

Report

**Measuring Management
Consultancy Performance**



Contents

1. Introduction	2
2. Defining performance measures	3
3. Conducting performance reviews	5
4. Linking consultancy fees to performance	6
About the author	7

■ 1. Introduction

The Centre for Management Consulting (CMCE) arranged a roundtable discussion on 17th May 2023 to discuss Measuring Management Consultancy Performance

The roundtable discussion was led by a panel comprising:

- Tilly Harvey-Godfrey, of the UK Government's Crown Commercial Service.
- Tom McCabe, a former partner in the management consulting practices of PwC, IBM and EY.

The panel members responded to a number of questions and participants had the opportunity to provide their responses to these questions, and to ask additional questions of the panel members. The results of surveys conducted recently by CMCE were also presented.

The discussion covered the topics of:

- Defining performance measures.
- Conducting performance reviews.
- Linking consultancy fees to performance.

■ 2. Defining performance measures

One of the key groups of measures that is likely to be applied relates to how well the consultancy is supporting the achievement of the objectives, expected outcomes and expected business impact of the consulting project. This has important implications for the consultancy's qualification of the opportunity to provide services to the client and for the commercial arrangements to be applied.

In qualifying the opportunity and deciding whether or to provide the services requested by the client the consultancy needs to decide whether the services requested will deliver the expected outcome and impact. For example, If the client's request is for the consultancy to provide a specific number of resources to perform work that the consultancy does not consider will achieve the client's desired outcome and impact it is likely to decide not to propose to provide the services requested by the client.

In preparing its proposal, the consultant should also assess the most suitable commercial arrangements taking into account the extent to which the client is able to define the expected outcome and impact. For example, T&M is likely to be more appropriate when outcome and impact is not defined clearly as it should allow the consultant to adopt a more flexible approach to delivering its services.

The roundtable identified some useful guidelines for defining suitable measures for assessing consultancy performance:

- Take account of the type of service, for example advisory or delivery, and whether the consultancy is delivering a service or augmenting resource.
- Include qualitative and quantitative measures.
- Align the measures of how well the consultancy is supporting the achievement of the objectives, expected outcomes and expected business impact of the consulting project. *These should recognise that the business impact may not be achieved fully until sometime after the completion of the consulting project and the client needs to be in a position to deliver the impacts without the consultancy team (set the client up for success).*
- Recognise that the consultancy team may have relationships at a number of levels within the client organisation and performance at each of these levels should be assessed. *Measures that make it clear what the problem is and make it easy to remedy, e.g. poor performance may be attributable to a key individual. It is easier to replace an individual than a whole team.*

Other performance measures that should be considered include:

- Adding value.
- Providing value for money.
- Supporting the management of business risk.
- Adopting an acceptable method of working (for example, doing the project with the client and not to the client).

In addition to the consultancy's direct impact on the consulting project, consideration should be given to indirect impacts on the client's business, for example, upskilling client staff, climate change impact and social impact.

■ 3. Conducting performance reviews

Recent research conducted by CMCE¹ on the extent to which the expected value of consulting projects was achieved indicated that expected value was achieved fully on:

- 100% of projects that conducted weekly reviews.
- 93% of projects that conducted monthly reviews.
- 67% of projects that conducted quarterly reviews.

In addition to regular formal reviews, it is important that there is open dialogue about performance between senior representatives of the client and the consultancy as this provides the opportunity to raise and resolve performance issues as they arise. This has been made easier by the trend for consultancy firm partners to spend more time at the client site but may be impacted by the trend for more consultancy work to be conducted remotely from the client site.

It was noted that involvement of an independent adviser may help in conducting a performance assessment whose results are accepted by both the client and the consultancy.

¹ A study into Management Consultant Value which is due to be published in Autumn 2023

■ 4. Linking consultancy fees to performance

In a recent survey of members of the CMCE community, which consists primarily of consultants, 22% of respondents considered that consultancy fees should always be linked to consultancy performance and 67% considered that they should sometimes be linked. 71% of respondents considered that 15% or more of consultancy fees should be linked to performance.

For larger consultancies, 20% of fees is considered to be the usual upper limit of the level of fees that are linked to an assessment of performance. Smaller consultancies may need to make a larger percentage of fees dependent on an assessment of performance to prove themselves and to start to build a relationship with a client. Some consultancies are prepared to make 100% of their fees dependent on achieving defined outcomes.

It was noted that the amount of consultancy fees that are dependent on performance could be linked to the level of benefit that is at risk if the consultancy does not perform although the impact of consultancy performance would need to be isolated from other factors influencing the realisation of benefits.

About the author



Jim Foster has over 40 years' experience as a management consultant, including 12 years as a Partner at PwC, based in London and New York. He is experienced in assisting organisations in a wide range of business sectors to implement system-enabled business change, and specialises in advising organisations that are implementing Enterprise Resource Planning (ERP) solutions. He leads CMCE's Excellence in Management Consulting programme, which has undertaken a number of studies into the performance of management consultants and the value that they provide.

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