long been viewed as a method for maintaining the employment of personnel throughout the contracting year with varying types of projects being available at different times of the season. The assumption being that the firm will benefit from the employee skill diversity experience over time financially.

The development of multiple skills can be used as an employee enrichment program whereby employees develop higher interests in their job through task diversity and training. This could be considered a retention tool However, if the financial benefit can not be associated with multiple skilled employees, then we may be creating multi skilled jobs at the cost of financial success. Quercioli (2005) states that the more training a worker receives the higher their wage cost. There is also the secondary potential consequence of developing a multi skilled workforce that is not highly skilled in any particular field, leaving the firm with a staff of generalists that lack the technical abilities to be highly competitive in a particular field. Maintaining multi skilled employees throughout a contracting season, and utilizing a variety of skills for servicing a variety of clients contributes to upward wage pressures. In addition the multi skilled employee can originate in a department with a higher wage based on the market price for those particular services then transferred to a department with historically lower wage costs. That department is then obligated to pay a higher rate or attempt to adjust the wages temporarily to maintain competitiveness and risking employee dissatisfaction.

Hoyt & Matuszek (2001) stated that multiple skilled employees were a non-significant predictor of financial performance. From this we can infer that either the multiple skills were not utilized to their fullest potential, not required, or the cost of developing and deploying these multiple skills was in excess of the return which could be generated. This position is also corroborated by Park & Bobrowski (1989) found that when workers had more than two skills performance was not significantly improved, rather the rules of how the workers were assigned took on greater significance. The time between transferring from one work center to another was also identified as a time loss and inefficient utilization of multiple skills (Hottenstein, Bowman 1998). We can infer that a multi-skilled workforce will not be a predictor of financial success, unless managed or organized in a fashion that allows for the multiple skills to be utilized effectively (Eldridge Niser 2006). Further to this insight is the issue of multi-skilled worker management and organization. How many skills does a worker have and how many do they need or use? The tendency being that multi-skilled workers will gravitate to the jobs they enjoy doing the best and employers will assign workers to tasks they are most productive at. This can lead to the cost of training the multiple skills not being realized or utilized to create a benefit. If the skills are not continually utilized in a timely manner, the issue of forgetting skills is also a significant cost concern. Once forgotten, the cost has been incurred and no future benefit can be realized.

From the aspect of process re-engineering, the development of multi skilled workers can be a result of redesigning how particular services are delivered. This multi skilled training identifies the skills each employee needs to maximize the contribution to the process, facilitating the rules of assignment as discussed in Park & Bobrowski, (1989). This process re-engineering addresses specific skills each employee requires to do their task and advance in their career goals. (Compton 1996). From this aspect, we should consider that multiple skills are a by-product and if a financial benefit is realized, it is the result of the process re-engineering.

Employee skill diversity amongst individual workers as a sole predictor of profitability alone is highly unlikely for any firm. The variability of the type of work involved, how processes are re-engineered and how those multiple skills are deployed all speak to a range of contributing influences. These influences have great effect on the financial benefit that can be generated from a diverse work force. A secondary consideration for the employer is the creation of generalists over specialists; which party is benefiting if the employee is receiving greater job security but at a lower average productive outcome? The firm must evaluate this strategy if they are not receiving a positive benefit from employee productivity or retention.

Hypothesis #2: Personnel whom have a larger skill set that are able to perform more tasks are more profitable to both the firm and the project.

CLIENTS

The cost of obtaining and maintaining client relations is significant for any service sector business. Dikolli, Kinney & Sedatole (2010) found that a lack of understanding of future customer relations can lead to earnings being innocently attributed to contemporaneous actions such as the difference between repeat purchases over changing price premiums, rather than the benefit of repeated business. The primary position of most of the literature found is that existing clients are more valuable to the firm than new clients. Kogan (1995) estimates the cost of securing a new client to be five to twenty times higher than continuing to work with an existing one.

The value of these long term relationships has to be framed in the context of the service or product you are providing. Is the product easily substituted, replaced or provided by other firms? The implication being that the simpler the product or service is, the more price plays a role in client retention and the more value the service provider will place on the client relationship.

A great deal of the available literature on client retention centers on financial service such as banking, accounting and investment advisors. From these perspectives the issue of client retention is highly valued. In most cases the services provided are based on fixed transaction costs or fixed charge rates, leaving the issue of firm profitability, if not assured, at the very least somewhat more predictable than more labour or manufacturing intensive industries. Hartman (2010) states that in all practitioner parts of the financial service industry the highest compensation is for those whom can attract and keep clients. Also, it is typical in the financial service sector for new clients to be enticed with sign up bonuses or for sales people to receive commissions for landing new clients, thus reducing the initial profitability of a new client over an existing one in the short term. From the perspective of banking or accounting, these services are procured and paid for regardless of whether the clients' own business ventures are profitable or not. One would expect the clients would be reluctant to change the relationships based on personal service due to switching cost issues.

The service fees for financial services are competitively priced with subtle differences between competitors in the market place. With price being a relative non-issue Levy & Lee (2009), state the importance of client relations and other retention strategies play a greater significance and have a larger influence on retention decisions from the client's perspective. Chen & Hitt (2002) state that creation of switching costs requires deliberate investments in customer retention. The perception of switching, research and evaluation costs are high for these types of services resulting in consumer reluctance to switch even if they are dissatisfied. Barr Feldman, & McNeilly, (2003) relays that in professional services customers are often reluctant to switch requiring repeated poor service experiences to switch. The factors that trigger switching as per Keaveny (1995) are:

Table 1 Consumer Switching

Primary	Secondary
1) Core Service Failure,	6) Attraction of competitors
2) Service encounter failures	7) Ethical problems
3) Service recovery failures	8) Involuntary reasons
4) Inconvenience	
5) Pricing	

In this context, price is very low on the reasons for clients to switch service providers. We can infer that the services being rendered were frequent and complex in nature and that the relationship with the company or person providing the service has a dominating role.

Reinartz and Kumar (2002) found that long term customers were more price sensitive and they expected better value compared to occasional customers. This position is reiterated by Kalwani and Narayandas's (1995) position that in long term relationships customers expect suppliers to pass on benefits of lower cost through price reductions over time. In addition, East, Hammond and Gendal (2006) found a lack of evidence that long term customers are cheaper to service and are any more tolerant of higher prices. So from this position, we have the question of what is the value of a long term customer to our firm. Long term customers can provide stability and comfort to the firm, knowing and expecting business relations to continue. This can also have a negative effect on a firm. Through focusing on long term customers the firm can actually narrow its service and customer scope, placing the company at risk of relying on too few customers and being lulled into a false sense of security. Frequently, long term clients will develop an acute understanding of the suppliers business and market position and use that knowledge to leverage additional services or price advantages. If the supplier firm has been lulled into security and is focusing on a few old customers, this can instantly place the supplier firm at a disadvantage as they have not kept up with developing new relationships and other long term clients will expect similar discounts.

A casual or new customer to the firm has an immediate need or requirement that has to be filled in a timely manner. They have come to the market seeking services they do not currently have. They have no established client customer relations in the field or their existing service supplier is unable to accommodate them. This places the new customer in a position of requiring service first. They are not expecting lowest price as they have no established relationship to leverage lower pricing. The relationship issue also has a different dynamic in that when firms bid on projects with new clients they are establishing the price first as the primary engagement issue. From Wathne, Biong & Heide (2001) we can view weighting of Conjoint Factor Importance Weights compiled between buyers and suppliers point of view.

Table 2 Conjoint Factor Importance Weights

Conjoint Factor	Buyer	Supplier
Interpersonal relationships	.08	.26
Switching costs	.25	.20
Price	.50	.40
Product Breadth	.17	.14

The data from table 2 demonstrates the difference in perceptions between buyers and suppliers. The most significant difference being the importance placed on interpersonal relationships with the supplier's weight being three times greater than the buyer. The importance of switching costs, price and product breadth were of greater importance to the buyer. The difference in the weighting is not necessarily a misunderstanding of what is important, but rather placing the importance on what is critical to each party to maintain the relationship. The supplier, through interpersonal relationships and communication, will gain understanding of the importance of price and product breadth to the buyer and what price they are willing to pay. They can make adjustments to their price and breadth to address those needs through that relationship. In turn the buyer is able to obtain the best price and breadth and avoid concerns around switching costs. The supplier valuing interpersonal relations with the buyer can achieve an effect which results in the buyer receiving the price and goods they want without switching suppliers.

The benefit of maintaining relationships also has the potential effect of establishing an extra mile experience. Webber & Klimoski (2004) found that reliable performance only impacts the clients intentions of working with the supplier in the future and did not effect secondary retention behaviors such as referrals. The only way that that secondary referrals could be accomplished was when project managers could engage in behaviors that go, beyond expectations. (Jenner Shohett 2010). Bolton, Lemon & Bramlett (2006) weigh the impact of a client receiving the extra mile experience as having the same impact on the client as a five percent price decrease in rates. An extra mile event is defined as a service experience whereby the client receives service that is above and beyond (extra mile) what they expected and or anticipated. Jamrog &Vickers (2008) define an extra mile or beyond expectation behaviors as attributes of higher performing organizations as well.

The difficulty with capturing the value of an extra mile experience is whether or not it can be demonstrated, available to deliver, or engineered for the clients gratification. Often service providers will fail to see an opportunity for an extra mile experience, seeing requests outside of service agreements or stated expectations as principle contracting issues that require consultation and agreement for payment prior to proceeding. If these requests are information based or on incidental cost to the larger relationships, they should be viewed in the context of whether or not they can be delivered economically to achieve the same goodwill as a five percent reduction in rates in the following contract cycle.

The position of client value has a clear connection to which particular service field your business is in. Services based on either a best bid price or a lump sum bid , place downward pressure on the client supplier relationship value. The client may increase pressure for better pricing while the service supplier may feel obligated to maintain the relationships over time by offering more and more competitive pricing. This creates situations were a new client, previously unknown, can potentially generate greater profits than long term existing clients. The literature citing the valuing of old clients over new ones appears to be largely from the financial, banking, and service sectors that conduct a very specific form of professional service. From these perspectives, it appears there is a plausible rationale that, depending on the industry and service you are providing, the value of clients can depreciate over time. This is more common if the client is experiencing external cost forces that they have to pass onto their suppliers, such as the housing collapse in the United States and the subsequent rate impacts on service suppliers to the forest industry. When industries such as forestry experience market forces that are passed on to suppliers, the benefits acquired through that process rarely are returned to the supply chain once markets recover. The efficiencies realized to survive economic downturns are passed on to the consumers of the products through lower pricing and or the shareholders of the company by increased profits, placing further economic pressures on the existing supplier client relationship.

Hypothesis #3: New clients are economically more valuable to the firm than long term mature clients.

METHODOLOGY

The following methodology will be utilized in testing and answering the three hypothesis developed in the literature review. All data used and presented in this report and utilized in the final analysis has been coded for privacy, competitive and client confidentiality basis. The use of company data has been with full consent of the company on the condition that only common sized percentage findings would be represented and reported on.

METHODOLOGY FOR HYPOTHESIS #1

Hypothesis #1: There is a direct correlation between communication of performance management Indicators and improved company performance financially.

To test this hypothesis company data on tracking the results of key performance indicators monitored in our company will be compared with financial outcome for the same period. Key performance indicators are a series of performance measurements developed to track and improve the overall company performance.

Table 3 Key Performance Indicators

1) Safety	6) Employee retention rate
2) Financial performance month	7) Quality
3) Overhead Cost as a % of Revenue	8) Environmental Incidents
4) Financial Performance Year to date	9) Environmental Compliance
5) % Net profit current month	10) Number of new markets

The performance measures were communicated in monthly meetings where all participants are encouraged to discuss and question the results. The frequency of these meetings was reviewed to determine if in fact there is a connection between the communication of these results and improved company financial performance.

The implementation of key performance indicators reporting was started in January of 2009 and has been operating on a monthly reporting cycle that carried on for eighteen months at which time the company stopped communicating and reporting out on the key performance indicators for the following six months during the period being analyzed in this report. The data compiled compared the department and company financial results for the time that the key performance indicators reports were being presented and communicated, with the results for the period of time when there were no key performance indicator reports being presented or communicated. The data of each period was compared to determine whether or not there were statistically significant differences between the communication of the indicators and the financial outcome of the company.

Supplemental to this comparison, the reporting data was graphed and compared to the actual financial outcome on a monthly basis. Key performance indicators were cataloged according to the department, date category and reporting status. Each category was be assigned a reporting status value to indicate whether the Key performance indicators report was submitted, met targets, or did not meet targets. On reporting status a value of (0) was given for missing KPI reports managers failed to turn in, a value of (1) for KPI reporting that was submitted but did not meet expected budget and a value of (2) for KPI reporting functions that meet budget expectations. Profitability of each department was be categorized as meeting or not meeting targeted expectations. The results were then combined company wide and graphed to view if there was a correlation between the financial performance of the company and the key performance indicators reported. This was not statistically valid as the first test but provides a representation of the activity in general.

METHODOLOGY FOR HYPOTHESIS #2

Hypothesis: Personnel whom have a larger skill set that are able to perform more tasks are more profitable to both the firm and the project.

To test this hypothesis I compared the financial results for projects where multiple skilled employees were present on projects and compared the financial results to those projects where multi skilled employees were not present. Data for this test was gathered from two sources. The first source was from the company accounting system and the second source was from the company time card system. The company accounting system lists projects by department, client and finally project number. All data from this system was common sized and departments and projects numerically coded to protect competitively sensitive data. Information from the timecard system was retrieved in coded format relating employee hours by number of hours worked by number of tasks by individual project. The data obtained for this purpose did not identify individual employees and was designed to solely test the hypothesis stated.

The data compiled for this hypothesis covered four years of operations. The data was sorted by project and by employee and by number of tasks per employee. A task is an identifiable skill that is utilized in the execution of a service required to complete a project. The data was then divided into two categories. The first data set were projects where fewer than three identifiable tasks per employee were performed and the second were projects where some of the employees performed more than three tasks. Three tasks were determined as the cutoff following the work of Park & Bobrowski (1989) who found that more than two skills performance was not significantly improved. In our company travel time to jobsites is coded as a task for costing purposes but is not a skill associated with providing a service to a client. The test cutoff was elevated from two in the literature to three in this analysis. The projects in these two data sets were compared with the final outcome to determine whether or not the project was financially successful and the frequency of that success in each group.

METHODOLOGY FOR HYPOTHESIS #3

Hypothesis #3: New clients are economically more valuable to the firm than long term mature clients.

To test this hypothesis four years of the company's economic data was compiled dividing projects by duration of the client with the firm. The duration a client has been with the company was divided into intervals of 0-2 years for a new client, greater than >2 and less than < 6 years for a mature client and 6+ years for older clients. Client duration was sorted by department, gross revenue and net dollars to calculate a weighted average. The data was then converted into common sized reporting percentages for reporting and discussion. Many of the departments within the company have internal and external clients whereby services can be conducted for other departments from time to time. These internal clients were given an automatic default classification of 6+ years. Internal service providers are under very intense price pressure from within the company and the true nature and cost of their business is well known. The internal client valuing price is not unlike a mature external supplier client relationship. The data was tabulated and analyzed, for this purpose it covered four years eight departments, one thousand five hundred and sixteen projects and twenty eight million dollars in sales. The four years of data was then combined by department and summarized by dollars to calculate the weighted average then final converted into % for reporting and discussion purposes.

RESULTS

RESULTS HYPOTHESIS TEST # 1

The results of comparing the effects of communicating and not communicating key performance indicator data, found that in six of the eight departments there were no significant differences in financial performance of the company when communicating or not communicating key performance indicator data.

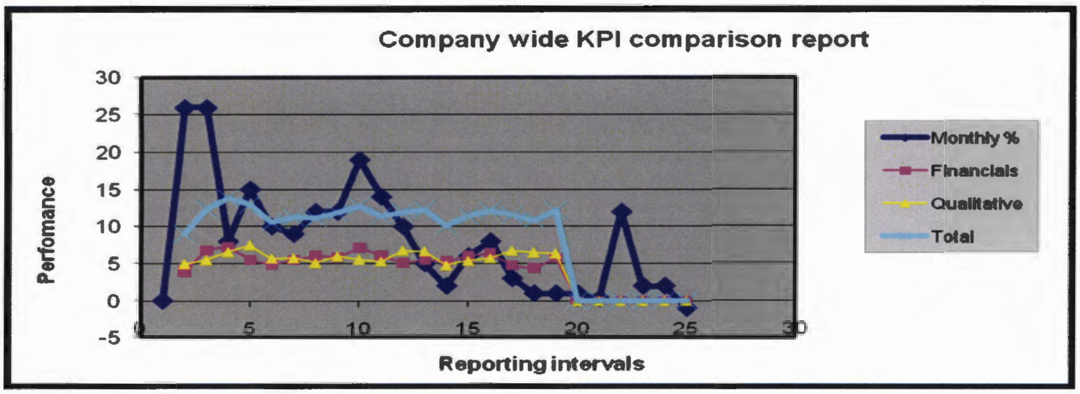
Table 4 Company wide statistical analysis on reporting vs. non reporting of key performance measures (KPIs) ANOVA

Independent Samples Test										
Levene's Test for Equality of Variances										
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Upper	Lower
Dept2	EVA	0.02	0.91	1.1	22.0	0.28	4.1	3.7	-3.6
	EVNA			1.0	7.4	0.35	4.1	4.1	-5.5
Dept3	EVA	11.50	0	-4.0	20.0	0.00	-20.4	5.1	-31.1
	EVNA			-2.8	5.7	0.03	-20.4	7.2	-38.3
Dept4	EVA	0.17	0.69	1.2	22.0	0.24	5.7	4.7	-4.0
	EVNA			1.1	7.4	0.31	5.7	5.2	-6.4
Dept6	EVA	4.04	0.06	2.9	18.0	0.01	19.5	6.7	5.4
	EVNA			2.1	5.8	0.08	19.5	9.1	-3.0
Dept7	EVA	2.06	0.17	-0.4	21.0	0.70	-4.6	11.7	-29.1
	EVNA			-0.3	5.3	0.76	-4.6	14.1	-40.3
Dept8	EVA	2.05	0.17	-0.2	22.0	0.82	-2.1	8.9	-20.6
	EVNA			-0.3	9.9	0.81	-2.1	8.3	-20.5
Dept9	EVA	0.54	0.47	0.8	22.0	0.45	6.4	8.4	-10.9
	EVNA			1.2	21.9	0.24	6.4	5.3	-4.5
Dept10	EVA	0.04	0.84	-1.4	22.0	0.18	-3.3	2.3	-8.1
	EVNA			-1.3	8.0	0.22	-3.3	2.5	-8.9
All Dept	EVA	1.45	0.24	2.4	22.0	0.03	7.9	3.3	1.0
	EVNA			3.0	13.7	0.01	7.9	2.7	2.2
Equal variances assumed (EVA) Equal variances not assumed (EVNA)									

The results of table 4 indicate in only department 2 (S=0.02) and department 10 (S=0.04) was the reporting and non- reporting of KPI information significantly different. For departments as a whole there was no significant difference (S=1.45) between reporting and not reporting of KPIs.

Supplemental to the above statistical analysis an additional calculation as described in the methodology was also conducted. This indicated there was a correlation between communication of performance management indicators with management team and improved company financial performance. However there appears to be a low correlation between the information that was being reported and the financial results. Individual departments in the company were graphed comparing the reporting indices on qualitative and financial measures. There was a wide degree of variation between departments in regards to the relationship between what was being reported and the eventual financial outcome. The combined outcome of these department reports were then tabulated and averaged across the company and graphed below on a companywide KPI report.

Table 5 Companywide KPI comparison report



The Monthly % indicates company profitability on a rolling year to date basis, with the total line being the combined value of the KPI reporting lines of financial and qualitative results. As the graph clearly demonstrates there is a relative proximity of profitability (dark blue line) with the total combined reporting (light blue line) for the first twelve intervals of the reporting analysis. This proximity begins to deteriorate over the next seven intervals up to the 18^{th} reporting interval. At the 20 month reporting interval KPI reports were discontinued with no resulting improvement other than a spike that occurred in the 21st month. This spike is attributed to a yearend accounting cutoff in the previous month. The tabulation of the company performance was carried forward when there was no reporting and communicating KPI performance to see if there was a strong relationship of communicating company performance and actual financial performance. The graph does not dispute the overall findings from table 4.

The results of the hypothesis: The correlation between communication of performance measurement indicators (KPI 's) with the management team and improved company financial performance has found to be very weak and not statistically significance

RESULTS HYPOTHESIS TEST #2

Data for four years was sorted by project into two categories. The first category was projects that had workers on it whom performed 1 -3 tasks and the second category involved projects where there were greater than 3 tasks per employee. The data was then sorted by the eventual outcome of the project by % profit realized. From this analysis the below statistics were calculated. As the comparisons for all years have the upper confidence (limit ULC) and lower confidence limits (LCL) crossing there was no significant statistical difference. The standard error was in relative proximity to each other for the variation in sample size or number of projects

Table 6 Statistical comparison of 3 or less tasks vs. greater than 3 tasks

	> 3 tasks	< 3 tasks
N	218	337
Ave %	4.47	3.09
SD	36.72	33.17
SE	2.49	1.81
SE.95	4.97	3.61
UCL	9.44	6.71
LCL	-0.51	-0.52

N	Number of sample projects
Ave %	Average % profit of all projects
SD	Standard deviation
SE	Standard Error
SE.95	Standard Error to 95%
UCL	Upper confidence limit
LCL	Lower confidence limit

Table 6 demonstrates that there is no detectable difference in profitability between projects with employees having greater than 3 skills compared to those projects with employees having less than 3 skills.

Table 7 ANOVA employees with over 3 skills divided by total hours

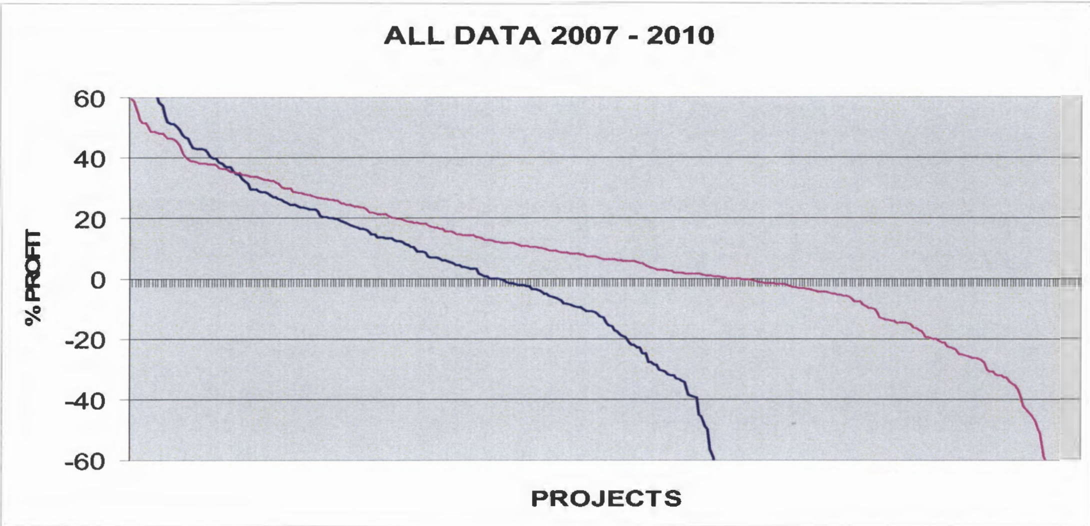
ANOVA

profit

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	250.353	1	250.353	0.209	0.648
Within Groups	662318	553	1197.68		
Total	662569	554			

This calculation was based on whether or not there were people with multiple skills (4 or more) working on the job was positively correlated to profitability (S=.648) there is no significance.

TABLE 8 ALL DATA 2007-2010 SKILL DIVERSITY GRAPH



The above table pictorially represents comparative lines of performance between high and low skill diversity as previously defined. The blue line represents projects were 0 to 3 skills per employee were used and the Pink line represents projects were more than 3 skills per employee were utilized. As the graph indicates there is a strong correlation between these two groups with little difference in the curves represented by the above graph. The principle difference being the representative number of project samples of 218 represented by the blue line to 318 represented by the pink line.

The results indicate that Hypothesis test #2 which stated that personnel who have a larger skill set are able to perform more tasks are more profitable to both the firm and the project is false, There is no data in our organization to substantiate this position at this time.

RESULTS HYPOTHESIS TEST #3

The results of hypothesis #3, new clients are economically more valuable to the firm than long term mature clients are as follows. Over a 4 year period 15% of all revenue came from clients 0-2 years in length and accounted for a 5% return in profits. Seventy-two percent of all revenue came from clients greater than 2 years but less than 6 years in length and accounted for a13% return in profits. Finally 13% of all revenue and 6% of profits came from clients whom have been with the firm for 6 plus years in length.

Table 9 Client Term Valuation Table

Summary	Revenue	Income
YTD		
0-2 years	15%	5%
>2 <6 years	72%	13%
6+ years	13%	6%

Table 10 Bonferroni Multiple Comparison Review

Bonferroni		Multiple Comparisons Revenue				
years		Mean Difference	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
0 to 2 yrs	>2 <6 yrs	-523114.273*	161056.53	0.006	-922660.65	-123567.89
	6+ yrs	-27936.35	171478.184	1	-453336.6	397463.9
>2 <6 yrs	0 to 2 yrs	523114.273*	161056.53	0.006	123567.89	922660.65
	6+ yrs	495177.923*	183031.232	0.028	41117.07	949238.78
6+ yrs	0 to 2 yrs	27936.35	171478.184	1	-397463.9	453336.6
	>2 <6 yrs	-495177.923*	183031.232	0.028	-949238.78	-41117.07

The mean difference is significant at the 0.05 level

Comparing the results of the above table 10 shows that there is significant difference between years 0 to 2 and years >2 <6 (S= .006) there is also an virtually no significant difference between 0-2 years and 6+ years (S= 1). There is a significant difference as well between years >2 <6 and 6+ years (S= .028)

The results of the hypothesis, which stated that new clients are economically more valuable to the firm than a long term client is very weak with the highest values or differences occurring in the >2 <6 year range.

DISCUSSION

DISCUSSION HYPOTHESIS # 1

The data used in analyzing the link between the reporting of key performance indicators and the financial performance of the company covered a term of 24 months. The key performance indicator reporting was discontinued for a period of time from the 18^{th} to the 24^{th} reporting interval. From the information tabulated and graphed in table 6 there does appear to be slightly better company performance during cycles of reporting and communicating key performance indicators on a monthly basis, however this relationship is very weak and does not take into account market force conditions, differences in department management, and expected service profile profitability as one service can be expected to obtain higher profits than other services. This indicates a weak correlation or link between key performance indicators and actual performance of the company. There was a significant deterioration of company performance in the 11^{th} reporting period on table 5. Whether that is a reflection of external market pressures on the company or weak links between the performance measurements and the true performance of the company is possible. Luft (2004) stated if there is a poor relationship between performance measurement system goals and actually achieving positive financial outcomes, then the performance measurement system can fall into disrepute and actually become a hindrance to achieving financial goals in some cases. This can create a negative outcome on company performance by engaging management time in tracking and tabulating data that they believe to be meaningless. This possibility appears to be corroborated when reviewing the individual department reporting in the Key Performance Indicators system.

The report did not demonstrate a significant difference statistically when comparing the reporting period vs. non reporting period. As viewed in the graph it is apparent there is little or no relationship between reporting KPI reports and the monthly financial outcome. This leads to further speculation that the Key Performance Indicators reporting and communications may be beneficial not for the specific data they are presenting, rather for other unqualified reasons not measured or quantified in this paper.

DISCUSSION HYPOTHESIS # 2

The failure of the hypothesis test to determine if there was any relation between multi skilled employees and company or project profitability is not unexpected. The theoretical advantage of multi skilled workers being beneficial in staff retention and workforce flexibility was not addressed in the analysis performed and would have to be quantified and measured by some other means. A significant limitation of the analysis is the multi skilled worker, whom performs more than 3 tasks over the course of the season or year, but never on the same project, would not be identified or noted as a multi skilled worker. Without a statistical or even anecdotal direction on this issue, the concept of why we value multi skilled workers and how we manage and organize their work must be addressed. From this perspective, it is rational to believe an employee who can be assigned and sent on multiple different tasks over the course of the year makes it easier on management in both the procurement and management of projects and workload. From that point, it is also logical to fall into step with Park & Bobrowski (1989), and start looking at how multi skilled employees are managed and tasks assigned. This will allow us to delve deeper into areas where the advantages of employing multi skilled employees are realized. The reality of consulting and contracting for higher services is that the constantly changing market dictates the required skill set. Frequent market and project fluctuations facilitate employee turnover and forces us to partake in continuous training to facilitate the next project that may be short staffed.

DISCUSSION HYPOTHESIS # 3

The original question set out to test the hypothesis that new clients are more valuable than old clients. The results of this test being that clients in the >2 year < 6 year range or mature clients produced more than five times the amount of work and more than twice the income as the clients that were new 0-2 years in duration and clients that were old 6+ years in duration. This is a consistent pattern with only one of four years variation demonstrating higher returns in a mature 6+ year client. The interpretation of this data is not simple. Clearly new clients are not the most valuable to the firm in terms of gross sales or net income thus the hypothesis question that new clients are economically more valuable to the firm than long term mature clients can be answered as false. The difficulty in interpreting the results is the valuation of the client in the mid range of the data. On reflection, these clients are established relationships and often are contracts that bridge several seasons or years. When starting up a new contract with a new client often the process incurs costs associated with training, equipment and relationship building. Once that relationship has been established, additional work can extend from the initial contract into the mid rage of >2 to<6 years. From this position we can hypothesize that the client relationship costs have been incurred up front in the new client cycle of 0-2 years and the >2 to <6 is the beneficiary of that work and relationship building. The impact of the 6+ year client cycle is almost identical in value as the 0-2 year client cycle over the data set. In most literature reviewed, the valuation of maintaining an older client was constantly placed higher in value to the firm than obtaining a new client. This data from the hypothesis test does not clearly confirm this position, however in the context of clients the >2 to <6 years and clients 0-2 years our statistics lend support to most of the literature on the subject. The old clients clearly have a diminished value to the firm over time, assuming ever mounting price and competitive pressures are coming to bare on an aging relationship. The new clients 0-2 years would have greater value to the firm than the 6+ year clients as they are the source for eventually obtaining the mature >2<6 year client where the company has historically reaped its greatest revenues and income.

RECOMMENDATIONS

Further research and investigation into the performance measurement system key performance indicators being utilized at our operation is warranted and is required. The insignificant difference between communicating and not communicating indicators has placed doubts as to the relevance of the information presentation process, meaning at best the communications potentially do no harm. It is critical to ensure communications in the company is relevant, factually correct and timely.

The data collected on employee skill diversity can be considered in the context and necessity of effective management leadership. From this data there is no link between multiple skilled employees on the job site and a successful financial outcome. This will direct management to focus on planning, supervision and leadership rather than on procuring multiple skilled employees, whom effectiveness historically has not been realized.

The results from the client age valuation will focus future marketing and client retention efforts on procuring new clients and developing them into the higher value mature client basis. This will also lessen the financial expectations placed on new clients for immediate financial performance, as per historically, it takes a number of years to evolve into a financially more beneficial relationship.

CONCLUSION

The very nature of fee for service contracting and consulting companies, introduces a continuous workplace dynamic that requires constant procurement of clients, training of skilled personnel and measurement of results. In this report, I sought to look at the three basic elements that are at the root of the organization. In completing this analysis I have found that communicating key performance indicators or performance measurements in our organization is not statistically better than non- communication of these results. This will lead to further analysis and improvement of what we are actually communicating and measuring in the performance measurement system, to ensure that the process and information being communicated is relevant to the intended recipients and users thus ensuring a benefit. The important note for other contractors and consultants is not to assume a generic list of performance measures will achieve an improvement if they are not well designed to create improvement and flag problems within the specified organization.

The analysis and literature review of multi skilled workers has brought to the forefront the issue that profiting from the skills of the worker will not occur from skills themselves but in how they and their skills are deployed and directed by management. This also leads to the opportunity that companies can be more flexible in hiring lower skilled workers, as there is not a strong financial need for higher diversity in workers if the size and scope of a project allows for the deployment of workers with fewer skills.

Client valuation is preeminent of the three hypothesis tested in this report from a competitive entrepreneurial perspective. Understanding and quantifying the value of term relationships as being not only important but fundamental, where the new client historically brings promise of new activities and opportunities provides a company with the knowledge to develop relationships. Historically once clients evolve into an older more mature client the company can benefit from the relationship.

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