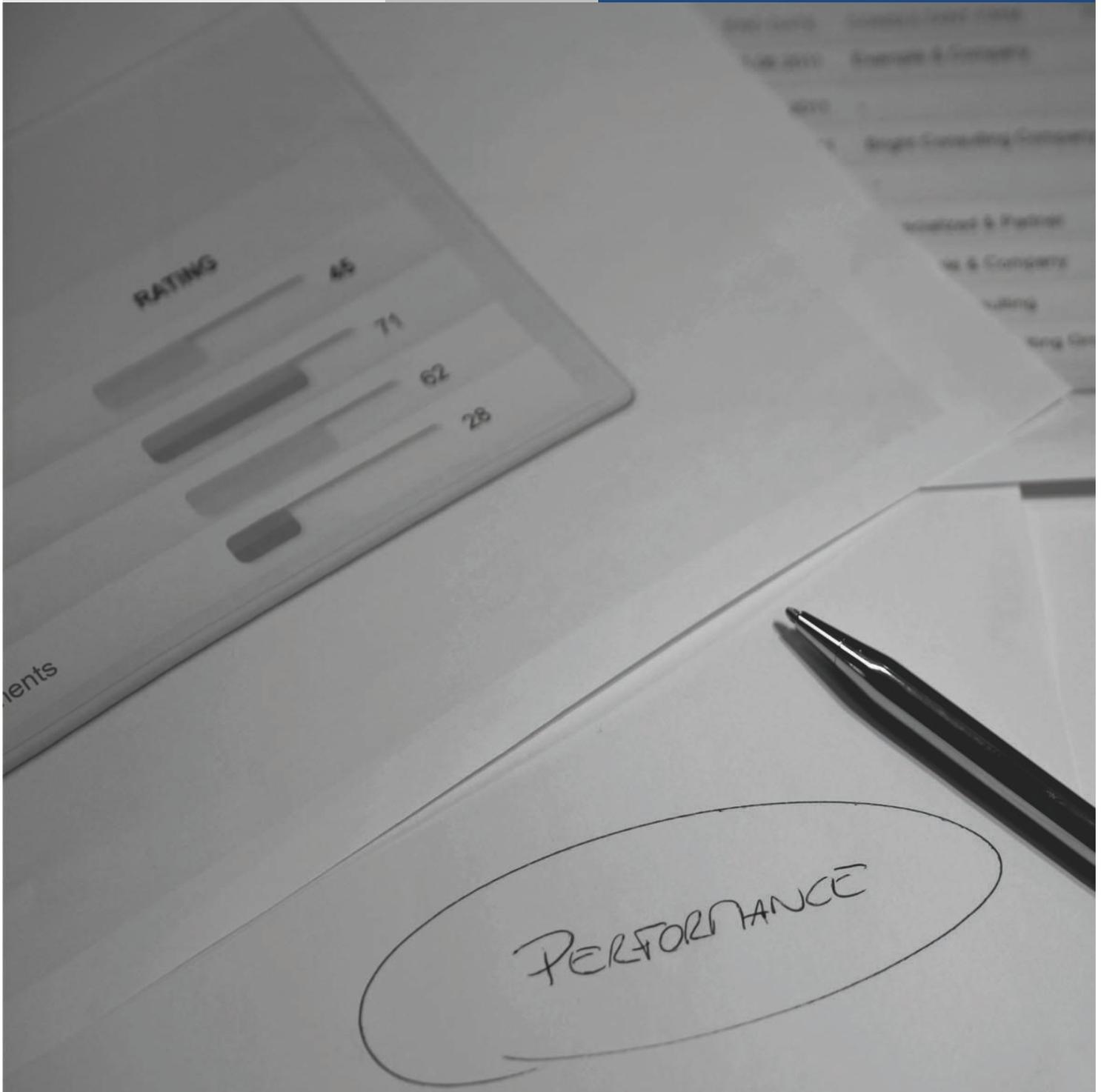


White
paper

Performance Management

The missing link to maximizing
value from consulting services



Many companies are not satisfied with their consulting services. They feel that they are spending too much and that the quality is not always as high as expected. While progress in professionalizing the purchasing of consulting services has been made, there is still considerable potential to drive more value from consulting spend. The following white paper explores why performance management is the key to maximizing value from consulting spend by simultaneously reducing costs and achieving high quality service.

Consulting services are valuable and growing in importance

Over the last 20 years the market volume of the consulting industry has more than doubled. Expenditures for consulting services play a considerable role in the budgets of most companies. Consultants are indispensable for large enterprise projects such as strategy development, restructuring, IT projects or changes due to regulatory requirements. They provide value by bringing in specific know-how and problem-solving skills to high risk, high value problems. Some consulting projects extend over several years and cost millions of dollars. Yet although consulting services are among the most expensive services rendered to corporations, they are rarely subject to quality checks. There is a lot at stake for clients who follow consultants' advice.

“Consulting services are among the most expensive services yet they are rarely subject to quality checks”

Sources of dissatisfaction with consultants

When we speak with executives we rarely hear that dissatisfaction with consulting services stems from the high fees charged – as long as the value matches the fees. Rather the message comes across loud and clear that dissatisfaction stems from a underlying behavior by some consultants that could be summed up as “promise anything to get the business”. This practice makes it difficult for consulting clients to find the most qualified consulting firm candidates and to manage the success of their projects.

Consultants have a habit of “over-promising”. During the “beauty contest” or selection phase, consulting firms make promises that are

sold as being instrumental to the success of the project. These promises differentiate the firm pitching the approach and put them in a better position to win business over the competition. Whether these promises actually materialize, is the crux of the matter. Such was the recent, and not isolated, experience of a global manufacturing firm. They hired a consulting firm based on the firm’s claim of having an “extensive benchmark database” that would improve their insights into the efficiency of their operations processes. By the time the project was finished there still was no evidence that a database was used as input into the consultant’s final recommendations. The manufacturing firm’s project leader was disappointed and felt that project results were sub-optimal. Without a systematic and documented quality measure the client was unable to challenge the consultant on their former promises.



Professional procurement methods are being undermined. Despite the efforts of procurement to put consulting firm selection guidelines in place, these guidelines are often not followed by business lines. An entrenched belief that high price indicates high quality often leads decision makers to prefer high priced firms over less costly alternatives. Harvard professor Clayton M. Christensen describes the pricing phenomena as follows, «Price is often seen as a proxy for quality»¹. Defined procurement procedures are therefore regularly violated, sometimes by board members themselves.

There is a lack of transparency with regard to expertise. During the candidate short-listing phase the capabilities that a consulting firm possesses in a specific industry or solution are often difficult to assess. A fundamental lack of industry-wide quality standards puts buyers at the mercy of consulting firm brand strength. Furthermore, hiring clients are at the mercy of each consulting firm’s biased self-assessment of skills and qualifications. These are typically exhibited as client references or client success stories and are included in proposals and presented during “beauty contests”. The relevance and accuracy of these hand-picked references however are not only difficult to verify, they represent only a fraction of the projects completed by the consulting firm. The number of dissatisfied customers could be high but remains concealed.

¹ Christensen, C. M., Wang, D., van Bever, D. (2013). Consulting on the Cusp of Disruption. Harvard Business Review

A feeling that less was achieved than expected. At the end of a project, clients often have the impression that project output - expressed as deliverables (e.g. “3 year investment plan”, “redesign of processes”) - should have been more detailed or thorough than what was delivered. Consultants use this as a window of opportunity to sell a project extension or the new project phase. Although companies are dissatisfied with this situation and it leads to a latent dissatisfaction with consultants, they regularly accept such project extensions. The problem is that most companies do not document such failures in a systematic way – just as they don’t document it when consultants really excel.

“Most companies do not document failures in a systematic way”

Companies need a new approach

Consulting services are complex services. They are unique in terms of their level of customized delivery and complexity of stakeholders and they have characteristics that differentiate them from other spend categories, such as:

- Consulting services are delivered as a highly customized and personal interaction with each client
- Services are delivered over an extended period of time
- Each project has many participants (e.g. project lead, project team, steering committee)
- Insights into the quality of service delivery and project outcome are quite distributed

Over the past years, procurement departments have made significant steps to professionalize the purchasing of consulting services, in particular with regards to adopting rigorous consulting firm short-listing and selection processes. Robust request for proposal (RFP) processes and „beauty contests“ help companies assess qualifications, different approaches and pricing in the marketplace.

Yet although these improvements are essential steps towards a more competitive bidding environment, they fall short of ensuring that maximum impact is generated from consulting spend. To achieve this aim procurement has a vital role to play in ensuring that a high quality of service is delivered. This requires procurement’s involvement to span the end-to-end consultant management process from consultant selection to project completion.

You may ask why procurement should be in the driver seat of consultant management. There is a simple reason: project owners are focused on the success of their individual projects and usually do not look beyond the current project. Procurement, however, has a view on the company’s entire portfolio of consulting projects and overall consulting spend. This broad perspective puts procurement in an ideal position to be the driving force in consultant management. The only alternative is to set up a dedicated consultant management unit, which some large companies do.

Cost reduction must not be at the expense of project success

When procurement’s sole objective in managing consultants is to achieve cost savings, users of consultants fret that it results in lower project success. Tough negotiations on price can lead the consulting firm to staff the team with cheaper resources – usually young, inexperienced consultants. The consequence for the project’s success can be drastic in terms of poor completion of outputs or missed deadlines. In the absence of quality control, neither procurement nor line of business (e.g. the direct users of consultants) has evidence to take recourse. What is fundamentally missing is a systematically captured and shared feedback of the project’s performance from the direct users of consultants (e.g. project team) to procurement. Only with documented performance evidence can procurement challenge the consulting firm that they did not get what they paid for.

“In the absence of quality control there is no recourse if you are disappointed with consulting results”

Performance measurement is the missing link

Companies thus face a dual challenge: on the one hand, the cost of consulting services should be reduced, on the other hand this must not be at the expense of project success. Therefore, both effective cost management and quality assurance need to be addressed simultaneously. The missing link is performance measurement.

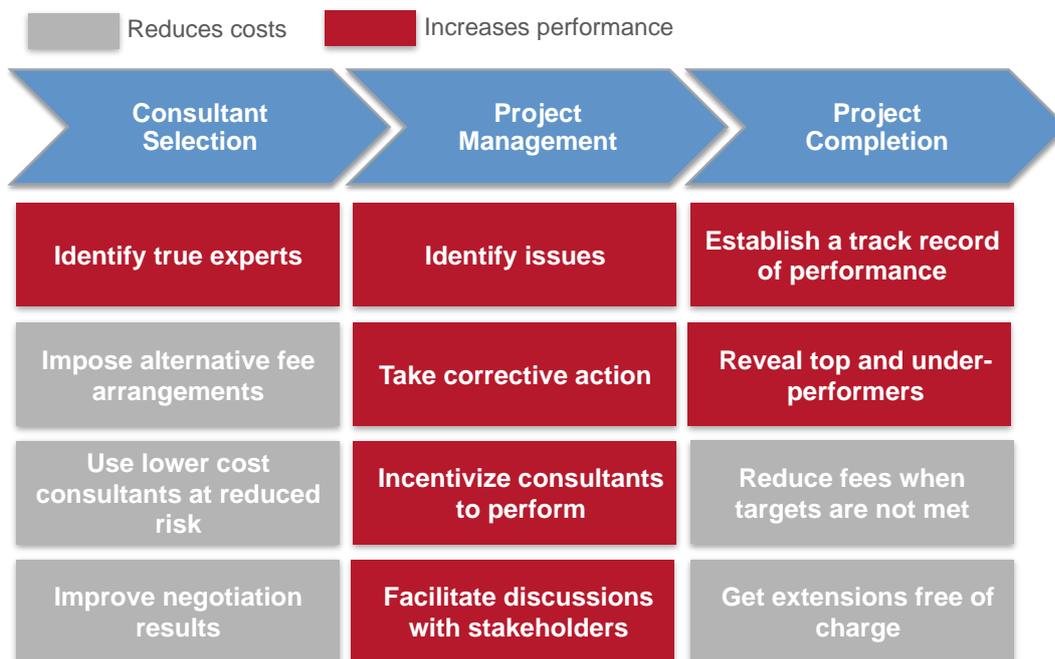
At the heart of performance management is the systematic evaluation or quality control of each individual project and supporting consulting firm. This assessment results in a numerical score that can easily be used to gauge or benchmark performance vis-à-vis a portfolio of projects or consulting firms.



Performance management allows companies to drive value along the entire consultant management process, from consulting firm selection, to the management of the project, through to project completion. Value is generated through both sustainable cost reduction and an increase in consultant/project performance. As the process covers the end-to-end consultant management process it closes procurement's information gap by creating an automatic feedback loop to inform procurement of a project's outcome. This documented project and consultant performance provides procurement with a factual performance record for future negotiations and repeat hiring decisions. It also provides procurement with the ability to use alternative fee arrangements. The price for consulting services is traditionally input based (e.g. time and material). A measure of consultant performance however opens the possibility to contractually agree on compensation that is dependent on the achievement of performance targets (pay-for-performance).

“At the heart of performance management is the systematic evaluation or quality control of each project”

Performance management drives value along the consultant management process



Performance management aligns the interests of both procurement and business lines

We have repeatedly heard project owners confess their resistance to involving procurement in decision-making citing the belief that a cost-cutting effort will harm their project success. As performance management simultaneously achieves cost reduction and improved

project success through high consulting quality, it aligns procurements interests to those of the project owners. In fact, all project stakeholders welcome an approach that brings greater transparency to the performance status of projects and that supports better decision-making. As a result, procurement is seen as a valuable partner in consultant management.

“Performance management aligns procurement’s objectives with business objectives”

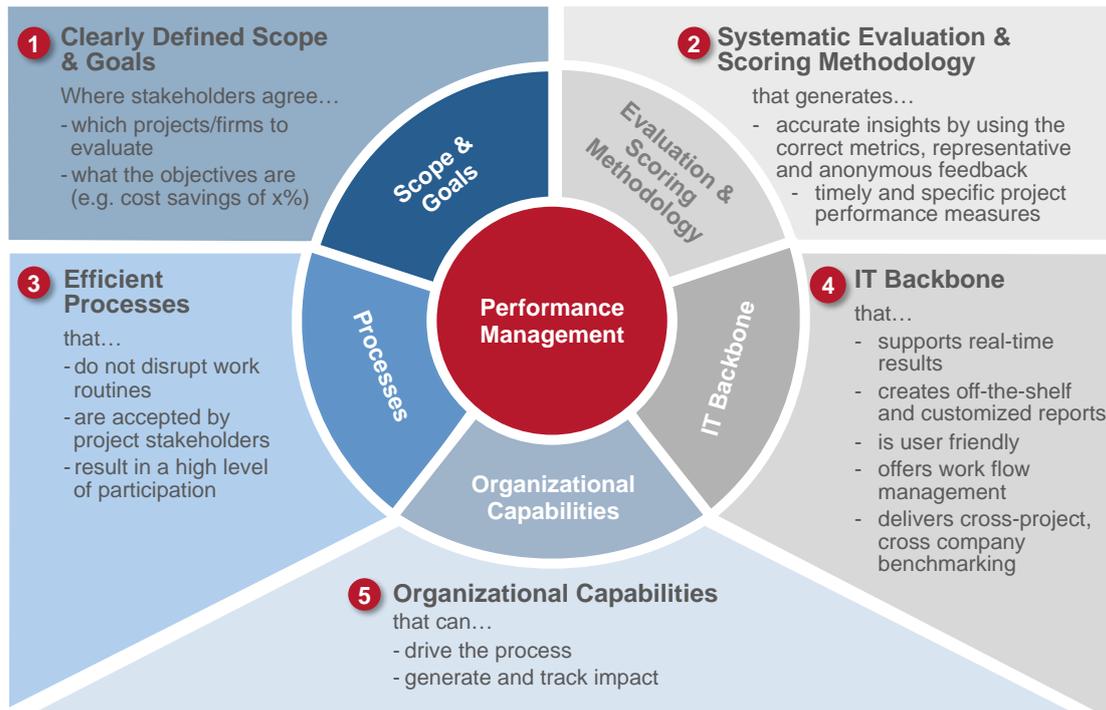
Critical success factors of a performance management solution

The complexity of consulting services demands a sophisticated performance management approach. In short, a solution must collectively address five critical areas:

1. **Clearly defined scope and goals** – It is important to be clear what the objective of performance management is and to communicate the benefits to stakeholders. This helps to achieve a high level of acceptance within the business lines. In addition, the solution needs to be tailored to the scope: evaluating freelancers differs from evaluating large project teams.
2. **Systematic evaluation and scoring methodology** – At this stage the foundation for generating performance scores is being laid. A good framework allows for benchmarking within the company and across companies and is compatible across service categories. In addition, it should be usable for variable payment schemes and be easily adapted to specific project characteristics.
3. **Efficient processes** – Performance management requires the involvement of many stakeholders, including those outside of the procurement function. Efficient processes encourage high levels of participation in project evaluations. Processes must encompass higher-level tasks like method management and impact generation.
4. **IT backbone** – A state-of-the art IT backbone is needed that makes data collection easy, facilitates complex processes, aggregates large amounts of data, including the generation of bespoke benchmarks, and generates useful insights for quick decision making.
5. **Organizational capabilities** – Resources are needed to manage the end-to-end project evaluation process from initiating

evaluations through to managing responses and communicating results. A large pharmaceuticals firm decided to outsource the process once they had calculated the organizational capacities needed to run the process professionally.

Key success factors of a performance management solution



Conclusion

Companies can achieve a much higher return on their consulting spend than what they are getting today. With rigorous performance management they can drastically reduce their consulting costs and dramatically improve the level of consulting service that they receive. Performance management aligns the objectives of procurement with the objectives of the business and supports the achievement of project goals. All project stakeholders, including direct users of consultants and management, welcome an approach that brings greater transparency to the performance of projects and that supports better decision-making.

“Companies can achieve a much higher return on consulting spend”

About impacore

impacore is market leader in the Performance Rating of consulting firms and other professional service providers. We measurably increase the value that companies are getting from their providers by realizing significant cost savings combined with an increase in provider performance.

At the core of our service we monitor the ongoing performance of provider's projects using Performance Ratings. The result is a quantitative, easy-to-interpret measure of quality, which allows for the relative performance benchmarking of provider portfolios.

The results that we have gained in performing evaluations for our Fortune 500 client base are unsurpassed. Our systematic approach to provider management brings considerable performance transparency benefits.

We offer Performance Ratings as a comprehensive service that leverages our extensive performance benchmark database and our experience working for companies across the globe. We deliver rapid results without a lengthy implementation phase. The cost of our service is a mere fraction of the benefit of increasing return on consulting spend.

To learn more visit www.impactore.com, or call us at +49 89 41612900.



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