A Study on the effect of Consultant Selection on Consulting Satisfaction and Perceived Performance of Consulting

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Abstract

Background/Objective: Consulting is providing a meaningful contribution to strengthening small business competitiveness. In order to ensure that consulting obtains the results it intended, selecting a suitable consultant is very important. Method/Statistical Analysis: From a sociological embeddeness and signal theory perspective, this study conducted an empirical analysis on what kind of standards that are applied when selecting consultants leads to a positive influence on satisfaction levels and results. 700 samples were gathered by conducting a random survey of Korean small business owners who had experienced consulting in 2014. In empirical analysis, it was analyzed using SPSS and AMOS 21. Findings: Results found that of the selection factors, embeddedness factors had a meaningful influence on consulting satisfaction levels, and that signal factors and consulting satisfaction levels had a meaningful influence on perceived performance results. Results also showed that of the selection factors, embeddedness factors did not have a meaningful influence on perceived performance results. In the studies on the strategic partner selection of consulting firm and the selection of information security consultant, the result that selection factors affect the satisfaction or performance is partially similar with this study. In the area of management consulting, the study on the selection factors of consultant is rare. In the previous studies on the similar selection factors had unclear or no theoretical background. This study has the meaning as a approach with the theoretical basis of embeddedness theory and signal theory about the consultant selection factors. Application/Improvements: This study provides implications for the selection criteria to be applied when companies choose the consultant. Companies need to consider the signal factors more importantly, such as education, qualifications, experience.

Keywords: Consultant, Consulting, Performance, Selection, Satisfaction

1. Introduction

As recursive financial crises and prolonged economic recessions contribute to low growth, companies are facing global competition in a rapidly changing business environment. Therefore, there is a limit to how much a company can solve all of its problems on its own. In this environment, in order to solve problems related to business environment and management changes, companies need to select competent and trustworthy consulting companies. In addition, selecting consultants is a very important factor in achieving consulting results.

This study established our findings from a small business perspective, as they apply factors for decision making standards when selecting consulting companies or consultants. This study aimed to analyze the relationship between these factors and consulting satisfaction levels as well as perceived performance results. Through this, this study aims to develop the consulting industry as well as deduce implications for small business consulting support.

2. Theoretical Background

2.1 Embeddedness Theory

Organization theorist ¹ stated that placing an individual
in a certain position within a network will influence the individual's actions, choices, consciousness, and that these actions and choices will influence the individual's compensation. He went on to state that "Human actions are embedded within personal relationships." This kind of social network approach to embedded relationships can express the dynamics between actions and structures. In other words, the mutual contacts between individuals are produced or maintained through actions, and influence the overall forms of connection that individuals have as well as their actions\(^2\).

\(^1\)explains that one of the characteristics that social networks have is that when there is a strong connection, this becomes embedded within the structure. In other words, economic agents ultimately exist as members of society through their interactions with other people, and therefore their actions are based on the societal relationships they have. Economic transactions do not occur in a market of simple exchanges and distribution, but rather in a system where values are calculated and measured. This system produces preference and sequences, and this signifies that this market becomes embedded in society and culture\(^3\).

Granovetter\(^4\), leading advocates of interpersonal ties and relationships, conceptualized network embeddedness as the following. Economic actions that actors take within a network and their results can (narrowly) be seen as their dyadic relations, and largely be seen as the way actors are influenced or make decisions based on a bigger network structure of these relationships. In the same vein,\(^5\) and \(^6\) stated that the factors that constitute industries such as dyadic relations and the entire network structure influence economic actions. They went on to explain that this process continues to develop based on the relationships between differing elements.

Based on empiricism, we can see that consulting providers do not compete based on price or costs\(^7\). When clients select and communicate with consulting companies, they face high levels of uncertainty and seriousness. Consulting services are nonmaterial, and therefore it is difficult to evaluate its quality objectively. Most knowledge intensive corporate services, including business consulting, face threats that hinder quality or partner suitability after the client has already entered into a contract. In this situation, trust, reputation, word of mouth and other informal social systems become of great importance.

### 2.2 Signal Theory

Signal theory is utilized in a variety of situations including the labor market where asymmetrical relationships form between employers and job seekers, relationships between companies and investors, the relationship between companies and consumers in the advertisement market, as well as education.

In the labor market, the information that employers are not able to observe are what job seekers produce, and therefore job seekers select education as a signal that lets employers know their productivity. In this situation, job seekers consider the cost of giving this type of signal and then decide whether to give a signal to the employer\(^8\). In other words, job seekers provide diplomas for their highest level of schooling or degrees, university report cards, national examination certificates, etc. to the employer as a signal. The employer then decide on whether to hire this person or not, and reflect this information when calculating wages.

In consulting, the relationship between the client and the consultant can be seen as a temporary employment relationship. In the labor market, a signal refers to job seekers sending information to employers to let them know about their own productivity, which employers will not be able to observe on their own. This signal can be obtained through the job seeker through their own determination and effort in achieving education, test scores, recommendations, affiliations, experience, etc. When job seekers are able to obtain the signals that employers want, they can let employers know about their own abilities and then enter into a transaction for their employment.

Through signal theory, Spence\(^9\) is demonstrating the functions for delivering the job seeker's ability or productivity by using education levels as a signal to the employer. Of course, it cannot be said that the process involved in obtaining a certain education level directly influences a worker’s productivity. However, employers use certain education levels as a signal for evaluating a job seeker's ability, and therefore it is possible for job seekers to show employers their productivity or abilities through this signal.

Arrow\(^9\) also reviewed high school education as a signal, and he speculates that although education does not guarantee productivity, it does act as a function for selection based on abilities.

Spence\(^9\) and Arrow\(^9\) view signals as selecting
education, and their basic hypothesis is that individuals with ability receive education but they are then placed in a comparative advantage. In addition, employers use education levels as a signal for determining which workers have ability and which do not.

It is very difficult or even impossible to certify the quality of consulting services beforehand. Business consulting can be perfectly modeled from the signal theory perspective, where consulting companies use their human resources as their input quality to provide signals on their output quality\(^7\).

### 2.3 Consultant Selection Factors

\(^{10,11}\) used consulting companies’ strategic partnership selection standards to propose standards for tasks and partners. His researched centered on four different items for task standards including consulting knowhow, skills and experience, retention of skilled consultants, and industry reputation. For partner standards, he researched into 3 different items including amount of sales, company size, and system retention. He found that the items for task standards had a meaningful influence on partner performance, but that partner standards did not have a meaningful influence.

In their study on selection factors among consultant companies, \(^{11}\) designated the consulting company as a comprehensive term that incorporated both consultants and their company of employment. They proposed four different variables including human resource abilities and management, ability to lead the market, ability to progress with consulting and results, amount of assets including material and human resources. There were a total of fourteen measurement items for these four variables, including sales, market share, capital, qualification of workers, reputation, past services and experiences.

In addition, the Korea Management Association Consultants provided 9 different factors when deciding to select a consulting including: ② the consulting company’s reputation or brand recognition, ② size of consulting company and retention of experts, ③ recommendation of consulting company, ④ recommendation based on a company that previously received consulting services, ⑤ consulting company’s bid, ⑥ inquires for the consulting association, ⑦ consulting company’s past performance\(^{12}\).

### 2.4 Consulting Satisfaction and Perceived Performance

\(^{13}\) determined the following as consulting performance result factors: achieving the original goal, satisfaction level of customer and client company, keeping deadlines, recommendation of actual implementation, achieving financial results that can be measured, operating within the budget, periodic updates during participation, offering of post support.

\(^{14}\) based his research from the perspective of consulting factors. He complemented research on consultants’ role and the consulting process to explain the characteristic variables of consultants. Then, he conducted an empirical study on the relationship between these factors, consulting satisfaction levels, and performance results.

\(^{15}\) researched that the effects of motivations to request consulting on the satisfaction and outcomes of consulting.

\(^{16}\) researched into the influence consulting period, the number of consulting sessions, past experience, expertise, and more had on business results including consulting satisfaction levels, sales, net profit, customer relations and more. He claims that the consulting company’s characteristics and consulting satisfaction levels have an influence on business results.

### 3. Research Model

Refer to Figure 1 for the research framework on analyzing the relationship between consultant selection factors and the consulting satisfaction level and perceived performance results.

![Figure 1. Research Framework.](image)

The consultant selection factors compose of five embeddedness theory items and four signal theory items based on the combined research results of \(^{10,11}\), and Korea Management Association Consulting\(^ {12}\).

Based on research by\(^{13,14}\), and others, this study confirmed the influence that consulting quality and the characteristics of the consulting company have on consulting satisfaction levels and performance results. The consulting satisfaction level measurement items were divided into 8 categories: consultant’s expertise, communication, effort to solve the problem, follow-up,
agreement in determining the problem, satisfaction of recommendation, and more.

Perceived performance results were categorized into three items based on research by\textsuperscript{16,13} and more: sales, profit, and client change.

The hypotheses for this research are as follows;
H1 : Consultant selection embeddedness factors will effect consulting satisfaction level.
H2 : Consultant selection signal factors will effect consulting satisfaction level.
H3 : Consultant selection embeddedness factors will effect perceived performance results.
H4 : Consultant selection signal factors will effect perceived performance results.
H5 : Consulting satisfaction level will effect perceived performance results.

### 4. Research Results

This research obtained 700 valid examples from small companies who obtained consulting services in 2014. The SPSS21 statistical package was used for exploratory analysis of factors. The AMOS21 statistical package was used for structure equation modeling analysis.

The general characteristics of the samples are shown in Table 1 and Table 2. By industry, 29.9% were from wholesale and retail, and 23.0% were from food and lodging, reflecting the actual distribution within the industries. By region, they were distributed evenly, with 26.9% coming from the capital era, reflecting the actual situation.

#### Table 1. Distribution by industry

| Industry         | Wholesale and Retail | Individual SVC | Food and Lodging | Manufacturing | Other | Sum |
|------------------|----------------------|----------------|------------------|--------------|-------|-----|
|                  | 29.9                 | 27.3           | 23.0             | 12.3         | 7.5   | 100 |

#### Table 2. Distribution by region

| Region          | Seoul | Gyeonggi | Gangwon | Chungcheong | Yongnam | Honam | Sum |
|-----------------|-------|----------|---------|-------------|---------|-------|-----|
|                 | 19.6  | 27.3     | 11.7    | 22.1        | 19.3    | 100   |

As shown in Table 3, an exploratory factor analysis was conducted on 20 measurement items and their main components. They were divided into four different

### Table 3. Exploratory factor analysis

| Variable                           | Item                                      | Components | alpha |
|------------------------------------|-------------------------------------------|------------|-------|
|                                    |                                           | 1          | 2    | 3    | 4    |       |
| Consulting Satisfaction Level      | Effort to solve the problem               | .842       | .088 | .083 | .116 | .920  |
|                                    | Recommendation satisfaction level         | .812       | .096 | .125 | .177 |
|                                    | Communication                             | .805       | .019 | .107 | .071 |
|                                    | Expertise                                 | .797       | .073 | .112 | .095 |
|                                    | Agreement on the problem                   | .790       | .074 | .111 | .137 |
|                                    | Follow-up                                 | .754       | .172 | .029 | .151 |
|                                    | Preceding diagnosis                       | .751       | .069 | .143 | .030 |
| Signal Factors                     | Overall satisfaction level                 | .740       | .032 | .155 | .209 |
|                                    | Major                                     | .079       | .859 | .210 | .079 | .859  |
|                                    | Degree                                    | .067       | .857 | .237 | .046 |
|                                    | Certifications                            | .126       | .758 | .231 | .023 |
|                                    | Reputation                                 | .136       | .665 | .351 | .067 |
| Embeddedness Factors               | Previous Experience                        | .054       | .097 | .791 | .027 | .766  |
|                                    | Recommendation of company that received consulting previously | .188 | .174 | .737 | .010 |
| Perceived Performance Results      | Consulting results                         | .187       | .196 | .670 | .040 |
|                                    | Personal connection                        | .044       | .276 | .606 | .001 |
|                                    | Self-recommendation                        | .138       | .263 | .594 | .067 |
|                                    | Customer increase                          | .185       | .069 | .030 | .913 | .923  |
|                                    | Profit increase                            | .186       | .084 | .032 | .902 |
|                                    | Sales increase                             | .271       | .030 | .057 | .892 |
|                                    | eigen value                                | 6.885      | 3.240 | 2.024 | 1.211 |
| Rotation Squared Value (%)         |                                           | 26.181     | 40.130 | 53.750 | 66.796 |

Factor Extraction Method: Key Component Analysis Rotation Method: Kaiser Normalization Varimax a. Factor rotations were collected from repeated calculations (6 times).
components: embeddedness factors, signal factors, consulting satisfaction levels, and perceived performance results. All measurement items had a factor loading value of over 0.5, and a cronbach’s alpha value of 0.7, which verified the validity and reliability of the variables.

An AMOS statistical package was used for the confirmatory factor analysis. In the case of selection factors, which were the latent variables, one item with less than a 0.4 SMC (Squared Multiple Correlations) value was removed in order to improve suitability. Selection factors and consulting satisfaction levels had a larger value for CFI, NFI, and IFI, of which the general value is 0.9. In the case of RMSEA, the registered value was less than 0.1, which made it suitable for application16. The perceived performance results, which are three of the measurement items for the latent variables, did not undergo the confirmatory factor analysis. The result are shown in Table 4 and 5.

Table 4. Confirmatory factor analysis – selection factors

|                   | Standard | Initial | Final | Remarks |
|-------------------|----------|---------|-------|---------|
| CMIN              | -        | 193.984 | 131.438 |         |
| df                | -        | 26      | 19    |         |
| CMIN/P            | >.05     | .000    | .000  |         |
| CMIN/df           | < 2      | 7.461   | 6.918 |         |
| GFI               | >.9      | -       | -     |         |
| AGFI              | >.9      | -       | -     |         |
| CFI               | >.9      | .933    | .950  | Suitable |
| NFI               | >.9      | .924    | .942  | Suitable |
| IFI               | >.9      | .934    | .950  | Suitable |
| RMR               | <.05     | -       | -     |         |
| RMSEA             | <.05(10) | .065    | .062  | Suitable |

Table 5. Confirmatory factor analysis – consulting satisfaction level

|                   | Standard | Initial | Final | Remarks |
|-------------------|----------|---------|-------|---------|
| CMIN              | -        | 92.226  | -     |         |
| df                | -        | 20      | -     |         |
| CMIN/P            | >.05     | .000    | -     |         |
| CMIN/df           | < 2      | 4.611   | -     |         |
| GFI               | >.9      | -       | -     |         |
| AGFI              | >.9      | -       | -     |         |
| CFI               | >.9      | .979    | -     | Suitable |
| NFI               | >.9      | .974    | -     | Suitable |
| IFI               | >.9      | .979    | -     | Suitable |
| RMR               | <.05     | -       | -     |         |
| RMSEA             | <.05     | .049    | -     | Suitable |

Table 6. Analysis of measurement model

|                   | Standard | Initial | Remarks |
|-------------------|----------|---------|---------|
| CMIN              | -        | 410.453 | -       |
| df                | -        | 146     | -       |
| CMIN/P            | > .05    | .000    |         |
| CMIN/df           | < 2 (3)  | 2.811   | Suitable |
| GFI               | > .9     | -       |         |
| AGFI              | > .9     | -       |         |
| CFI               | > .9     | .965    | Suitable |
| NFI               | > .9     | .947    | Suitable |
| IFI               | > .9     | .965    | Suitable |
| RMR               | < .05    | -       |         |
| RMSEA             | < .05(10)| .034    | Suitable |

Through a confirmatory factor analysis, the suitability of the latent variables was confirmed, and an analysis of the measurement model was conducted. Results showed that the measurement model met the criteria for, CFI, NFI, IFI and RMSEA, and had a CMIN/df value that was larger than two and less than three, which is suitable for application. Therefore, the measurement model was suitable, the results of which are shown in Table 6.

Table 7. Analysis of reliability

| Variable           | Item Numbers | alpha  |
|--------------------|--------------|--------|
|                    | Initial      | Exploratory Factor Analysis | Confirmatory Factor Analysis |
| Embeddedness Factors | 5           | 4      | 4   | .766 |
| Signal Factors     | 4           | 4      | 4   | .859 |
| Consulting Satisfaction Level | 8      | 8      | 8   | .920 |
| Perceived Performance Results | 3      | 3      | 3   | .923 |

Evaluating the research model’s suitability confirmed that CFI, NFI, IFI and RMSEA correspond with existing standards. The CMIN/df values were larger than two but smaller than three (within the acceptable limits) verifying the research model suitable for analysis17,18. The results are shown in Table 8.
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As shown in Table 9, Pathway analysis between latent variables revealed embeddedness factors had a significant influence on consulting satisfaction levels. Thus, selection factors and the consulting satisfaction level had a meaningful influence on perceived performance results. Therefore H1, H4, H5 were adopted. Signal factors did not influence consulting satisfaction levels, and embeddedness factors did not influence perceived performance results. Therefore H2, H3 were rejected.

Table 3. Suitability of research model

| Standard | Initial | Remarks |
|----------|---------|---------|
| CMIN     | 410.453 | -       |
| df       | 146     | -       |
| CMIN/P   | .000    |         |
| CMIN/df  | 2.811   | Suitable|
| GFI      |         |         |
| AGFI     |         |         |
| CFI      | .965    | Suitable|
| NFI      | .947    | Suitable|
| IFI      | .965    | Suitable|
| RMR      |         |         |
| RMSEA    | .034    | Suitable|

As shown in Table 9, Pathway analysis between latent variables revealed embeddedness factors had a significant influence on consulting satisfaction levels. Thus, selection factors and the consulting satisfaction level had a meaningful influence on perceived performance results. Therefore H1, H4, H5 were adopted. Signal factors did not influence consulting satisfaction levels, and embeddedness factors did not influence perceived performance results. Therefore H2, H3 were rejected.

Table 9. Pathway analysis of research model

| Structure path | B   | β   | p   |
|----------------|-----|-----|-----|
| Embeddedness Factors → Consulting Satisfaction Level | .244 | .330 | *** |
| Signal Factors → Consulting Satisfaction Level | .038 | .058 | .302 |
| Embeddedness Factors → Perceived Performance Results | -.101 | -.079 | .197 |
| Signal Factors → Perceived Performance Results | .129 | .114 | * |
| Consulting Satisfaction Level → Perceived Performance Results | .719 | .417 | *** |

p<.05, ** p<.01, *** p<.001

5. Conclusion

This study analyzed how what kind of factors that are considered important during the consultant selection phase influence consulting satisfaction levels and perceived performance results. From the perspective of a company who is receiving business consulting, the satisfaction level of the consulting process or the product is important, but what is most desired is how this ultimately connects to the company’s business performance. Our findings confirmed that the consulting satisfaction level is influenced by the embeddedness factors of ties within a social network including trust, reputation, word of mouth, and more. On the other hand, consulting performance was influenced by output quality signal factors towards customers, including education, experience, certifications, and more.

In terms of customer satisfaction or dissatisfaction, mentions the following. Customers may respond emotionally to the quality of the product or services, and therefore the objective quality and the quality that the customer perceives may not always correspond with one another. From this perspective, this can explain why embeddedness factors do have an influence on satisfaction levels, but do not influence results. It can also explain why signal factors do not influence satisfaction levels but influence perceived performance results. In other words, embeddedness factors are applied emotionally when influencing satisfaction levels, and signal factors influence the objective quality of business results.

This study holds significance for newly adapting the economic sociology’s embeddedness theory and signal theory as the main approach for researching consultant selection factors, satisfaction levels, and performance. In addition, this study provides standards for consulting consumers to apply when selecting consultants or consulting companies to ultimately improve business performance. In addition, signal factors such as academics or certifications should not only be used as output quality signals for consumers. In order for these factors to contribute to actual business results, Certified Management Consultant certifications and the quality of consulting graduate schools need to be improved by developing concrete education and training programs.

Depending on whether customer satisfaction is defined by the outcome or by the process, there are two types. Future studies require research on satisfaction levels from a service quality perspective. In addition, there needs to be a study that applies latent moderating variables including multiple motivations for consulting, company size, the company’s multiple experiences with consulting, and more.

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