

Study on Participation Service of Cost Consulting Enterprises Based on Principal Agent Theory

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Abstract. The implementation results of the construction cost consultation project are influenced by effort and customers' participation, but the inputs under the course of the service are hard to verify, which often cause a bilateral moral hazard. In view of the problem that the high quality of the cost consulting enterprise cannot have the high price called adverse selection and moral hazard leads to a lack of trust of customers, this paper designs the participation service by applying the principal-agent theory, and discusses the necessity and process of the service. Value of it is proposed to provide a new angle of view and new path of value creation for the enterprises.

1. Introduction

The quality of the business results of the firm is not just their own efforts and results, but the cooperation and interaction with customers is one of the important strategies to enhance the core competitiveness of enterprises.

However, It is difficult to observe and verify investment of both sides in the process of service, especially knowledge and technology as the representative of the inputs are invisible and private. Under the condition of asymmetric information, the transaction cost will be increased, and the effect of the advisory services will be reduced. The implementation results of the cost consulting project are influenced by their effort and customers' participation, which have an effect on the long-term cooperation^[1-2]. In view of the information asymmetry problem before and during the process, this article design a customer participation service model by applying the principal-agent theory from the perspective of establish long-term cooperative relations between CCE and customers. This service is tried to guide customer to participate, stimulate customer recognition and generate customer trust until the establishment of long-term cooperation is built, which is a new way and a new starting point to solve the industry's information asymmetry problem.

2. The Construction of Participation Service Framework

2.1 The Necessity of Customer Participation Service

China's consulting industry has been rising since 1980s. so far, it has been said "unlimited potential and numerous problems". The existence of information asymmetry is one of the important factors. When the asymmetric information game takes place before signing the contract ,it is called adverse selection. when after signing the contract, it is called the "moral hazard".

(1) Adverse selection risk

Adverse selection refers that the contract signed before the game of the asymmetric information, When the client chooses the type of the enterprise, he can only sign the contract according to the limited information because it is not likely to grasp the full information on consulting firms, which is not conducive to the optimization of the allocation of resources for the clients and easy to form the "high quality and low price, bad money drives out good money" effect. In the industry, the reverse selection is often performed in the inferior information position of clients, who are difficult to have the comprehensive information. This will result in the difficulty for them in choosing the appropriate entrusted consulting companies, which is not conducive to the high level of consulting

enterprises to obtain industry competitive advantage.

(2) Moral hazard

The moral hazard of CCE comes from the "hidden activities" which have two aspects: One is the moral hazard of a hidden action. The information is symmetrical, and the activities and the natural state of the CCE decide the outcome of the observation, the client can only observe the results, and cannot directly observe the action itself and the natural state of the consulting firm. In this situation can client easily misunderstand the consulting firm and its management; The second is the moral hazard of the hidden information. The information is symmetrical when the contract is signed. But, after signing it, the consulting firm is enable to observe the natural choice, and then choose to act. The client can observe the actions of the consulting firm, but could not observe the natural selection.

Thus from here we see that the existence of the information asymmetry has greatest impact on whether the Party A can establish the trust of Party B and become closer partnership in a long term. Only to establish an effective information communication mechanism can this kind of risk be reduced. The premise of this is information sharing, while playing the role of incentive and supervision.

2.2 Participation Service Model Under the Condition of Asymmetric Information

In view of the above adverse selection risk and moral hazard problem of CCE, firms need to establish a timely, efficient and accurate delivery channels for information communication, this channel contains two aspects of the demand: The first one is establish information disclosure platform to help the client s' information needs; The second is take advantage of the "information symmetry" platform to improve their service quality. Figure 1 is the framework of the customer participation service, in which its core feature is the information visualization and information transparency:

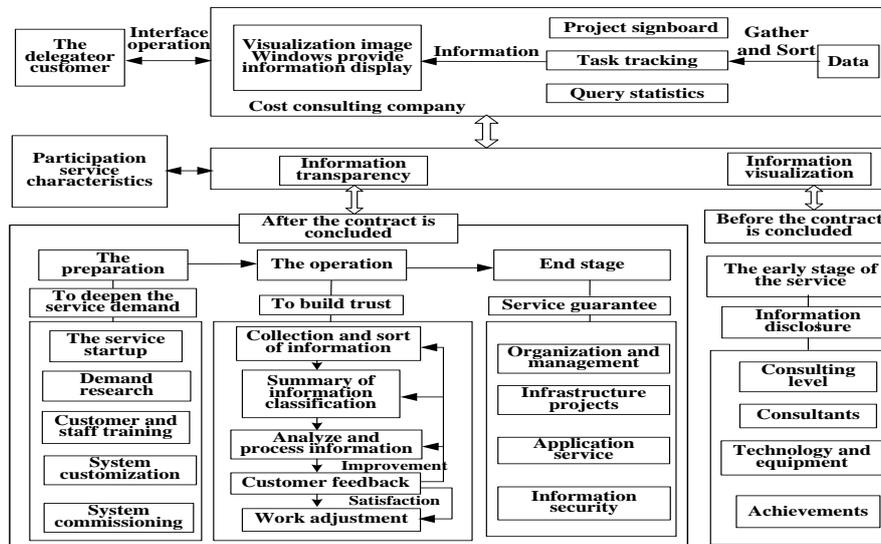


Fig. 1 Customer participation service model

(1) Information visualization^[3] comes from the urgent need that people desperate to understand the relationship between the data and the development trend, in addition to the demand for mass data storage and transmission. Information visualization can solve the "adverse selection", by virtue of which the client is fully displayed by visual design, information classification and information cue in order to improve the efficiency of information data acquisition in the limited visual range.

(2) Information transparency is a powerful channel for reflecting the objective and real information. Participation service like a "transparent tank", in which the whole course of information display in front of customers. Thus, Various processes and resources are absolutely clear, so that customers can inspect the business activities and management activities, and thereby a sense of trust is built and deepened.

In this regard, the participation service is divided into two different periods before and after the conclusion of the contract: Because of "adverse selection" in the early stage of contract, three major

functional modules of the visual image of the window, signboard items, task tracking and query statistics, plays a key role in the customers' information interaction, on which the contract management, project management, financial management, office management, task management, reporting management are provided, These functions show directly the company's consulting level, personnel information, technology and equipment, achievement, etc., in order to attract customers and promote rate of signing the contract. In the late period of the contract, the consulting enterprise present regularly gathered and sorted information in the above task tracking module, which can realize the regulatory requirements of the clients, and avoid the "moral hazard". This process can be divided into the preparation, operation and end stage: Participation service in the preparation, the main work are such as: service startup, demand research, system customization, customer and staff training, system commissioning; Participation service in the operation is main about the customer's participation experience, so that customers will obtain the pleasure of service in the process of cooperation with the trustee, and enhance each other's friendship; Participation service for the latter part, the service is summed up and continuously improved.

3 Value analysis of participation service

CCE are featured by service oriented which determines their value creation could come from the ability enhancement: differentiated service, knowledge skill reserve, famous brand effect and so on. The value of the service are mainly act like this:

(1)Provide personalized services, potential increase in fees. It is not difficult for CCE serve as a knowledge-based enterprises to obtain customer sentiment, personalized needs, self creation and self realization and other aspects of the demand of resources (intelligence, energy, money, emotion, etc.) in order to seize market opportunities and get higher returns through the service.

(2)Promote mutual understanding, management problems could be actively shared. The service plays an important role in seeking a win-win solution of three areas^[4]: Firstly, participation service enable customers to monitor his business entrusted enterprise through informal means; Secondly , the two sides could understand and accept temporary unrealized goals, thus reduce the contradiction between them; Thirdly, small flaws in the process of business would be understand, the two sides are more easy to eliminate misunderstanding; Fourthly, quickly agreement can be made by both sides to shorten negotiation and question time for deciding targets or adjusting project's major decisions.

4. Summary and Prospect

The CCE and the principal party in the contract, before or after, will be affected by the service difficult to accurately observe, thus resulting in adverse selection and moral hazard. In this paper, a model of service framework is established, and the organization process of participating service is discussed from the time before or after the contract signed to ensure CCE reverse the asymmetric information, which is beneficial to provide a new way to obtain competitive advantage of the industry.

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