Quality of consulting services and consulting fees ☆

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ABSTRACT

This study explores whether consulting service clients' degree of satisfaction can explain differences in consulting service fees to the same clients. By monitoring factors having a relationship with consulting fees as well as consulting service quality attributes, this study notes that client satisfaction with consulting team positively and strongly affects consulting fees. A dimension of consulting client satisfaction, which is not a consulting service quality attribute, is the factor that better explains consulting service pricing. This satisfaction dimension may allow consultants to charge higher fees through higher leverage while setting prices during contracting process. Clients' satisfaction with consulting firms appears to be unimportant in the consulting service market. Results emphasize that individuals' participation in consulting processes is essential for consulting firms to be able to single out their consulting services.

1. Introduction: the consulting service market

Consulting is gradually becoming a more standard service, price being the main factor in clients' contracting decision. Therefore, consulting firms continually strive for cost reductions to provide a competitive pricing advantage. However, consulting services are a multi-attribute type of service in which clients explore service benefits. Therefore, consulting firms seek to increase customer satisfaction by designing services to better match client expectations and preferences. Consulting firms are bound to adapt to a changing environment to be efficient. Consulting sector trend to shift from fragmentation towards concentration through mergers and acquisitions leads to the consolidation of its internationalization process. In fact, services to international markets are gradually increasing their value since 2004. This internationalization process requires separate consideration for domestic and international markets with very different behavior.

Consulting firms are becoming more global due to changing demand trends, while tight corporate budgets are leading to more competitive bidding and smaller/shorter engagements. Consulting firms look for client satisfaction by providing clients with timely and personalized customer service. Jones and Sasser (1995) suggest that in very competitive industries customer satisfaction becomes an essential product-differentiation strategy.

This investigation explores whether consulting client satisfaction has a relationship with consulting fees in consulting service market. Clients' willingness to pay differing amounts depending on satisfaction level is consistent with client management perception of consulting as a differentiable service, as it is client's management that picks the consulting firm.

The structure of this study is the following: Section 2 explores literature on consulting service satisfaction factors. Section 3 contains hypotheses discussion. Section 4 describes research model. Section 5 presents descriptive and statistical results. Section 6 presents conclusions. Section 7 explains limitations. Section 8 introduces proposals for future research.

2. Literature review

2.1. Customer satisfaction and service quality

Lages and Piercy (2012) argue that today's competitive and dynamic market forces companies to improve their services. Service quality and customer satisfaction are different constructs that have a close relationship. Therefore, Parasuraman, Zeithaml, and Berry (1988) suggest that perceived service quality is a global judgment of service excellence, while satisfaction refers to a specific transaction.

Service quality is the result of the comparison between customers' expectations and perceptions of service (Parasuraman et al., 1988). Service quality is a multidimensional construct and those attributes affecting customer satisfaction are important.

Given services' inherent characteristics, service quality assessment is more complex than that of the product is, in which technical aspects prevail (Malhotra & Mukherjee, 2004). In service sector, customers

participate in service delivery process. This interaction allows customers to have many resource assessment services.

For Kubr (1995), the subjective perception of clients' quality strongly affects consulting service value. Turner and Aldhizer (2011) do not find standard quality attributes when judging consulting services' quality. Roses, Hoppen, and Henrique (2009) identify gaps in the perception of consulting service quality between service providers and customers. Roses et al. (2009) also suggest opportunities to improve the quality in some dimensions from a strategic alignment perspective.

2.2. Customer satisfaction with team and firms providing the service

Most service quality models emphasize people's behavior in the organization as an important element in customers' perception of service interaction or service encounter (Wünderlich et al., 2013). According to Hays and Hill (2001), service provider staff is essential in customer perception of the service and customer satisfaction. Cameran, Moizer, and Pettinicchio (2010) explore service quality in professional service industries and find that firm and teams' personal characteristics are essential to explain customer satisfaction. Literature on service quality attributes determines that a consultant is a good professional, regardless of speciality (McLachlin, 1999; Schein, 1997; Stumpf & Longman, 2000; Varca, 1992).

McLachlin (2000) suggests that consulting engagements are successful if consultants meet client expectations, enhancing their reputation. Ribeiro (2001, 2004) highlights the importance of external advice usefulness and quality to determine satisfaction level in small and medium businesses that use consulting services. The relationship between attributes of consultants' team and customer satisfaction is also important. Haverila, Bateman, and Naumann (2011) identify customer orientation and perceived value as the key drivers of customer satisfaction with strategic consulting services.

Hoang (2013) indicates that clients' perception of auditors' personal service delivery determine clients' satisfaction. According to Aldhizer, Turner, and Shank (2002), the type of service affects clients' perceptions of service quality, but not the type of provider, interaction, or service. Turner and Aldhizer (2011) conclude that fee structure does not significantly affect client management advisory service satisfaction.

3. Consulting fees and customer satisfaction

Fees that consultants receive for services to customers may be due to many factors. Behn, Carcello, Hermanson, and Hermanson (1997) find that client satisfaction changes across Big 4 public accounting firms and that several consulting service quality attributes have a relationship with higher client satisfaction, both with consulting firm and with consulting team.

Theoretically, financial service quality attributes might serve as determinants of client satisfaction (Behn et al., 1997), and client satisfaction as a determinant of consulting fees. In addition, certain consulting quality attributes may directly affect consulting fees. A component of client satisfaction not deriving from consulting quality may determine consulting fees. These relationships may indicate that the consultant enhances bargaining power and can earn rents in an oligopolistic market (Chan, Feltham, & Simunic, 1998).

An interesting question is whether above client satisfaction differences are meaningful enough to have a relationship with differential consulting fees. Whether consultants can charge fees according to client satisfaction with no significant quality differences is another important question. If clients are reluctant to pay for these satisfaction differences, then differences in satisfaction may not be truly meaningful and consultancy may not be differentiable for client management.

McLachlin (2000) suggests that consulting engagements are successful if the consultant meets client expectations, which may increase consultant reputation and expectations of revenue streams. These customers are more willing to pay for the benefits consultant provides

and are less sensitive to price increases (Anderson, Fornell, & Lehmann, 1994). Therefore, the first hypothesis is the following:

H1. After controlling for other factors regarding consulting fees (control variables and consulting quality attributes), a higher level of client satisfaction with consulting services implies higher consulting fees.

This study tests first hypothesis through two secondary hypotheses. Satisfaction with the consulting firm and satisfaction with consulting team are potentially important dimensions of client satisfaction. In terms of measuring satisfaction, there are two potentially important dimensions of client satisfaction: satisfaction with the consulting firm as a whole, and satisfaction with the specific consulting team (Behn et al., 1997). Satisfaction with the firm is a broader construct and it may reflect consulting firm's reputation, consulting approach, and other consulting quality attributes. This aspect leads to the following hypothesis:

H2a. After controlling for other factors regarding consulting fees, a higher level of client satisfaction with consulting firm implies higher consulting fees.

Satisfaction with team is a narrower construct that explores day-to-day interactions between clients and consulting team members. Satisfaction with team may be a subset of satisfaction with firm, since consulting team is part of a firm. From management's perspective, satisfaction with the team logically partially determines satisfaction with firm, since management's primary impressions of consulting firms likely come from its interactions with consulting team members.

Consulting team characteristics seem to be more important to service quality than consulting firm characteristics are. Consulting services are "credence" services, hardly evaluable even after performance. The relationship between clients and consulting teams is particularly important for "credence" services. The importance of team factors appearing in previous research and the importance of team/human aspects after credence service provision lead to the next hypothesis:

H2b. After controlling for other factors regarding consulting fees, a higher level of client satisfaction with the consulting team implies higher consulting fees.

4. Research design

4.1. Model specification and variables

This study uses an OLS regression to examine the relationship between consulting fees and client satisfaction:

$$
\begin{aligned}
LCONFEE = {}& a + b_1 TEAMSAT + b_2 FIRMSAT + b_3 LAUFEE + b_4 LTA \\
& + b_5 ARTA + b_6 LTDTA + b_7 EBITTA + b_8 LOSS \\
& + b_9 PROA + b_{10} BIG4 + b_{11} OPIN + b_{12} LEQTY \\
& + b_{13} LINTAX + b_{14-21} CQ1{-}8 + e.
\end{aligned}
\tag{1}
$$

The dependent variable and some independent variables include the natural log to fit regression model better. The natural log of consulting fees is the dependent variable (*LCONFEE*). Financial data and both audit and non-audit fees are collected from published financial statements.

Satisfaction with consulting team (*TEAMSAT*) and satisfaction with consulting firm (*FIRMSAT*) are the two dimensions of client satisfaction in this study. Respondents' answers on a five point scale (1 = very dissatisfied; 5 = very satisfied) provide the measurement for client satisfaction with consulting team and consulting firm.

Control variables are factors that affect the dependent variable – consulting fees – according to previous research. Natural log transforms

audit fees continuous variable (*LAUFEE*): A positive and significant coefficient on audit fees suggests knowledge spillovers from audit services to consulting services. Natural log transforms total assets (*LTA*), which measure company size: Higher assets suggests that large firms would demand more consulting. Asset composition—accounts receivable divided by total assets (*ARTA*)—serves to control the effect deriving from accounts receivable importance. As a measure of leverage risk or companies' financial risk in previous research (Choi & Lee, 2009; Firth, 2002; Li, Hay, & Knechel, 2006), this study includes debt composition or leverage—long term debt divided by total assets (*LTDTA*). The ratio of earnings before interest and taxes to total assets (*EBITTA*)—an indicator of control for firm performance—appears as extant literature suggests (Choi & Lee, 2009; Habib & Islam, 2007). Net profit (*LOSS*) is a dummy variable coded one (1) if net profit is less than zero in the current year, otherwise zero (0). This study uses previous year return on assets (*PROA*) to control for past performance. Consulting firm (*BIG4*) is a dummy variable equal to one (1) if the consultant belongs to one of the Big Four accounting firms, otherwise *BIG4* is equal to zero (0)—this dummy variable measures accounting firm quality. Audit opinion (*OPIN*) is a categorical variable equal to one (1) if audit report is qualified (including adverse opinion and disclaimer report). *LEQTY* is natural log of firm increase value in share capital during the year. This study includes *LEQTY* because previous research shows an association between new financing issuances and consultancy fees (Ruddock & Taylor, 2005). Finally, taxes paid—which natural log transforms (*LINTAX*)—capture potential non-audit services regarding tax consulting (Antle, Gordon, Narayanamoorthy, & Zhou, 2006).

Respondents assessed their satisfaction with consulting service and rated their consultants on 8 consulting quality attributes (*CQ1*–*CQ8*). For this purpose, this study uses a five-point scale ranging from *very dissatisfied* to *very satisfied* (similar to that of Behn et al., 1997):

1. Consulting firm and consulting team as a group (at manager level and above) have the appropriate experience providing consulting services.
2. Consulting firm and consulting team as a group (at senior level and above) have the necessary industry expertise to effectively provide consulting services to your company.
3. Consulting firm is responsive to your company's needs.
4. Consulting team members as a group are technically competent in their know-how.
5. Consulting team members as a group always exercise due care throughout the engagement.
6. Consulting firm has a strong commitment to quality.
7. Consulting firm executives (partner/manager) participate actively in the engagement.
8. Consulting team members conduct consulting fieldwork properly.

4.2. Data set

A survey questionnaire mailed in June 2013 provides data. The sample consists of all listed non-financial companies in Spain with consulting service fees in year 2012. Questionnaire item design follows similar studies and feedback from a group of 20 MBA finance and accounting students. Their feedback improves the clarity, comprehensiveness, and relevance of research instrument.

Each company controller received the questionnaire, asking them to evaluate their satisfaction with consulting firm and consulting team members conducting their most recent consultancy work. Controllers also evaluated different consulting quality attributes. From 123 questionnaires sent to sample companies, only 54 companies returned the questionnaire complete—a response rate of 43%.

Consulting fee data and accounting data come from annual financial statements of listed companies filed with National Securities Exchange Commission.

Table 1
OLS regression results of consulting fees and control variables (Model 1).

Variable	Estimate	Std. error	t value	Probab.
Intercept	−3.28	1.95	−1.68	0.10
LAUFEE	0.70	0.24	2.88	0.01
LTA	0.38	0.21	1.83	0.07
ARTA	−0.71	1.13	−0.62	0.53
LTDTA	−0.08	0.88	−0.09	0.92
EBITTA	2.19	4.24	0.51	0.60
LOSS	−0.9	0.60	−1.56	0.12
PROA	−0.03	0.02	−1.68	0.09
BIG4	−1.10	0.64	−1.72	0.09
OPIN	NA	NA	NA	NA
LEQTY	0.02	0.04	0.52	0.60
LINTAX	−0.02	0.04	−0.43	0.66

Notes:
NA: Coefficients not defined because of singularities.
Sample size 54, F-statistic 8.96, $p < 0.01$, adjusted R-squared = 0.60.
Variable names:
LAUFEE = log audit fees in thousands of euros.
LTA = log total assets.
ARTA = accounts receivable divided by total assets.
LTDTA = long term debt divided by total assets.
EBITTA = ratio of earnings before interest and taxes to total assets.
LOSS = dummy variable coded one (1) if net profit is less than zero in the current year.
PROA = previous year return on assets in thousands of euros.
BIG4 = dummy variable taking the value one (1) if the consultant belongs to one of the Big Four accounting firms.
OPIN = categorical variable, taking the value one (1) if audit report is qualified.
LEQTY = natural log of firm increase value in share capital during the year plus 1.
LINTAX = natural log of income tax plus 1.

5. Results

5.1. OLS regression results

Table 1 shows the results of OLS regression of the first model, testing the relationship between consulting fees (*CONFEE*) and control variables (namely Model 1).

Control variables and the 8 consulting quality attributes (*CQ1*–*CQ8*) regression appears in Model 2 (Table 2). At a 5% level only *CQ6* (quality commitment) has a significant relationship with consulting fees.

Table 2
OLS regression results of consulting fees on control variables and consulting quality attributes (Model 2).

Variable	Estimate	Std. error	t value	Probab.
Intercept	−6.53	2.18	−2.97	0.01
LAUFEE	0.7	0.25	3.05	0.01
LTA	0.355	0.22	1.60	0.11
ARTA	−0.23	1.27	−0.18	0.85
LTDTA	0.52	1.03	0.50	0.61
EBITTA	8.61	4.85	1.79	0.08
LOSS	−0.78	0.62	−1.25	0.21
PROA	−0.03	0.02	−1.59	0.12
BIG4	−1.17	0.65	−1.80	0.07
OPIN	NA	NA	NA	NA
LEQTY	0.09	0.05	1.62	0.11
LINTAX	−0.04	0.05	−0.87	0.38
CQ1	0.02	0.11	0.16	0.87
CQ2	0.36	0.24	1.47	0.15
CQ3	−0.08	0.11	−0.78	0.43
CQ4	0.00	0.11	0.03	0.96
CQ5	−0.01	0.12	−0.05	0.95
CQ6	0.55	0.20	2.66	0.01
CQ7	−0.01	0.12	−0.02	0.98
CQ8	0.02	0.14	0.19	0.85

Notes:
NA: Coefficients not defined because of singularities.
Sample size 54, F-statistic 6.30, $p < 0.01$, adjusted R-squared = 0.64.
Variable names (other variables are defined in Table 1):
CQ1–*CQ8* = attributes of consulting quality in a five point scale (CQ1: client experience; CQ2: industry expertise; CQ3: responsiveness; CQ4: technical competence; CQ5: due care; CQ6: quality commitment; CQ7: executive involvement; CQ8: field work conduct).

Consequently, except for CQ6, no relation exists between consulting fees and the different consulting quality measures put to test. The Chi-square Difference Test comparing Model 2 and Model 1 indicates no significant difference ($p = 0.107$).

Table 3 shows consulting fee regression on control variables, consulting quality attributes, and team satisfaction (TEAMSAT) (namely Model 3). According to results, TEAMSAT is significant and has a positive sign ($t = 3.95$, $p < 0.001$), suggesting that the higher the level of client satisfaction with team the higher consulting fees are. Chi-square Difference Test indicates a significant difference between Model 3 and Model 2 ($p < 0.001$). Therefore, incremental Chi-square reveals that Model 3 fits better than Model 2. Likewise, Model 3 shows that experimental variable TEAMSAT has a stronger relation with consulting fees than consulting quality attributes have.

The last regression (Model 4) includes firm satisfaction (FIRMSAT) (Table 4) and regresses all control and experimental variables of the complete model (consulting quality attributes, team satisfaction, and firm satisfaction). Results show that FIRMSAT inclusion produces a higher *adjusted R^2* when comparing to previous model, making regression results fit data better. However, Chi-square Difference Test indicates no significant difference between Model 4 and Model 3 ($p < 0.132$). Likewise, FIRMSAT regression coefficient is positive, indicating that firm satisfaction affects consulting fees, but this relationship is not statistically significant ($p = 0.131$). This study finds no differences in consulting firm satisfaction, most likely because Big 4 firms offer homogenous services to listed companies and 89% of respondents are Big 4 clients. Satisfaction with the consulting firm does not strongly affect consulting fees after considering the effects of satisfaction with the consulting team. Therefore, TEAMSAT has a stronger relation with consulting fees than FIRMSAT does.

6. Conclusions

Consultant work quality relies on consultant personal qualities that have a direct relationship with individual traits (not consulting firm's): Consultants' specialized knowledge and skills applying to consulting project specific goals, connection degree with clients' interests,

Table 3
OLS regression results of consulting fees on control variables, consulting quality attributes, and team satisfaction (Model 3).

Variable	Estimate	Std. error	t value	Probab.
Intercept	−9.20	1.95	−4.70	0.00
LAUFEE	0.96	0.21	4.39	0.00
LTA	0.36	0.18	1.96	0.05
ARTA	0.18	1.07	0.16	0.86
LTDTA	0.25	0.87	0.29	0.77
EBITTA	6.79	4.10	1.65	0.10
LOSS	−1.10	0.53	−2.07	0.04
PROA	−0.02	0.01	−0.95	0.34
BIG4	−0.73	0.55	−1.32	0.19
OPIN	NA	NA	NA	NA
LEQTY	0.10	0.04	2.11	0.04
LINTAX	−0.07	0.04	−1.60	0.11
CQ1	0.08	0.10	0.84	0.40
CQ2	0.21	0.21	1.02	0.31
CQ3	0.03	0.09	0.28	0.77
CQ4	−0.12	0.10	−1.11	0.27
CQ5	−0.08	0.11	−0.75	0.45
CQ6	0.43	0.17	2.49	0.01
CQ7	−0.02	0.10	−0.22	0.82
CQ8	−0.02	0.12	−0.17	0.86
TEAMSAT	0.76	0.19	3.95	0.00

Notes:
NA: Coefficients not defined because of singularities.
Sample size 54, F-statistic 9.29, $p < 0.01$, adjusted R-squared = 0.74.
Variable names (other variables are defined in Tables 1 and 2):
TEAMSAT = client satisfaction with the consulting team (five point scale).

Table 4
OLS regression results of consulting fees on control variables, consulting quality attributes, team satisfaction, and firm satisfaction (Model 4).

Variable	Estimate	Std. error	t value	Probab.
Intercept	−11.25	2.33	−4.82	0.00
LAUFEE	0.98	0.21	4.57	0.00
LTA	0.40	0.18	2.21	0.03
ARTA	0.75	1.11	0.67	0.50
LTDTA	0.72	0.90	0.79	0.43
EBITTA	7.25	4.03	1.79	0.08
LOSS	−1.15	0.52	−2.20	0.03
PROA	−0.01	0.02	−0.16	0.87
BIG4	−1.06	0.58	−1.82	0.07
OPIN	NA	NA	NA	NA
LEQTY	0.11	0.04	2.30	0.02
LINTAX	−0.08	0.04	−1.93	0.06
CQ1	0.05	0.10	0.56	0.57
CQ2	−0.08	0.28	−0.29	0.77
CQ3	0.04	0.09	0.42	0.67
CQ4	−0.08	0.10	−0.85	0.39
CQ5	−0.10	0.10	−0.97	0.33
CQ6	0.46	0.17	2.68	0.01
CQ7	−0.05	0.10	−0.47	0.63
CQ8	−0.07	0.12	−0.60	0.55
TEAMSAT	0.81	0.19	4.26	0.00
FIRMSAT	0.53	0.34	1.54	0.13

Notes:
NA: Coefficients not defined because of singularities.
Sample size 54, F-statistic 9.31, $p < 0.01$, adjusted R-squared = 0.75.
Variable names (other variables are defined in Tables 1, 2 and 3):
FIRMSAT = client satisfaction with the consulting firm (five point scale).

willingness, responsiveness, reliability, and degree of empathy with individual customers.

The main value of consulting firms is their workforce. Consultants' knowledge and professional competences are the basis of advisory service. Therefore, the degree of satisfaction that consultants generate highly depends on the person carrying out the work.

According to Dawes, Dowling, and Patterson (1992), professional consultants' reputation is the source of consulting service contracts and, therefore, of profitability. McLachlin (2000) argues that consultant reputation is crucial for clients to choose the consulting firm. Consultant reputation is especially important in consulting service industry, in which new orders come largely through recommendation.

This study explores whether consulting client satisfaction has a relationship with consulting fees charged. Results show that client satisfaction with the consulting team has a positive and significant effect on consulting fees. However, consulting clients do not seem to value client satisfaction with consulting firm.

Satisfaction with the consulting team has greater leverage on consulting fees than any other consulting quality attributes. Therefore, a dimension of client satisfaction independent from consulting quality attributes has a relationship with a consulting fee premium. This dimension of satisfaction may reflect either aspects of service quality to discover or consultants' power to charge higher fees when client management satisfaction with consulting team exists.

7. Limitations

As the sample of this study includes only listed companies, a large number of companies remain out of the research. Expanding the sample to include non-listed companies or even an international sample of listed companies across countries would certainly make results more extensible.

8. Managerial implications and future research

This study will help consulting professionals and researchers to better understand consulting service market. In a mature consulting service market it is essential to stand out from competitors through

highly qualified staff recruitment and continuous training. Consulting firms create value and achieve customer satisfaction through consultants' qualification, experience, knowledge, and initiative. Consulting firms' success depends on their ability to attract and maintain a workforce as the most valuable asset and the main source of competitiveness. Moreover, users of consulting services would need to select the right consulting firm and, more important, make sure that consultants' roles are appropriate.

An appealing extension of this study may be exploring whether certain standard quality measures can be extensible to all consulting service categories. Testing if consulting team plays such an important role in all consulting service categories would also be interesting. Finally, given the great importance of the consulting team deriving from this study, it would be very interesting to explore and identify the factors that drive consultant motivation and performance.

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