

Consulting Services and their Assignment Criteria: the View of Management Consultants on how Customer Firms select Consultancies and their Services

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Abstract

Management consulting services are highly versatile and hardly comparable for customer firms and their managers. Finding the right or best service is often a challenge for companies which are searching for support.

This qualitative research is one part of a comprehensive study that deals with the view on how customer firms and their managers are able to assess and compare services and consultancies prior to assignment. Twelve expert interviews are a compliment prior to a quantitative research. The aim of these structured interviews is on the one hand the viewpoint collection of several management consultants to compare their view with the customers' view afterwards and on the other hand the reception of ideas how to modify questions for the quantitative research.

Consultants have the greatest impact on the decision of managers within customer firms. Criteria of further groups as consultancy, proposal and service do all have less effect on their decision in average according to interviewed management consultants. By assessing the importance of several proposal contents to customer firms the point "customer benefit" is on the very top according to interviewees. The point "location and facility of realisation" on the other hand was estimated by the lowest importance of all criteria. Time-based hourly or daily rates as well as lump sum agreements are preferred most by customers from the management consultants' viewpoint. Interviewed management consultants declared the most accepted fee range between 120 and 149 Euros per hour and between 1,000 and 1,249 Euros per day. A period-end settlement for fees and expenses is dominating all different types of invoicing. For managers in customer firms, transparency is a clear definition of the problem, scope, their work, time frame, cost-benefit and a contact person as well as the documentation of results and future predictions and recommendations according to experts interviewed.

Improved transparency of management consulting services can be an advantage for both managers and consultants. This transparency of contents and agreements can be the basis for a professional contract design and further the basis for a successful realisation and cooperation.

Key Words

management consulting, business consultants, proposals, transparency of consulting services

Introduction

Services offered by management consulting firms are versatile, often not transparent and hardly comparable for customer firms and their managers. Finding the right service offer or even consultancy is often a challenge for companies which need support in specific fields, departments, processes or projects. The factor transparency can influence the competitive advantage and there could be a difference of smaller consulting firms towards large established and famous consultancies. The knowledge of existing success factors through transparency and suggestions of how such transparency could look like should especially help smaller consultancies using these implementations as a competitive advantage. In general companies are facing a challenging situation of emerging economic difficulties and increasing cost pressure. Requirements for transparency of consulting services in terms of scope, quality, benefit, success and sustainability went up. In these times companies are searching for ways to cut costs and enhance benefit. Therefore particularly larger ones have professionalised their procurement process for these services and focus more and more on objective criteria for selecting consultancies, consultants and consulting services. Also the institutionalisation of inhouse consultants or even inhouse consulting units in especially larger companies increased the competitive pressure on consultancies and forces them to professionalisation.

The aim of the entire study respectively the author's dissertation is the view on how customer firms and their managers are able to assess and compare services and consultancies prior to assignment. Interested target groups of the comprehensive study on the one hand can be business managers who get the overview about possibilities and potentials in terms of requests for service proposal contents and on the other hand consultants who gain from this dissertation from a better understanding of how customers think, what they require and how they choose consultancies, consultants and consulting services. This knowledge enables consultants to adjust their services, marketing and proposal preparation for a more efficient and successful acquisition, which increases again the overall benefit to customer firms and their managers.

Objectives and Research Questions

The **main objective** of the entire study is defining a concept of transparency for management consulting services and their assignment criteria in terms of scope and benefit to achieve a key success factor for successful realisations and hence a competitive advantage for smaller consulting firms.

The **objectives for the qualitative research** as one part of the entire study are

- to receive ideas on how to modify questions for a following quantitative customer survey and
- to collect the viewpoint of several management consultants to compare their view with the customers' view after the quantitative research.

Methodology

The frame of investigations contains the market of Austria. Economic units are classified by their economic activities. NACE¹, the European Union classification of these economic activities has a four-digit code. For deploying this coding on a national level in Austria, a five-digit code is used. The ÖNACE 2008 is the latest valid classification of economic activities for Austrian firms on a national level which takes into account national specifics by the fifth digit (WKÖ², May 2014). In this study consulting services are determined by using the ÖNACE code M70 (Corporate Management M701 and Business Consultancy M702). Not evaluated are closely related services of the ÖNACE code M69 (Legal Consultation M691 and Certified Public Accountants & Tax Consultants M692). Also not included in this research is the field of inhouse consulting services of companies.

The term „Unternehmensberater“ which means translated management consultant is subject to the Austrian trade regulation. The applicable law is „Unternehmensberatung einschließlich der Unternehmensorganisation gem. § 94 Z 74 GewO 1994“³ which is the current valid regulation (RIS⁴, January 2014) and listed as point 74 of overall 82 in the list (bmwfw⁵, January 2014) of regulated trades in Austria.

The comprehensive study is divided into three research parts: desk research, qualitative research and quantitative research. A desk research respectively a comprehensive literature and data research serves partly as the basis for the qualitative research respectively expert interviews. The results of those interviews in turn provide a basis for the quantitative research which is a survey to customer firms of consultancies. To avoid that respondents in both the

¹ NACE is the abbreviation for "nomenclature européenne des activités économiques".

² WKÖ is the abbreviation for "Wirtschaftskammer Österreich" and means translated "Austrian Federal Economic Chamber".

³ Commercial law according to the trading regulations 1994: „Unternehmensberatung einschließlich der Unternehmensorganisation gemäß § 94 Z. 74 GewO 1994“ (translated: "Business Consultancy including Business Organisation according to § 94 Z. 74 GewO 1994").

⁴ RIS is the abbreviation for „Rechtsinformationssystem“ (translated: "legal information system") of the federal government in Austria.

⁵ bmwfw is the abbreviation for „Bundesministerium für Wissenschaft, Forschung und Wirtschaft“ (translated: federal ministry for science, research and economy).

qualitative interview as well as the quantitative questionnaire refer conceptually to former single projects, a particular form of questioning was contrived.

This paper concentrates only on approach, process and results of the qualitative research. Qualitative research is strongly orientated on the daily business (Flick, Kardorff & Steinke, 2008, p.23) and is based on a number of distinctive underlying principles. Qualitative methods are usually understood to include qualitative interviews, direct observations, case studies and content analyses. Qualitative interviews are flexible and adjustable during progress on an individual basis and hence best suitable for this research. There are several types of qualitative interviews as structured, semi-structured, open-ended and completely open-ended interviews that can be used.

It was decided to go for a questioning of experts by using structured interviews to find out what's their experience and opinion. The focus was simply talking and listening to experienced management consultants to increase the researcher's knowledge and ideas for suitable questions of a continuative questioning to customer companies. That approach replaced a pretest process, better known as field test which is supposed to estimate the survey's reliability and validity (Thayer-Hart et al, 2010, pp.6-12; Rammstedt, 2004, p.5, p.16), prior to the quantitative research.

A guided interview is orientated on openness. Because of this, interviewers on the one hand are supposed not to stick too much onto their prepared questions and on the other hand they are supposed to prohibit excesses from the time point of view (Mayer, 2013, pp.37-38, p.44; Hans & Köppen, 2001, p.85). The guideline-based interview for this research was split up into two parts, respectively two different kinds of questions. One part was highly structured with precise formulated "closed questions". An open-ended part was the other one where a few prepared "open questions" were the basis for a comprehensive conversation. "PAPI – Paper-and-Pencil-Interviews" were chosen for interviewing experts in this field of management consulting. The aim of standardising interviews is equal conditions for all participants for ensuring a proper comparison and analysis afterwards. A further requirement for ensuring comparable results is the neutrality of interviewers. Neutrality in this case means that the interviewer must not influence interviewees in terms of expressing its opinion (Prüfer & Stiegler, 2002, pp.1-3).

These expert interviews were a compliment to the quantitative research. Two aims were connected to this qualitative research. On the one hand the viewpoint collection of several management consultants to compare their view with the view of customers afterwards, on the other hand the reception of ideas how to modify questions for the quantitative customer

survey whereof the output is supposed to be a comprehensive customer viewpoint in terms of choosing and hiring management consultants. Thus the result of this qualitative research was the basis for determining questions with essential objectiveness (Rammstedt, 2004, p.2) for the quantitative research, respectively all questions for the questionnaire.

A definition of the term expert is essential (Mayer, 2013, p.41) and was simple in this case due to the fact that a consultancy needs to have a licence⁶ for executing this business and many of the Austrian consultancies are one-person businesses (WKÖ⁷, 2013, p.11, p.13; WKS⁸, 2014, pp.4-5). By choosing one dozen consultancy owners and managing directors with the licence to execute this business can be assured that those have a specific education and sufficient experience. The final list of experts interviewed ensured a mixture of different management consulting fields and hence a balanced view and result. One expert was a volunteer for being the first interviewee of the trial or as also called pretest interview.

The very beginning of the guideline comprised all general questions and points (Mayer, 2013, p.45, p.98; Herget, Bodenstein & Ennsfellner, 2013) for the interview as aim of the survey, anonymity notice, interview number, date, time, place, name, gender, company and position of interviewee. All topic-related questions for the interview can be summarised into the following main groups: criteria for the selection of consultancies and their services, accounting method, and further qualitative information.

The preliminary guideline document used for the pretest interview was corrected and complemented in terms of contents and questions right after the pretest interview, prior to all further interviews. To give respondents the possibility to read along during asking all questions, a hand-out was prepared and submitted at the very beginning. Aim as well as anonymity evidence were mentioned right at the beginning of the interview. Despite getting a clear answer of one option for standardised closed questions, additional remarks of diverse qualitative information were added to the interview paper. Those answers were treated the same way as all answers of open questions for the analysis.

Through summarising and condensing received detailed answers, important information could have been lost or even misinterpreted. Because of this a continuous review of chosen allocations was essential (Mayer, 2013, pp.53-54). Those allocations were

⁶ Commercial law according to the trading regulations 1994: „Unternehmensberatung einschließlich der Unternehmensorganisation gemäß § 94 Z. 74 GewO 1994“ (translated: “Business Consultancy including Business Organisation according to § 94 Z. 74 GewO 1994“).

⁷ WKÖ is the abbreviation for “Wirtschaftskammer Österreich” and means translated “Austrian Federal Economic Chamber”.

⁸ WKS is the abbreviation for “Wirtschaftskammer Salzburg”, means translated “Economic Chamber of Salzburg” and is part of the “Austrian Federal Economic Chamber”.

determined key statements. Contradictory answers respectively key statements were analysed by considering service focuses and main customer groups.

Hypotheses were formulated between the qualitative research and the following quantitative research. The aim of the continuative quantitative research was the scientific finding on how customers are thinking in terms of choosing and hiring consultants. It's also supposed to reflect their expectations in terms of required management consulting services.

Results

For all points of the first two questions of the structured interview all experts had the possibility to choose between five categories: very important (5 points), important (4 points), indifferent (3 points), unimportant (2 points) and very unimportant (1 point). They were supposed to choose one option for each sub-item of those questions. The rating by points was chosen due to fact that “very unimportant” does not automatically mean it's inappropriate or not needed at all and hence one point is justified as the lowest rating. Because of the various and different fields of consulting services undertaken by the experts interviewed, a distinct result in terms of customer views as well as preferences and tendencies can be made.

Criteria for the Selection of Consultancies and their Services

How important are the following criteria to customers for selecting consultancies? Please assess each single point.

Within each group some criteria are more and some less important to customer firms according to the average opinion of all experts interviewed (Figure 1).

Professional and social skills of consultants as well as their reliability and loyalty are most important from the interviewed experts' viewpoint. Professional skills are the very basic requirement for conducting consulting services. Social skills in contrast are required for managing emerging interpersonal difficulties during conducting those services. If a company already made experience with a consultant, is of little importance. Recommendations for both consultancies and consultants are overly important to all sizes of customer companies. Also the reliability was rated as high important for consultancies. A third-party certification on the other hand was estimated to have low impact on customers' decision. The leading criterion in the group proposal by far is the feasibility of a proposal. The knowledge of customer's requirements must exist to establish realisable proposals in the own interest of consultancies. Countertrades are unimportant to customers, respectively their managers. The group service is dominated by clarity of a service. Full-service suppliers are only relevant for particular small companies because they often can't afford an assignment with more than one consultant.

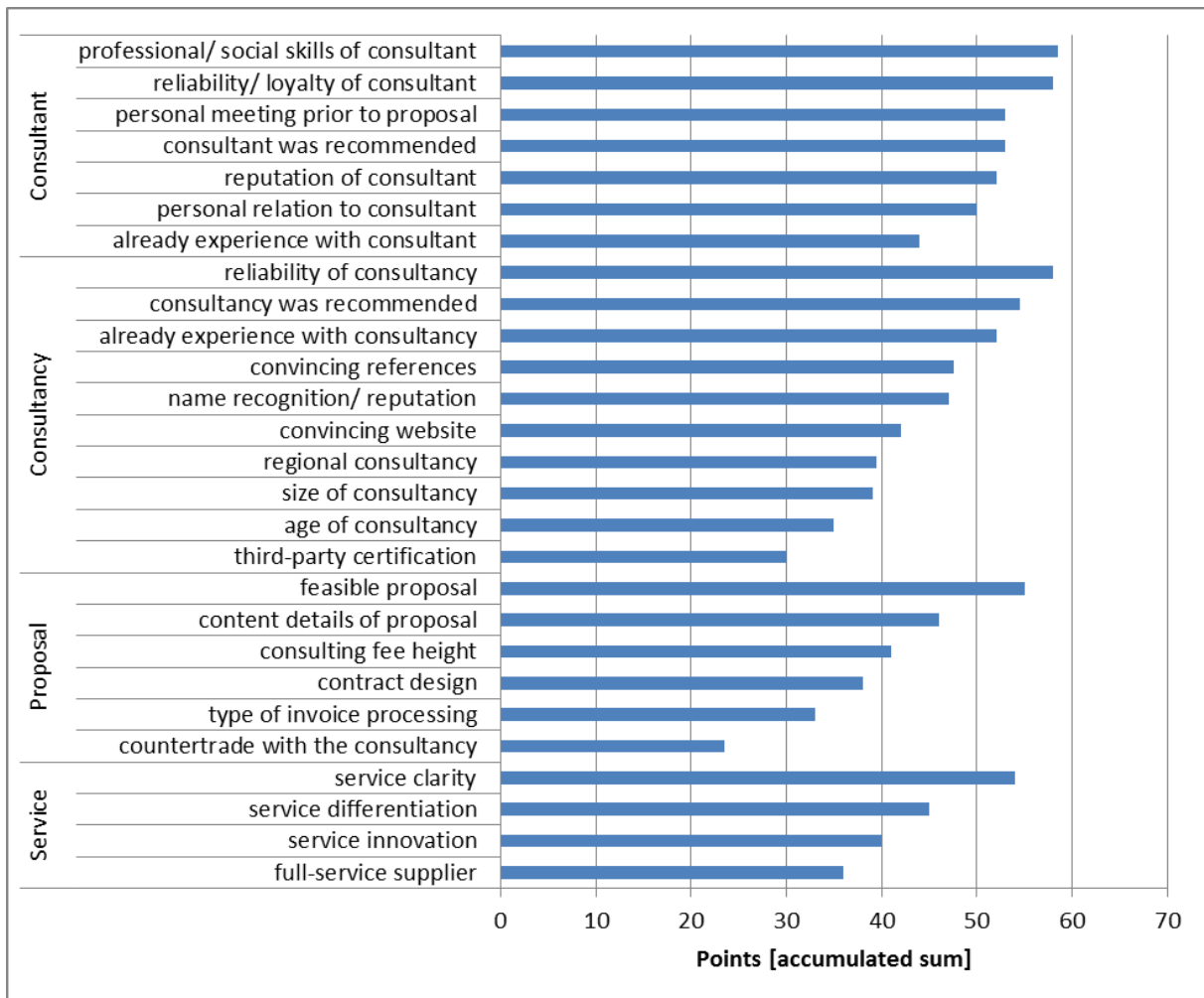


Figure 1: Importance of criteria for selecting consultancies in descending sequence (source: own graph)

While some criteria were assessed by a similar importance, others were rated very differently by those experts. The inhomogeneity of criteria was analysed by using all qualitative information received during all interviews. Recommendation and reputation of consultants are relevant in particular small consultancies. The regionality of a consultancy is highly important for small customer firms. They look for service providers which understand the customer's thoughts, language and culture. The age of a consultancy is unimportant because more important are experience, history and references of acting team members. Also the size of consultancies does not influence a customer's decision in general but in some cases large customer firms search for large and in some cases they search for small consultancies. Small customer firms on the other hand rather look for small consultancies or even one-person businesses. Name recognition, reputation and website are important for larger customer firms while smaller ones do not have the pressure to convince stakeholders and shareholders from their decision. Consulting fee heights rather affect small customer firms than larger ones. While full-service suppliers are mainly important for small customer firms,

larger ones look for specialised service providers. Summarised can be stated that the importance of single criteria is highly depending on the size of a customer firm. Smaller ones have different requirements than larger ones.

Not one of all respondents estimated the importance of a proposal with more than 4 points in average. On the opposite only one interviewee rated the impact of a consultant by less than 4 points in average. According to this, consultants have the greatest effect on the decision of managers within customer firms.

How important are the following content commitments of proposals to customer firms to compare proposals of different consultancies? Please assess each single point.

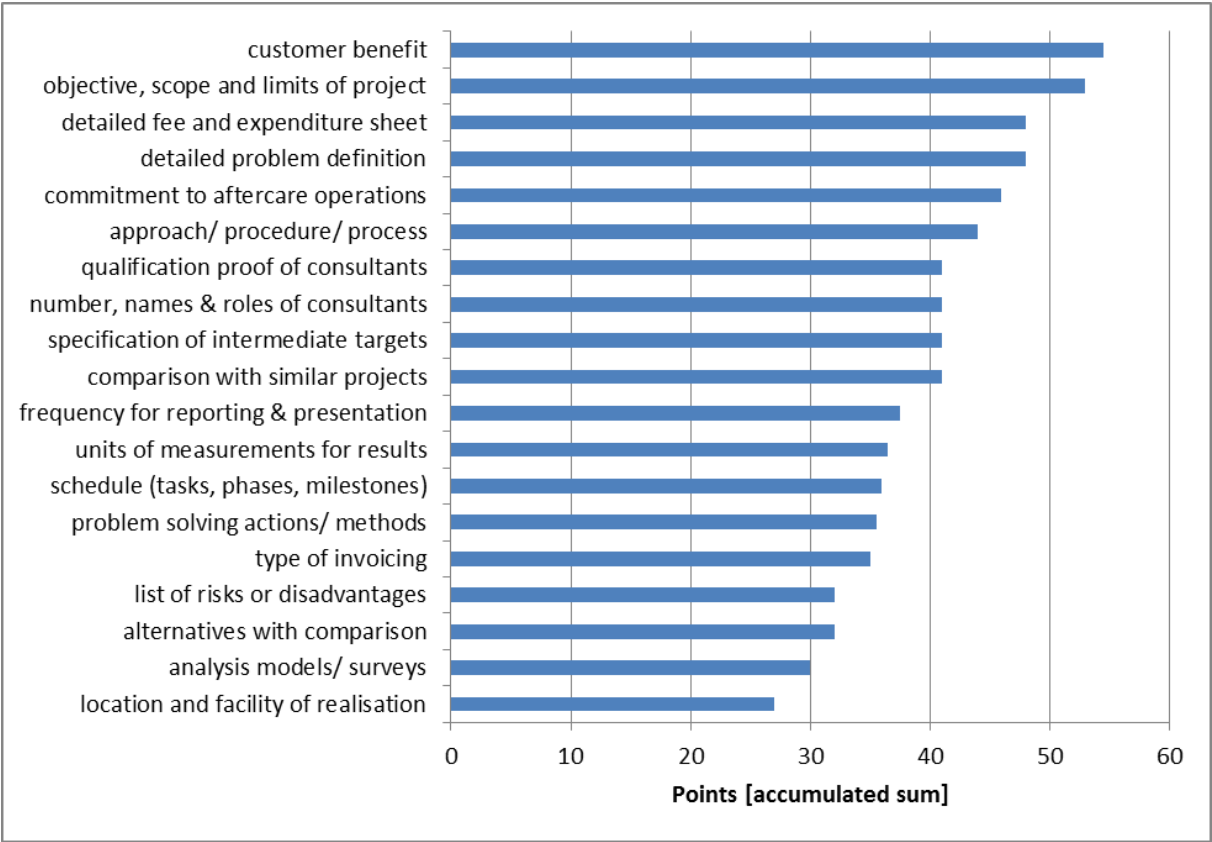


Figure 2: Importance of proposal contents for comparison in descending sequence (source: own graph)

The group proposal in sum is not important in contrast to the others but it was further subdivided more detailed to find out which contents are more or less important to customers or which can probably identified as a waste of time when establishing proposals. Figure 2 displays in a descending sequence from the importance point of view all possible contents of proposals for consulting services.

Customer benefit and scope of a consulting service are important to all sizes of customer firms. While the invoicing process is important mainly for smaller customer firms, a detailed fee and expenditure sheet is necessary for both small and large ones. Commitments to aftercare operations are important to many customers too.

Problem solving methods, proper schedules, approaches, processes and analysis models are often overstraining managers of small customer firms. The larger customer firms the more important are detailed and precise information of methods, tasks and milestones. A proof of qualification is not the same as professional competence for some experts but nevertheless important for large firms, especially if purchasing departments are selecting one proposal of many. Specifying intermediate targets is necessary for not failing the final target, but proper plans can often prohibit innovation and flexibility, especially when the real problem distinguishes from the original assumed problem, which affects the final result. A comparison with former similar projects makes sense in single situations but does not automatically assure success because each corporation is different. The frequency for reporting and presenting results as well as the units of measurements highly depend on the kind of service offered by consultancies. A list of risks or disadvantages as well as alternatives with comparison is rather important to consultants themselves to either recommending the right option or preventing from legal disputes. Location and facility of realisation are rather unimportant to small customer firms than to large ones.

Accounting Method

Which consulting fee calculation do customers usually prefer from your point of view? Multiple answers possible.

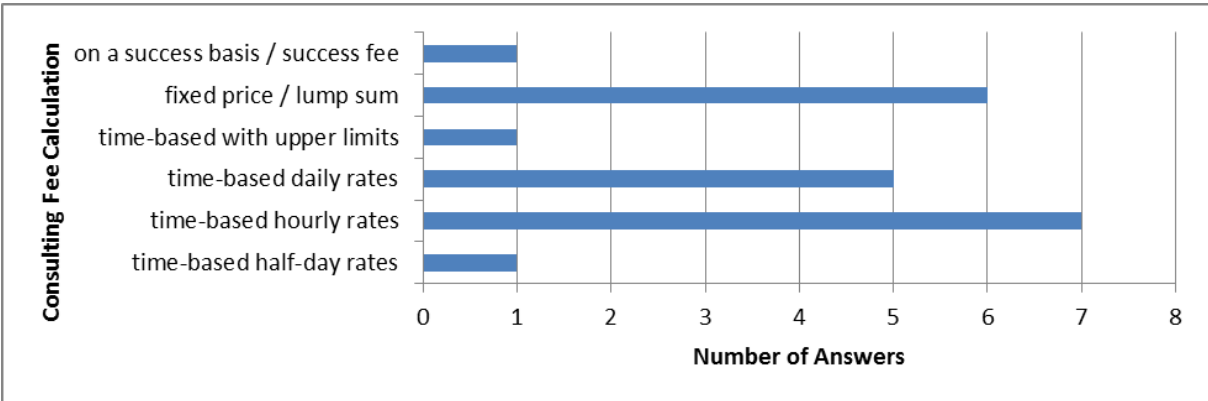


Figure 3: Preference of customer firms in terms of consulting fee calculations (source: own graph)

Figure 3 views that time-based hourly or daily rates as well as lump sum agreements are the customers’ most preferred calculations for consulting fees. Lump sum contracts are far spread for workshops or different types of trainings. Time-based with upper limits and success fees are seldom used because a success is hardly measurable or can often be measured or perceived as such after a long period of time only. The last point “time-based half-day rates” was mentioned during an interview as an additional option which is requested from some customer firms.

Which fee ranges are customary in the branch and accepted by customers from your point of view? Please choose one of each (hourly, daily) because customer perception varies between hourly and daily rates. Multiple answers possible if necessary.

Most of the experts declare that the highest acceptance from customers is between 120 and 149 Euros per hour and between 1,000 and 1,249 Euros per day. A simple rule is – the larger the company the higher consulting fee rates are achievable.

Which type of invoicing does the majority of all customers prefer from your point of view? Please choose only one option.

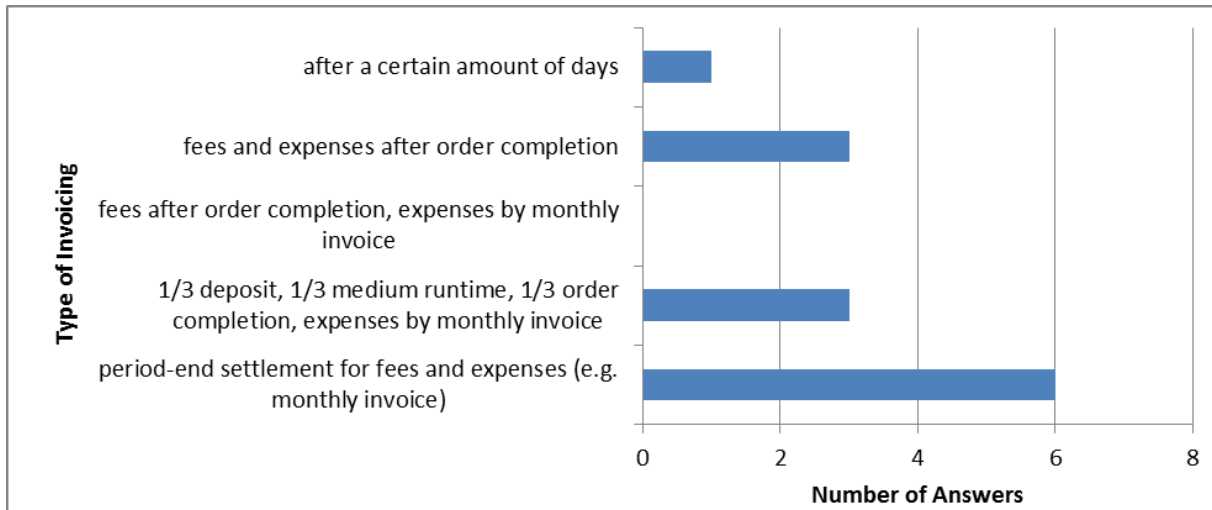


Figure 4: Preference of customer firms in terms of invoicing (source: own graph)

A period-end settlement for fees and expenses is dominating when comparing different types of invoicing as shown in Figure 4 because companies are often not willing to conduct many payments a month or they have predefined budgets for certain months. A settlement after order completion is not used according to the experts. The upper point “after a certain amount of days” was mentioned during an interview as an additional option which is requested sometimes from customers.

Further Qualitative Information

All comments received to the qualitative questions can be summarised as the following key statements:

- definition of the problem in advance: as a proof to customers that consultants understand the issue at all
- detailed scope definition of requested service: for avoiding overruns in terms of time and cost
- detailed work description and its clarity: for deriving a reliable cost calculation afterwards
- detailed time frame including time recordings: for deriving resources and costs, and for a proper controlling

- detailed cost-benefit comparison and cost recordings: for an easier decision and a proper controlling
- only one main contact person: for ensuring a proper communication flow without gaps and delays
- documentation of results and changes: for justifying expenditures internally and a comparison after a certain period of time
- predictions and recommendations for the future: for ensuring sustainable and verifiable changes

Conclusion

Those chosen management consultants have different focuses on consulting services and reflect hence a representative average view on how customers select services, consultants and consultancies from their point of view.

The importance of 27 single criteria for selecting services from consultancies, split up into the groups “service”, “proposal”, “consultancy” and “consultant” was assessed by the management consultants’ point of view. Interesting is the outcome that consultants themselves have the greatest impact on the decision of managers within customer firms. The importance of 19 possible content commitments of proposals to compare different proposals by customers was estimated by the management consultants’ point of view too. The most important contents of proposals for customers are “customer benefit”, “objective, scope and limits of the project”, “detailed fee and expenditure sheet” and “detailed problem definition”. Estimated as the lowest importance were “location and facility of realisation”, “analysis models/ surveys”, “alternatives with comparison” and “list of risks and disadvantages”. Time-based hourly or daily rates as well as lump sum agreements are most preferred by customers from the management consultants’ viewpoint. Interviewed management consultants declared the most accepted fee range between 120 and 149 euros per hour and between 1,000 and 1,249 euros per day. They stated that the larger the company the higher are achievable consulting fee rates. They also assessed a period-end settlement for fees and expenses as dominating when comparing different types of invoicing.

Transparency for customers respectively their managers is a clear definition of the problem, scope, their work, time frame, cost-benefit and a contact person as well as the documentation of results and future predictions and recommendations.

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