



*SURVEY*  
*of Dissertation*

THOMAS ORIOLD  
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FACULTY OF BUSINESS AND ECONOMICS

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**SELECTION CRITERIA OF MANAGEMENT CONSULTING  
SERVICES**

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**USED BY COMPANIES FROM THE WOOD INDUSTRY**

SURVEY OF DISSERTATION

STUDY PROGRAMME: ECONOMICS AND MANAGEMENT  
STUDY SPECIALISATION: BUSINESS MANAGEMENT AND ECONOMICS

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MENDELU.

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# 1 INTRODUCTION

Services offered by management consulting companies are versatile, often not transparent and poorly comparable for managers of customer firms. Finding the right service offer or even consulting firm is often a challenge for companies which need support in specific fields, departments, processes or projects. In these times companies in general are facing a challenging situation of emerging economic difficulties and increasing cost pressure. They are searching for ways to cut costs and enhance benefit. Requirements for the transparency of consulting services in terms of scope, quality, benefit, success and sustainability have increased. Therefore particularly larger companies have professionalised their procurement processes for these services and focus more and more on objective criteria in selecting consulting firms, consultants and consulting services. Also the institutionalisation of in-house consultants or even in-house consulting units, especially in larger companies, has increased the competitive pressure on consultancy firms and forced them to professionalise.

Consulting services in Austria are diverse. The wide range includes management consulting, functional consulting and interim management. The consulting business in Austria varies from other countries. One huge difference is the Austrian trade regulation, which defines requirements of qualification and access to the market. The number of members in the management consulting business has been subject to an incredible growth rate over the recent years and is, combined with all economic challenges mentioned above, a huge challenge for each single consulting firm and consultant.

Improved transparency for managers during the selection of consultancies can influence the competitive advantage for consulting firms. There could also be a different effect on smaller consulting firms towards large established and well-known consultancies. The knowledge of existing success factors and suggestions on how such transparency could look like should especially help smaller consultancy firms to use these implementations as a competitive advantage. Managers have to be able to assess and compare required services prior to assignment. Due to this reason a proposal needs to comprise all important information for a proper basis for decision. On the other hand the daily business of consultants

should be dominated by conducting services instead of establishing proposals for services. The knowledge about what information and details are essential in which situation and for which customer group helps management consultants to save time during preparation and managers to save time during comparison and decision.

This comprehensive survey was subdivided into three parts. The main part of this research was an online manager survey, which reflected the opinion of Austrian managers in customer firms on management consulting services. The basis for this manager survey were assumptions made from the outcome of twelve interviewed management consultants in Austria by using structured interview guidelines. The information which was necessary to formulate and execute these expert interviews was obtained from holistic literature research.

The final results provided sufficient information to publish recommendations and implications for marketing management, which aims to be a tool for consulting firms and consultants. These results also give managers in customer firms an overview about what is important to know when looking for consultancies.

## 2 OBJECTIVES AND RESEARCH QUESTIONS

The main objective of the entire study was defining a concept of improved and more transparent proposals of consultancies for Austrian customer firms, when they have to select the right consulting firm, consultants and consulting services. The sum of all actions performed by consulting firms should provide customers with a more transparent picture for their purchasing decision. The aim was to achieve key success factors for an effective presentation of a clear proposal and hence a competitive advantage for both consultancy companies and customer firms.

Secondary objectives for the entire study were

- to identify preferences in terms of selection criteria and proposal details for consulting services from the perspective of managers which work or used to work for Austrian companies in the wood industry,
- to identify the importance of these selection criteria and proposal details on a measurement scale,
- to identify customer segments from their views, experiences and preferences, and
- to derive recommendations for consultancy companies on how to supply managers of customer firms with the appropriate information.

These objectives lead to the following research questions:

- Which are important selection criteria for consultancy services for managers with a wood industry background?  
→ Hypotheses 1 and 2
- Which are important proposal contents for these managers experienced in the wood industry?  
→ Hypothesis 3
- Which are important accounting details for the managers' purchasing decision?  
→ Hypotheses 4, 5 and 6
- Which selection criteria and proposal contents are important to which segment of manager or customer firm?  
→ Hypotheses 2 and 3
- Does the viewpoint of management consultants correspond with the managers' point of view in terms of the importance of single selection criteria and proposal contents?  
→ Hypotheses 2 and 3
- What is the best way for the communication and presentation of proposals to customers as advice to consulting firms, to provide managers with a more transparent picture for their purchasing decision?

### 3 METHODOLOGY

The frame of investigations comprises the market of Austria. Some excursions and comparisons to other markets are supplements for some specific topics. The evaluated field are business consulting services, which are determined by using the ÖNACE code M70.2 (further subdivided into M70.2.1 and M70.2.2), which mainly includes the fields of strategy & management, organisation & process, human resources, finance & controlling and sales & marketing. Not evaluated are closely related services of the ÖNACE code M69 (Legal Consultation M69.1 and Certified Public Accountants & Tax Consultants M69.2), which include in turn the fields of legal & tax consulting and auditing. Also not included in this research is the field of in-house consulting services of companies. Figure 1 shows the structure and content components of the whole dissertation.

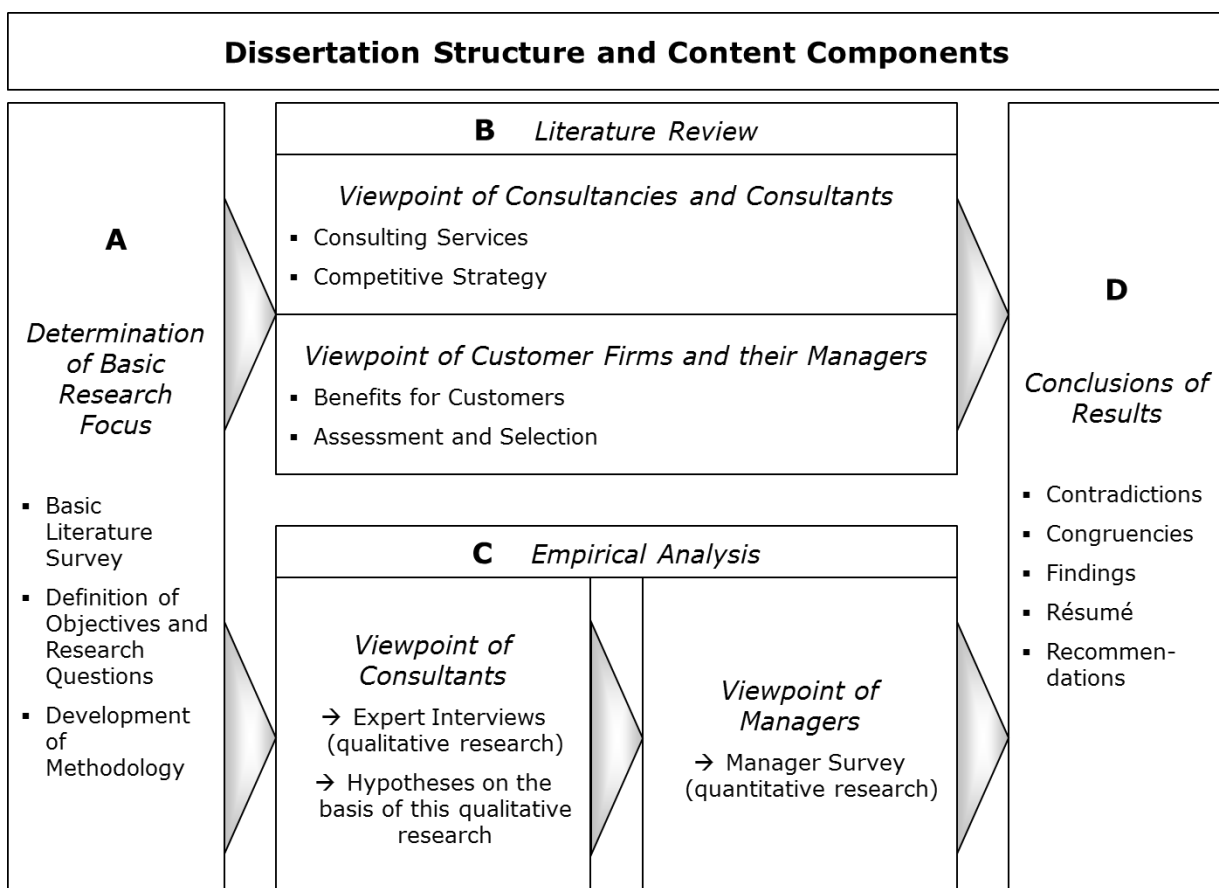


Figure 1: Structure and content components of the dissertation (source: own model)

This comprehensive study is subdivided into three research parts: desk research, qualitative research and quantitative research. The desk



research (comprehensive literature and data research) serves partly as a basis for the qualitative research (expert interviews). The results of these interviews in turn provide a basis for the quantitative research (manager survey). To avoid that respondents in both the qualitative interview as well as the quantitative questionnaire refer conceptually to former single projects, a particular form of questioning was contrived.

### **3.1 DESK RESEARCH**

Literature of different sources was compared and analysed but finding literature comprising detailed information about transparent services and possibilities for achieving a competitive advantage was, of course, difficult. A possible reason might be the fact that service products and the methods behind them are not subject to rapidly changing environments and development (*Niedereichholz C., 2010, p.10*). Hence, consultants as well as consultancy companies are not willing to publish their knowledge and findings except basic information on it to make customers curious. Large, well-known and globally acting companies are putting much effort into research and development. In addition to that they are often supporting high potentials, also called and known as high performers, in graduating their education, like bachelor, master or doctoral studies. Some consulting firms are even offering the possibility for longer breaks due to this reason (*Ruhoff, 2013, p.57*). Employing consultancy companies are not interested in publishing all details because of company secrecy. Studies undertaken by these companies are generally used as a marketing instrument despite their high costs (*Niedereichholz C., 2010, p.108*).

### **3.2 QUALITATIVE RESEARCH**

Qualitative interviews are flexible and adjustable during progress on an individual basis and hence best suitable for this research. The decision was to go for a questioning of experts by using structured interviews to find out what their experience and opinion is. The focus was simply talking and listening to experienced management consultants to increase the researcher's knowledge and receive ideas for suitable questions of a continuative questioning to managers of customer companies. That approach replaced a pretest process, better known as a field test, prior to the quantitative research. The guideline-based interview for this research was split into two parts or more specifically two different kinds of

questions. One part was highly structured with precisely 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 business consultancy. The interviewer in this case, for all experts, was the author of this study.

Hypotheses were formulated between the qualitative research and quantitative research. Because qualitative research is characterised through describing, understanding and exploring phenomena by using subjective measurements, the construction of hypotheses prior to its execution was not recommended. Afterwards, on the basis of the qualitative research and the literature assessment, objectives for further research as well as hypotheses were determined. Hypotheses on whether variables like gender, manager age, company size, company location and so forth influence the essential details of proposals were not set due to missing literature sources and information received during expert interviews. The dependences between certain variables were found by analysing all data received during the manager survey.

### **3.3 QUANTITATIVE RESEARCH**

The quantitative research comprised target group determination, question preparation, sample selection, data collection, and data analysis. Sample size as well as target groups were determined conscientiously to ensure an undistorted image of the whole population and hence a representative result. Reliability, validity and objectivity are important criteria for quantitative research methods. For this survey a calculated sample size of managers was questioned by using an online questionnaire.

The aim of the continuative quantitative research was to validate made assumptions from the results of expert interviews. It focused findings on how managers are thinking in terms of choosing and hiring consulting services. It was also targeted to reflect their expectations for required management consulting services. All findings on it should provide consultancy companies a tool to adjust their services and communication to customer firms, which further is supposed to be an advantage for customers through higher transparency and higher awareness when choosing them. All this is supposed to lead to a greater degree of trust towards consultancies.

The basic population consists of the total number of managers in Austrian firms in different positions who are able to assign orders to consultancy companies. In single cases banks also hire consultancies for their customers, in financial difficulties. Due to the huge number of companies in Austria one sector was chosen to represent the basic population. The chosen sector is the large wood industry of Austria. It was necessary to include differently sized firms, from the employee point of view, into this survey. While in the case of smaller companies primarily owners or general managers filled in the questionnaires, larger companies also had the possibility to spread and delegate this task to managers of all hierarchies.

Sampling method – companies: Simple random sampling as the probabilistic part of this survey was chosen. The advantage of simple random sampling is a high representativeness, but it will not work without a complete list of all population members (*Black, 1999, p.118*). Due to this reason this approach was feasible for selecting companies, but wasn't for selecting managers.

Sampling method – company sizes: Consciously taken out of the survey were companies below ten employees because of the expected low response rate and their limited experience with consultancies.

An appropriate representativeness of the minimum sample size in terms of both reliability and validity had to be ensured. When taking into account the missing whole number of population "N" (all managers in Austrian firms), the formula for a standard deviation (Figure 2) could be used to fulfil essential requirements (*Friedrichs, 1990, pp.144-147*).

$$n = 10 * K^V$$

Figure 2: Formula – standard deviation (source: *Friedrichs, 1990, pp.144-147*)

**n** = minimum sample size

**V** = maximum required number of variables

**K** = mean value of attribute sizes

This formula required the final version of hypotheses determined. Prior to using this formula the variables as well as attribute sizes needed to be derived from those hypotheses. The minimum number of cases per cell was predefined with the number of ten. The variable (V) comprised the different focus topics which are reflecting the aim of the survey as such.

Prior to designing the questionnaire, all topics and practical applications were grouped. Each group was determined as a variable. The mean value of attribute size (K) in contrast was more difficult to define. For each focus topic between two and five attributes were applied. When inserting the determined results for K and V the result for n is 270, as displayed in Figure 3.

$$n = 10 * 3^3 \rightarrow 270$$

Figure 3: Formula – minimum sample size (source: *Friedrichs, 1990, pp.144-147*)

According to *Thayer-Hart et al. (2010, p.14)*, the University of Wisconsin Survey Center normally receives a 60–70% response rate to mailed (postal) surveys but only 30–40% for web surveys. The result of an online survey to consultancy companies in Austria (*Herget et al., 2013, p.35*) in turn had a response rate of 6.83%. A further online survey to banks and tax consultants in Germany (*Laufer, 2011, p.62*) led to a return rate of approximately 30%. A comparison research for different surveys conducted by *Resnick (2012)* summarises the response rates of postal and online surveys for market research, where the response for postal surveys was with 4.4% six times higher than for online surveys with only 0.75%. This low percentage on average raised the awareness of possible difficulties of using online questionnaires. The response rate can be increased through several actions like personalised communication, anonymity note, layout, colour and length of questionnaire, and follow-up procedures (*Dillman, 1991, p.229*). Because of the uncertain and difficult to calculate response rate, it was necessary to combine data collection types in terms of contact and reminding methods. The author's good network in the Austrian wood industry helped to raise the response rate and to receive reliable information which wouldn't be received for other industries due to the mentioned laws of data privacy and telecommunication.

*Enke & Greschuchna (2005, p.14)* referred to a survey result of *Mugler/Lampe 1987* which found that 54% of all small and medium-sized companies never used consultancies. They also stated that this was confirmed by a survey of *Grass 2003* through the outcome that only 7% of all small firms and 40% of all mid-sized firms cooperated with consultancy companies. Similar results were shown in the results of *Wick 2000*. Due to this, microenterprises with less than ten employees were not the focus group of the survey because most of them couldn't answer these

questions, which would lower the response rate massively. That also increased the quality of returned information. Small-sized companies with ten to 49 employees on the other hand were important for this manager survey to find out what the difference is to medium-sized and large companies. Small and medium-sized companies prevail in this survey because they form the majority of the Austrian economy.

Obstacles like the law for data privacy and the law for telecommunication made it difficult to identify company data like revenues, number of employees, responsible persons and e-mail addresses. All institutions contacted were clearly pointing to the legal situation of using company data. The number of employees and revenues were only available for companies that provide these data officially on certain platforms themselves. For using e-mail addresses, an exceptional regulation exists for scientific reasons, which was used and clearly pointed out during this survey. The identification of customers was executed by the following actions and sequence:

- 1) Through selecting the sector "industry" and then "wood industry" by using the online service platform of the Austrian Federal Economic Chamber and through selecting only companies with added e-mail address due to privacy law, 425 firms were identified. Postal addresses, e-mail addresses, websites and phone numbers recorded on this platform were allocated to all companies of that database too.
- 2) Adjustments were made by merging headquarters and associated sales offices. As a result, the number of firms was shortened to a remaining number of 373 Austrian firms.
- 3) By using the online platform of the corporation "FirmenABC Marketing GmbH", which cooperates with the corporation "Creditreform Wirtschaftsankunft Kubickei KG", company names including legal form, number of employees and estimated revenues were investigated and added to the database. This online platform also provided descriptions of company activities and their products as well as responsible contact persons. Firms which operate in several fields within the wood industry were allocated to the group of their focus activity or product within their value chain.
- 4) Many websites of single companies were examined for the information which was missing on the platforms mentioned.
- 5) The online platform of the European Union (*European Commission, 2014*) provided the information about ranges of company size in

employees and annual turnover according to the EU definition. Data about the number of employees was not available for 23% of all companies and 3% were predominantly operating in other industries. Data concerning revenues was not available for 30% of companies. Three per cent of companies were mainly operating outside of the wood industry.

6) A proper allocation of selected firms to the federal states in Austria was conducted by using the online platform of "Österreichische Post Aktiengesellschaft".

7) Numbers of managers in single firms were estimated by considering that one manager who has an influence on hiring consulting services is responsible for approximately fifty employees. All firms below fifty employees were counted with one manager each.

8) All firms below ten employees were taken out of the survey due to their low experience with management consulting services, found out during the literature survey. Hence, both the response rate and the quality of returned information was estimated as unusable.

9) The source of data of the overall number of firms was an online service of the Austrian Federal Economic Chamber. The overall number of firms within the wood industry was 1,517. The selected number of firms was 182 and the calculated sum of managers within selected firms was 535.

All data collected by returned questionnaires from Austrian managers was transferred to Excel tables. All answers were quantified through allocating numbers to qualified information (e.g. yes = 1, no = 2; male = 1, female = 2; etc.).

The Pearson correlation coefficient was most suitable and hence used as a tool for identifying relations, the values of which have been displayed in cross tabs. The aim of the analysis by using the Pearson correlation coefficient was to find out whether variables like gender, manager age, company size, company location and so forth influence the selection by managers in customer firms. Some relations refer to some hypotheses set in advance. The coefficient of Bravais-Pearson – also known as Pearson correlation coefficient – is most frequently used (*Ebermann, 2010, pp.49-50*) for such studies. Correlation is the coherence between variables. It is a measure of the degree of linear dependence between these variables.

## 4 RESULTS

### 4.1 SUMMARY OF THE LITERATURE ANALYSIS

The management consulting business in Austria is subject to the Austrian trade regulation, which increases market entry barriers and lowers the uncertainty of customers due to the requirements on consulting firms from the quality point of view. Nevertheless the number of providers in the management consulting business has been subject to an incredible growth rate over the last years. Nowadays almost two-thirds of all companies in the consulting business are one-person companies. About ten years ago the proportion of one-person businesses was below one-third. This implies that the incredible growth rate of management consulting firms resulted from the boom in founding freelance consultancies. One-person consultancy firms – in other words freelance consultants – became an important part of the global consulting industry, which corresponds with the incredible growth rate of these sole traders in Austria during recent years.

Only a small percentage of all companies in Austria make regular use of management consulting services. Generally speaking, the larger the firm, the more often they make use of consulting services. A large number of firms have never used management consultants for any type of consulting service. The less developed an organisation is, the lower is their realisation of the necessity of consulting services. Consultants are becoming more involved in the implementation process, which also increases the influence on the whole project and final result. Customers attach great importance to transparent procedures with tangible expectations and they expect a trustful cooperation during the whole service process. Also of similar increasing importance are the sectors of interim management services and in-house consulting. Similar to other countries, in-house consultants in Austria are not able to fully substitute external consulting services. It rather opens new opportunities for consultancy firms in the form of meta-consulting services. Meta-consultants choose, organise, lead and control project teams composed of external consultants, in-house consultants, and other employees. Internationalisation is not a major issue for most Austrian consulting companies due to their small size. Organisational and strategy consulting

are the two most sold consulting services from the revenue viewpoint. Customised analysis methods and problem solutions are highly unproductive. Hence many, particularly larger consulting corporations tend to standardise their products offered to customers. Despite this global tendency toward standardised services, this development has yet to reach Austria. Specialisation on the other hand is becoming more and more important for Austrian consulting service providers.

Management consulting is a service which needs to break down high entry threshold barriers. The three generic strategies of Porter – cost leadership, differentiation and focus strategies – prove to be inadequate for management consulting strategy decisions. One reason is that the quality of service is very difficult to measure, and the other one is that customer firms do not purchase ready-made products. Strategic alliances between consultancy firms and individual consultants are common to extend their resources and capabilities to be competitive. Direct and indirect acquisition methods are used for approaching potential customers.

The main reasons why companies hire consultants are because they are not routine-blinded, they are neutral, they have analytical, problem-solving, motivating and managerial skills and experience, and they are change experienced. They are hired by firms only when required, which generates fewer costs than recruiting new managers and employees. Business consulting covers a wide range of heterogeneous service providers and services. Hence, customer firms are often missing the overview in terms of available possibilities, which makes it difficult for them to select the best services and service providers. Quality of services is a key factor of the competitive capability and hence successful business of consulting services providers. Management consulting is performed after contract signing, which shifts the risk of low quality or adequacy toward the customer. Existing service quality measurement models are not suitable for applying to this business.

A customer compares different products in terms of price and benefit prior to making the buying decision. The perceived benefit plays a central role during the decision of purchase. Whether the customer is satisfied or dissatisfied depends on its expectations for the service and on its perception of performance. Thus, customers' satisfaction is defined as the positive comparison between expected and perceived performance. If the performance matches the customer expectations, it will be satisfied. When the expectations are exceeded, the customer will even be delighted. But



there isn't a need to exceed customer expectations. Certainly, delighted customers have positive effects on preference but lower levels of performance also produce positive results. Even when expectations of customers are low, meeting these expectations raises preference. Worse-than-expected quality harms more than better-than-expected quality helps. Consultancy companies should pay more attention to its newer customers, because for those, quality differences will have the greatest impact.

Before customer firms approach consulting providers, they must have defined very clear ideas of the need of support through consultants. They need to articulate what they really need and want. Many small firms request only one proposal. Larger firms request three proposals on average to ultimately choose one of them. Firms with more than 49 employees search for consulting firms and consulting services by using tendering procedures. Customers increasingly request an estimate for the return on investment in proposals prior to placing an order. In certain situations customer firms are requested to hire consultancies by banks or tax advisors, which assess the necessity as essential. Two-thirds of all organisations have a list of preferred suppliers and a similar number have framework contracts with selected consultancy firms. In more than 90% of all firms in Austria the final decision for purchasing consulting services is made by the upper management itself.

The importance to customers of feasible and logical proposals as well as their calculations is often underestimated by consultants. Customers often prefer to know what a project will cost for budgeting reasons. Nowadays clients increasingly want consultants to accompany them during the implementation process and hence it's not sufficient any more to establish only concepts for customer firms. But it's not only the consultant or consulting firm which is responsible for the final result of consulting projects. Also the customer has a potential share of influence on the final outcome. An important requirement for achieving excellent results is the willingness of either entrepreneurs or managers to accept expertise from external partners.

Prior to beginning a project, qualitative and quantitative goals need to be defined. Targets need to be quantified or subdivided into quantified targets for achieving transparent measures. The balanced scorecard is a widely used method for linking the overall corporate goal of value maximisation to strategic and operational targets. It's a guiding and

navigating instrument, in fact an integrated framework to balance financial and strategic goals. Strategic objectives and strategic measures are contrasted, and include financials, customers/markets, internal processes, and potentials/learning and growth.

## **4.2 SUMMARY OF THE QUALITATIVE RESEARCH**

The management consultants have different focuses on consulting services and thus reflect a representative average view on how customers select services, consultants and consultancy firms from their point of view.

The importance of 27 single criteria for selecting services from consulting firms, split up into the groups "service", "proposal", "consultancy" and "consultant", was assessed from 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 from the management consultants' point of view too. The most important proposal contents 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 further 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 the achievable consulting fee rates. They also assessed a period-end settlement for fees and expenses as dominating when comparing different types of invoicing.

Transparency referring to consulting services for managers in customer firms covers a clear definition of the problem, scope, the consultants' work, time frame, cost-benefit ratio, and a contact person as well as the documentation of results and future predictions and recommendations.

### 4.3 SUMMARY OF THE QUANTITATIVE RESEARCH

This empirical research was conducted on Austrian company owners and managers at all management levels. From the total of 334 returned questionnaires 281 were correctly and fully filled in. These 281 questionnaires were analysed by the use of different methods. A low number of 18% were returned from female managers, a high number of 54% were returned from managers in firms with 250 and more employees, a similar high number of 59% were returned from managers between 36 and 50 years of age and from the state of Burgenland not a single questionnaire was returned. Forty-two per cent of respondents personally employed external consultants in the last few years and a further 23% cooperated with them. The majority (61%) of those that had employed external consultants in the last few years declared that the received performance often corresponded with the expected performance, 32% sometimes met their expectations, 4% seldom and only 1% never. Also only 2% always achieved their expected performance. The majority of managers declared that they are willing to fill in a document to outline their requirements prior to the preparation of proposals.

Professional and social skills of consultants, the reliability and loyalty of both consultants and consulting firms, a consulting firm's references, contents and feasibility of proposals, the clarity of services, and a personal meeting with the consultant are the most important considerations for managers on average. Experience and personal relation to consultants, regionality, age and size of a consulting firm, the type of invoicing, and a possible countertrade are in contrast of little importance for them. The biggest influence on the managers' decision by far is the consultant himself. Important proposal contents are objective, scope and limits, and also the customer benefit. The type of invoicing in turn has a low importance.

Female managers look rather for full-service suppliers and regional consulting providers, and give more importance to the type of invoicing, size of a consulting company and a convincing website. They also look more for commitments to aftercare operations and are more greatly influenced by proposal contents than male managers. Male managers in contrast rather look for consultants and consulting firms which they already have experience with.

Points like service innovation, full-service suppliers, convincing websites and the size of consulting companies are more important for young managers. Recommendations for consultants and consulting firms in contrast are of lower importance for them. Objective, scope and limits as well as the schedule (tasks, phases and milestones) are required proposal contents from their point of view. Experienced managers in turn put greater emphasis on their relation to consultants. Rather necessary content in proposals for them are alternatives with comparison, location and facility of realisation, a list of risks and disadvantages, as well as the specification of intermediate targets.

Small companies are looking more for providers which they can countertrade with, focus on the type of invoicing, and decide according to the personal meeting and their personal relation to consultants. The size of a consulting firm is of lower importance for them. Larger companies in turn show more interest in analysis models, the approach, procedure and process, the schedule (tasks, phases and milestones), problem-solving methods, measurement units of results, and frequency of reporting and presentation. Larger firms care less about the type of invoicing.

Most preferred by managers are success fee and lump sum contract agreements. Agreements of time-based hourly rates are not overly interesting for them. A highly accepted fee rate is from 120 to 149 euros per hour and from 1,000 to 1,249 euros per day. A frequently used type of invoicing is the period-end settlement for fees and expenses. A surprise was that the type of invoicing "after order completion for fees and expenses" is just rarely accepted.

The higher the accepted hourly consulting fee range, the higher the managers' satisfaction with received services. This implies that high consulting fee rates are unlikely to be the reason for dissatisfied customers of management consulting services. The higher the accepted daily consulting fee rate, the less frequently managers insist on payments after order completion. In other words, managers which accept high fee rates do not necessarily hold out paying fees and expenses after order completion at the earliest. The perception of managers between hourly and daily rates varies, although the final costs are the same. Therefore it has to be considered where hourly or daily fee rates are proposed to customers. The larger the company size, the more frequently its managers prefer working with consultants on a success fee basis anyway. On the other hand the larger the company size, the higher the accepted

consulting fee range. The accepted consulting fee rate is however also affected by the state where the company is located.

#### 4.4 FINAL ANSWERS TO HYPOTHESES

Secondary data sources were used to define the theoretical construct of management consulting services. Primary data sources were used to define hypotheses and to verify or reject them. Primary data was collected by using structured interview guidelines for management consultants and online questionnaires for managers in customer firms of business consulting services.

##### Hypothesis 1

When comparing the four main groups of criteria (service, proposal, consultancy and consultant) that are relevant to customers' decision for selecting consulting firms, the following assumption was made:

**Criteria related to the group "consultant" are most important for purchasing decisions of customer firms. Hence, consultants have the greatest influence on customer decisions.**

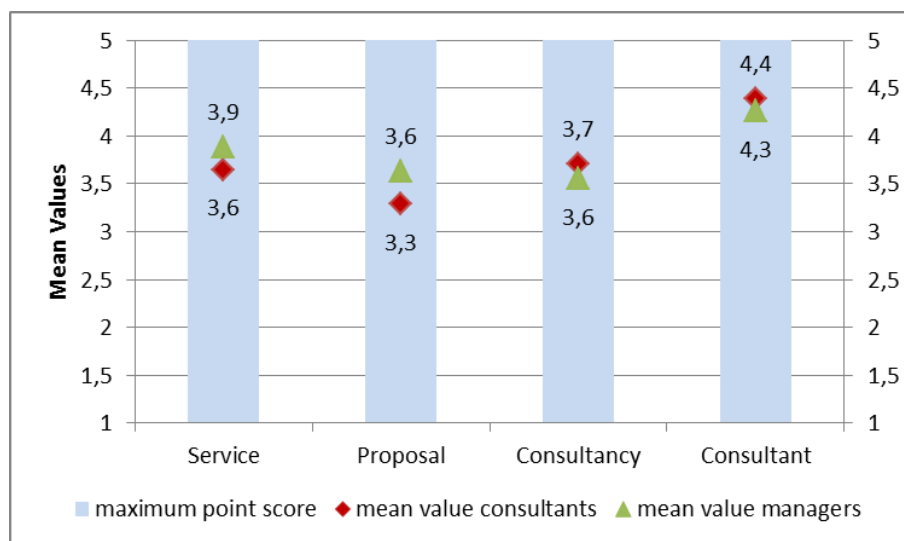


Figure 4: Selection criteria main groups: the consultants' and managers' viewpoints in comparison (5 = very important; 1 = very unimportant; source: own graph)

The assumption resulting from the consultants' opinion that management consultants have the greatest influence on the decision of managers in customer firms can clearly be confirmed as displayed with the mean value

of 4.4 of 5.0 points in Figure 4. Also the validation of the literature confirms this circumstance.

Figure 4 also shows the difference between managers and consultants in terms of the average importance of proposal contents. Figure 5 and Figure 6 display further details.

### Hypothesis 2

When taking into account all criteria of all groups that are relevant to customers' decision for selection, the following assumption was made:

#### Most important criteria to customers are

- "professional skills" and "reliability/ loyalty" in the consultant group,
- "reliability" in the consultancy group,
- "feasibility" in the proposal group, and
- "clarity" in the service group.

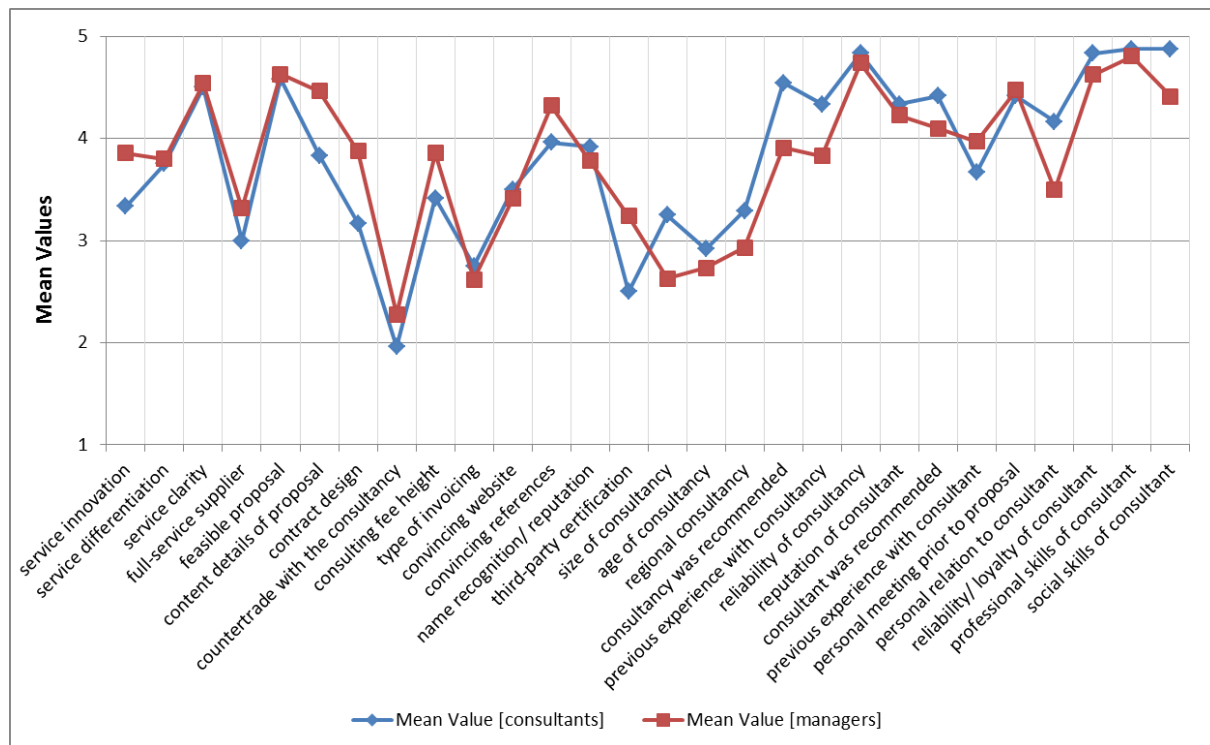


Figure 5: Selection criteria: the consultants' and managers' viewpoints in comparison (5 = very important; 1 = very unimportant; source: own graph)

It can clearly be confirmed that both criteria - professional skills as well as reliability and loyalty - are the most important when managers compare characteristics of consultants. Also the criterion reliability of a consulting firm as the highest importance can clearly be verified by the outcome of the manager survey. Feasibility is, as assumed, the most

important criteria for managers in proposals and service clarity the most important in the service group.

Huge differences between the consultants' and managers' view have been revealed. Consultants greatly overestimate the importance to managers of the size of, experience with and recommendation for a consulting firm, and the personal relation between manager and consultant. On the other hand, consultants greatly underestimate the importance of service innovation, content details of proposals, contract design and a third-party certification.

### Hypothesis 3

When taking into account all content commitments of proposals that are relevant to customers' decision for selection, the following assumption was made:

#### Content commitments of greatest importance are

- "customer benefit",
- "objective, scope and limits of the project",
- "detailed fee and expenditure sheet" and
- "detailed problem definition".

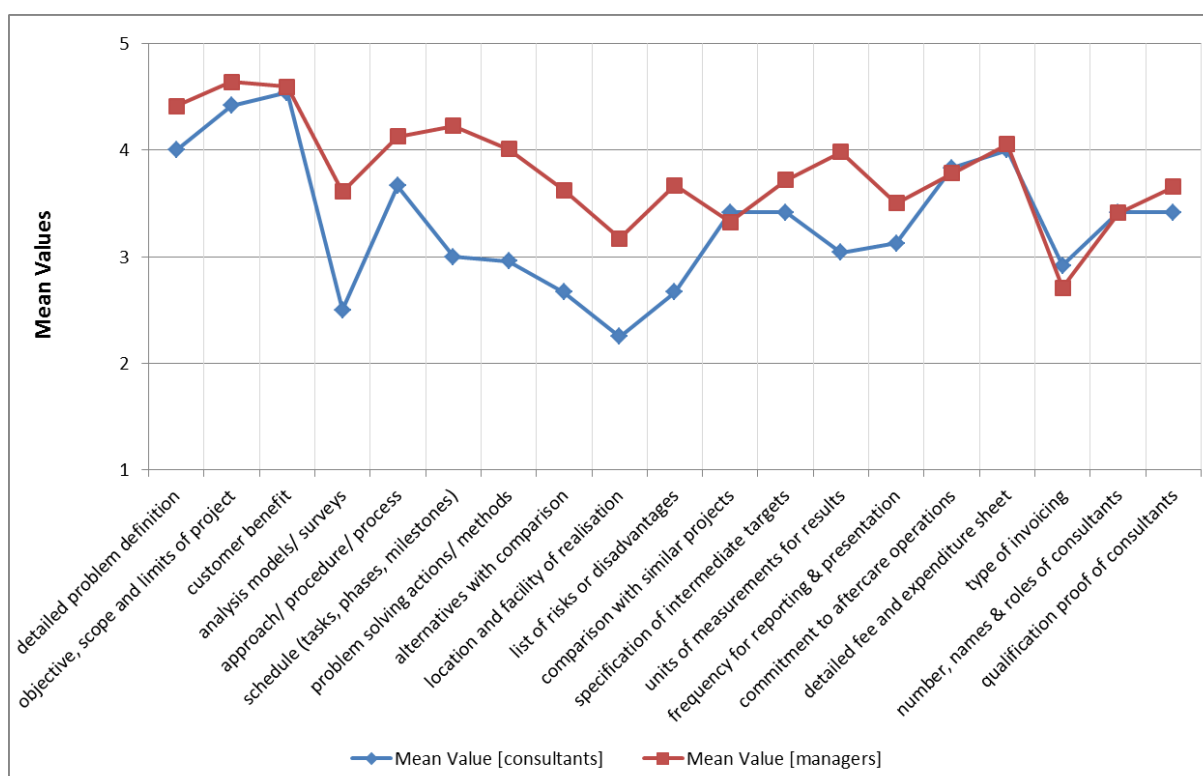


Figure 6: Proposal contents: the consultants' and managers' viewpoints in comparison (5 = very important; 1 = very unimportant; source: own graph)

As the importance of proposal contents was already rated lower by consultants than by managers (Figure 5), Figure 6 confirms this view for

the majority of all single proposal details. Three points – objective, scope and limits of a project, the customer benefit, and detailed problem definition are by far the most important details of a proposal for both consultants and managers. Therefore the hypothesis can only be confirmed on these three points. Although the fourth point – detailed fee and expenditure sheet – is of high importance for managers, there are some others which are more important for them.

The biggest opinion differences between consultants and managers are the importance of analysis models, schedule (tasks, phases and milestones), problem-solving methods, alternatives for comparison, location and facility of realisation, list of risks and disadvantages, and units of measurement of results. All these points are greatly underestimated by the interviewed management consultants.

#### Hypothesis 4

Preferences of managers in customer firms in terms of consulting fee calculations:

##### Customers prefer

- "hourly rates" in comparison to "daily rates", and
- "lump sums" in comparison to "success fees".

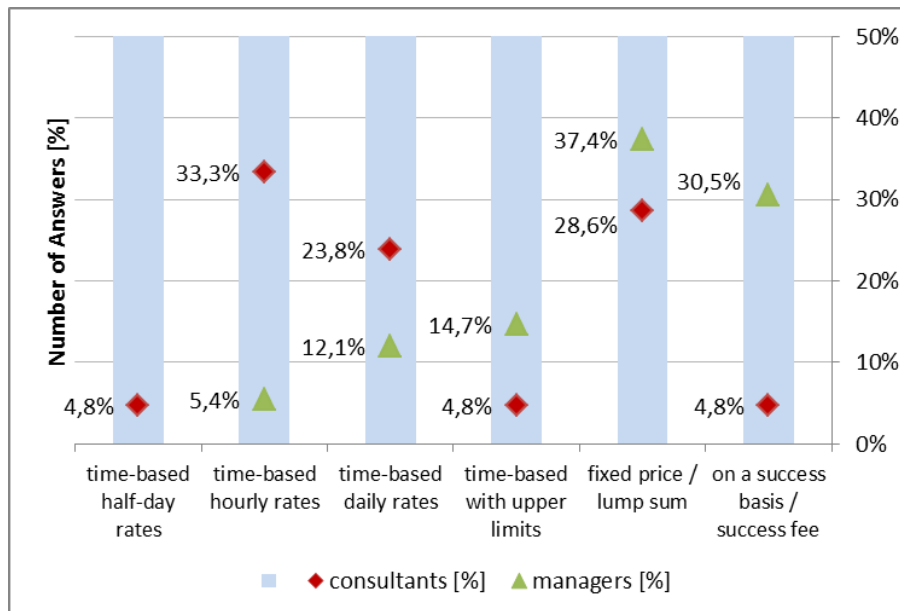


Figure 7: Consulting fee calculation: the consultants' and managers' viewpoints in comparison (source: own graph)

Also hypothesis 4 can only be confirmed partly (Figure 7). In contrast to the assumption managers prefer time-based daily rates instead of time-based hourly rates but as assumed they prefer lump sum agreements



instead of success fee contracts, which can also be confirmed by the literature.

However, the number of managers who picked success fees as an attractive consulting fee calculation is very high and varies strongly from the consultants' viewpoint. Such a huge gap can also be seen for the time-based hourly rates. In contrast to the consultants' viewpoint, time-based hourly rates are unattractive for managers.

### Hypothesis 5

Preferences of managers in customer firms in terms of the invoicing:

**Customers prefer "period-end settlements for fees and expenses" for received consulting services.**

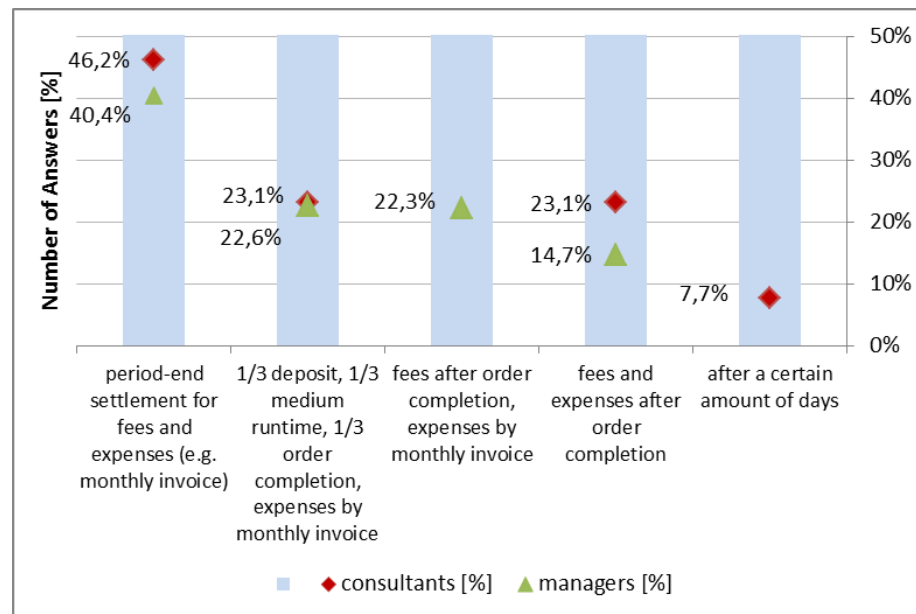


Figure 8: Type of invoicing: the consultants' and managers' viewpoints in comparison (source: own graph)

Hypothesis 5 is clearly confirmed, as displayed in Figure 8. A period-end settlement for fees and expenses is by far the most attractive type of invoicing for managers.

Also the gap between the viewpoints of consultants and managers is marginally low.

**Hypothesis 6**

Perception of managers in customer firms in terms of consulting fee rates:

**The perception of customers varies between hourly and daily rates. By using hourly rates for charging services, higher revenues can be expected for the same duration.**

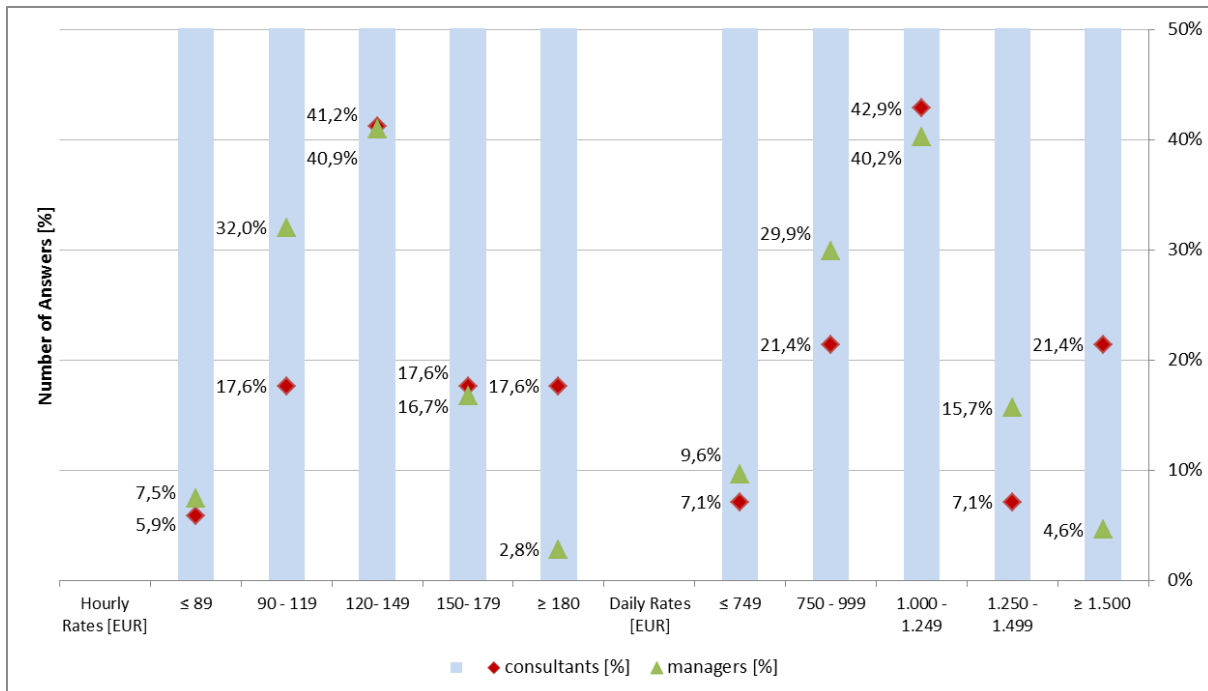


Figure 9: Consulting fee rates: the consultants' and managers' viewpoints in comparison (source: own graph)

As displayed in Figure 9, the ratings between hourly and daily rates do not correspond. Each consulting day was calculated with eight consulting hours, which implies the same costs for customers per day regardless of whether hourly or daily rates are agreed. Nevertheless, amounts of nominations vary between hourly and daily rates. It's a matter of perception customers are facing.

On average, management consultants are massively overestimating the potential in terms of accepted and hence achievable consulting fee rates of both hourly and daily rates. However, as already mentioned in the results of the manager survey, high consulting fee rates are unlikely to be the reason for dissatisfied customers if the managers agreed with the contract fee rates in advance.

## **5 CONCLUSIONS**

### **5.1 DISCUSSIONS AND LIMITATIONS**

These comprehensive results of the literature analysis, expert interviews and the manager survey provide a proper reflection of the management consulting market in Austria. Although the manager survey focused on the wood industry, it can be assumed and expected that particularly in similar branches where managers have to decide between consulting services, consultants and consulting firms, the situation is similar. It can also be assumed that the situation in some, especially German-speaking countries, is very similar in related industries too. Nevertheless the results are fully verified only for the wood industry in Austria.

The calculated minimum number of survey participants for a representative result has been clearly exceeded. The greater the managers' influence on the decision-making process for hiring consultancies and the greater their knowledge and experience on the subject, the more reliable their opinion pointed out on the questionnaire. Due to the large number of respondents which personally hired consultants in the last few years and many others that cooperated with them, this result can clearly be assessed as reliable and valid.

However, this data collection method was not able to control for external variables and their influence on the company business and hence the respondents' statements. A poor economic situation for instance will reduce the company's investment in management consulting services, which affects the customer's opinion on consulting services, consultants and consulting firms.

### **5.2 RECOMMENDATIONS TO CONSULTING FIRMS**

The following criteria are on average highly important to all managers in customer firms, without taking into account differences between gender, age or company size:

- professional and social skills of acting consultants
- reliability and loyalty of consultants
- reputation of and recommendation for a consultant
- personal meeting with consultants prior to proposal preparation

- reliability of the consulting firm
- convincing references of the consulting firm
- establishment of a feasible and clear proposal
- definition and description of the existing problem
- objective, scope and limits of proposed projects
- approach, procedure and process of proposed projects
- tasks, phases and milestones of proposed projects
- description of the customer benefit
- include detailed fee and expenditure sheets

Criteria with reference to consultants have by far the greatest influence on the decision of managers.

Management consultants overestimate the average importance to managers with regard to the:

- size of a consulting firm,
- managers' experience with a consulting firm,
- recommendation for a consulting firm and
- personal relation to consultants.

On the other hand they underestimate the average importance to managers in terms of the:

- innovation of the service,
- contract design for consulting services,
- demand for a third-party certification,
- expected models for analyses,
- determined tasks, phases and milestones,
- defined problem-solving methods,
- alternative solutions with assessment for comparison,
- considered list of risks and disadvantages of the methods,
- determined measurement units for results and
- location and facility of the project realisation.

When the decision for an assignment in customer firms depends on female managers, it's necessary to consider the following additional and very important points when creating proposals:

- include the frame of contract details
- include methods for solving a problem
- offer aftercare services

When the decision for assignments in contrast is up to male managers, the following point which is very important for them needs to be considered:

- involve consultants which the manager already had experience with

If the decision for assignment is made by young managers it's important to know the following point which they focus on in addition to the listed general important criteria:

- include methods for solving a problem

If the decision is subject to experienced managers the following point is essential to be considered during the preparation of proposals:

- determine units of measurement for results

No additional points which are important to managers in smaller customer companies were identified but for managers in larger customer firms the following two points are of high importance when they compare different proposals:

- include methods for solving a problem
- determine units of measurement for results

Most preferred by managers are lump sum contracts for calculating consulting fee rates. Success fee agreements for consulting services also enjoy high acceptance. Particularly managers in large customer firms look for contracts based on success.

Managers on average accept a daily fee rate between 1,000 and 1,249 euros or alternatively 120 and 149 euros per hour. The larger the size of a customer company, the higher the consulting fee rates that are accepted by their managers. Due to the different perceptions of managers between hourly and daily rates, it needs to be considered when which type of rate should be applied. It also needs to be considered that on average management consultants overestimate the achievable fee levels which managers are willing to pay for consulting services.

The most widely accepted type of invoicing is the period-end settlement for fees and expenses.

### **5.3 IMPLICATIONS FOR MARKETING MANAGEMENT**

Management consulting services are improving the performance of organisations in a limited period of time. Management consulting is the practice of helping companies to improve their performance and operates primarily by the analysis of problems existing in customer firms and by the development of plans for improvement. Management consultants

provide support and information in the current or planned strategy of a business. They apply deep domain expertise and wide project experiences in a structured way to solve problems.

The knowledge of the benefit for customers has to be at the centre when defining a strategy for competition. The key to success is meeting customer expectations and not exceeding them. Process improvement actions should first focus on eliminating dissatisfaction before trying to delight customers. Nowadays managers and consultants need to be more flexible and open-minded in terms of diversification, transparency and accountability. Higher 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 furthermore the basis for a successful cooperation and realisation.

There are a number of reasons why failures occur during consultations, for instance because consultants are working on the wrong problem, because customer firms selected the wrong consulting firm or consultant, because consultants do not have the skills or experience they need to have, and so forth. In larger and globally acting organisations the decision to hire a consultancy is highly decentralised. These managers often have significantly less experience structuring consulting projects. The failure and hence dissatisfaction also often points back to the insufficient definition of requirements by clients. They often have no clear perception of the real problem. With an undefined or poorly defined problem by customers, prepared proposals and calculations of consultancy firms will differ widely from the content and cost point of view. Furthermore consultants have the natural tendency to view the issues through the prism of their capabilities and experience and define the problem for clients which may not necessarily be the actual problem that needs to be solved. It would generate lots of work and costs that, in the end, will provide little or no value. Mostly and wrongly the rule is that a customer gets what it asked for. Therefore a request for proposals from the customer side saves time for the proposal preparation and ensures that it receives proposals which it is able to compare. As the outcome of the manager survey has shown, many managers are willing to fill in a requirement sheet prior to the establishment of proposals, which can replace typical and comprehensive requests for proposals in the case of small consulting tasks.

The customers' perception of consulting service results may be positively affected by displaying implementations of individually recommended solutions, rather than foisting standard solutions on customers. In that sense, the phase of project initiation is important to identify and define the customer's problem clearly prior to setting consulting goals. In addition to that, better transparency of the price-benefit ratio can be ensured by a project flow chart including payment stages to specific project phases and a written final report summarising the customer benefit. Additionally, managers in customer firms enhance positive perceptions of consulting services by the implementation of communication activities at all project phases.

By grouping some criteria surveyed and analysed in all the research, the following assertion on how to influence the customers' expectation, perception and satisfaction (Figure 10) was made. The first group, namely issue-specific criteria, contains commitments and prices which directly affect each other, the reputation of either consultants or consulting firms on specific project types, and alternatives which customers have. Commitments and promises can either be made directly by specific service proposals and contracts or indirectly by website content and advertising. The second group, namely relationship criteria, comprises recommendation, past experience, personal relationship, trust and customer involvement. Recommendation affected past experiences and influences trust; a past experience in turn affects trust and the personal relationship, personal relationship again influences past experiences and builds trust, and trust on the other hand builds personal relationships. Customer involvement also belongs to this relationship group. Greater customer involvement can imply higher expectations on the one hand but also a positive perception and higher satisfaction on the other. The huge effect of this relationship group confirms the importance of personal contacts and networks in business relations. Intrapsychological, contextual and situational criteria describe the third group, which contains for instance the real demand and its urgency.

While issue-specific criteria only affect customer expectations, relationship criteria influence customer expectation, customer perception and finally customer satisfaction. The group of intrapsychological, contextual and situational criteria has consequences for the whole process from the receipt of proposals to the satisfaction of customers.

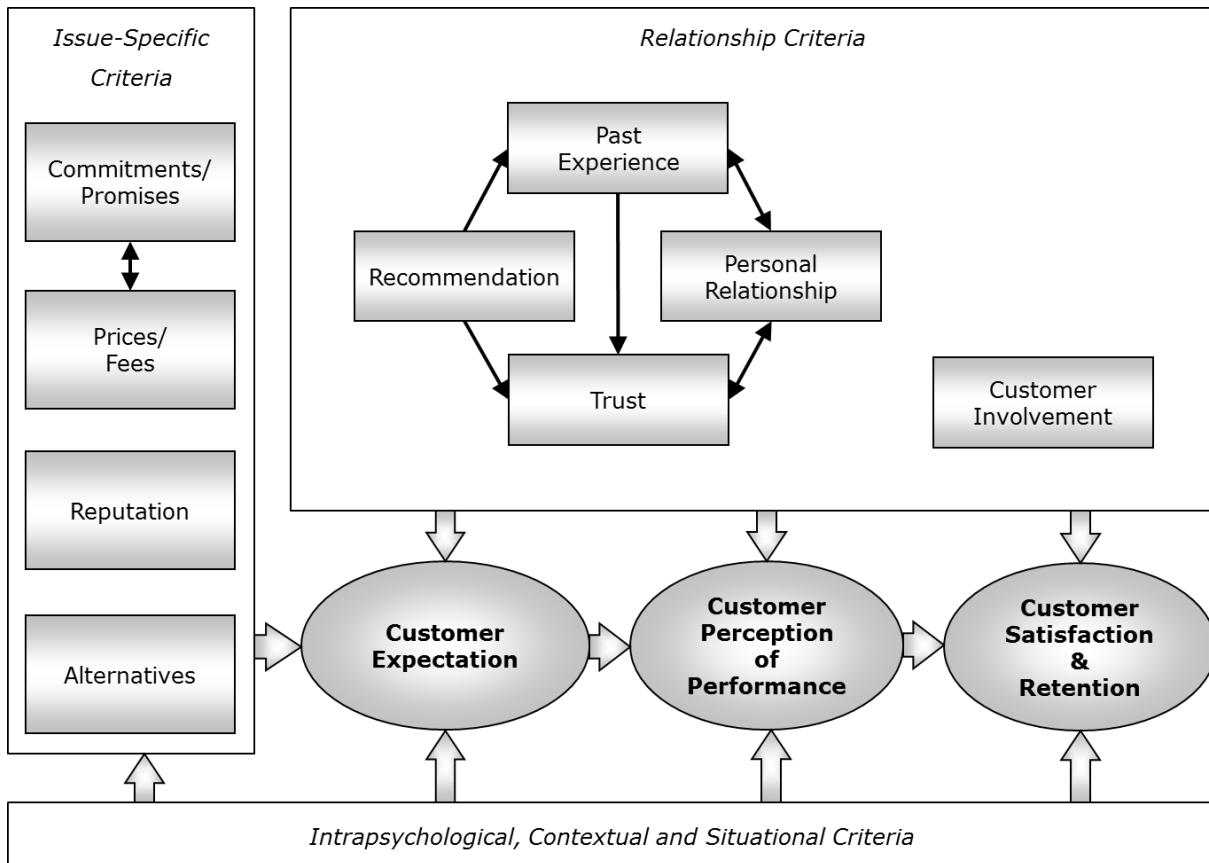


Figure 10: Conceptual model of the influence on customer purchasing behaviour for consulting services (source: own model)



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## LIST OF ABBREVIATIONS

NACE	“Nomenclature Européenne des Activités Économiques” which means “European Classification of Economic Activities”
ÖNACE	extension of NACE (abbreviation for “Nomenclature Européenne des Activités Économiques”) on the national level in Austria
WKÖ	“Wirtschaftskammer Österreich” which means “Austrian Federal Economic Chamber”
WKS	“Wirtschaftskammer Salzburg” which means “Economic Chamber of Salzburg” and is part of the “Austrian Federal Economic Chamber”

## **PUBLISHED PAPERS**

PEFnet conference paper (Mendel University in Brno)

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

IfM – Impulse (science magazine of the Institute for Management in Salzburg)

*"Management Consulting in Austria – an Overview"*

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## SUMMARY

The objective of this study was the development of improved and more transparent proposals for Austrian customer companies of management consultancies. The aim was to identify criteria and proposal details which are important to managers in these customer companies in the wood industry, to identify the importance of these selection criteria and proposal details on a measurement scale, to determine customer segments, and finally to derive recommendations for consultancy companies on how to supply managers with appropriate information.

The majority of responding managers declared to be satisfied with the performance of received consulting services in the past. Most of them also stated that they are willing to fill in a requirements sheet prior to the preparation of proposals. By far the biggest influences on the managers' decision are had by the consultants themselves. Female managers clearly have other preferences than male managers. Differences between young and experienced managers have been revealed too. The results also show how the importance to managers in large and small customer firms differs. Most preferred by managers are lump sum agreements for consulting fees and period-end settlements for fees and expenses. The larger a company, the more frequently managers prefer a cooperation on a success fee basis. On the other hand the larger the company, the higher the fee rates that can be achieved by consulting firms.

On average, management consultants overestimate the achievable consulting fee levels and moreover the importance of many selection criteria which managers use to choose from different consulting providers. On the other hand consultants greatly underestimate the importance of many other selection criteria and proposal details. They also underestimate the importance of success fees, which are especially requested from larger customer firms with experienced managers.

**Key words:** *management consulting; business consultants; management; managers; consulting services; proposal contents; selection criteria*

## SOUHRN

Cílem dizertační práce je předložení transparentních návrhů pro zlepšení práce rakouských firem zabývajících se manažerským poradenstvím. Cílem je identifikace kritérií a detailů návrhů důležitých pro manažery těchto zákaznických firem fungujících v odvětví zpracování dřeva, definovat důležitost těchto kritérií výběru a návrhů a to na měřící škále, určit zákaznické segmenty a v závěrečné fázi navrhnout doporučení pro konzultační firmy, týkající se způsobu poskytování odpovídajících informací uvedeným manažerům.

Většina manažerů, kteří reagovali na výzkum, potvrdili spokojenost s poradenskými službami nabídnutými v minulosti. Mnozí z nich rovněž potvrdili, že jsou ochotni vyplnit dotazníky v rámci šetření. Nejvyšší vliv na rozhodování manažerů měli dle výzkumu poradci. Manažerky měly odlišné preference od manažerů. Rovněž byly potvrzeny rozdíly mezi mladými a staršími manažery. Výzkum rovněž potvrdil rozdíly v případech manažerů z velkých resp. malých firem. Z pohledu manažerů nejvíce byly preferovány u smluv za konzultační služby paušální platby časově omezené. Čím větší firma byla, tím více její manažeři preferovali spolupráci založenou na výši odměny na bázi dosažených výsledků. Na druhé straně, čím větší firma, tím vyšší odměnu mohla konzultační firma požadovat.

V průměru poradci nadhodnocovali potenciál možných plateb za konzultační služby a navíc i kritéria, která manažeři volí při svém výběru konzultačních firem. Na straně druhé konzultanti značně podceňují důležitost plateb založených na úspěšných výsledcích požadovaných zejména velkými firmami se zkušenými manažery.

**Klíčová slova:** *manažerské poradenství; obchodní poradci; management; manažeři; poradenské služby; obsah návrhů; kritéria výběru*