

**DEVELOPMENT
PRACTICE**

**MIKE KIRCHHOFF
ERIC RINEHART**

SELECTING A CONSULTANT

A GUIDE FOR FINDING, SELECTING AND WORKING WITH CONSULTANTS

SELECTING A CONSULTANT

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NOTE: Every effort has been made to ensure that the information contained is comprehensive and accurate. However, this guide should be considered only as a reference.

This guidebook was authored by Mike Kirchhoff and Eric Rinehart and originally published by the Illinois Department of Commerce and Community Affairs, Springfield Illinois, May 1991.

Mike Kirchhoff can be reached at the Jacksonville Regional Economic Development Corporation,
e-mail: info@jredc.org.

Eric Rinehart can be reached at Economic Development Solutions, inc. at
Rinehart@e-d-solutions.com

CONSULTING DEFINED

INTRODUCTION

Many firms (and organizations) use business consultants as key partners in the continuous improvement of their operations. This “user-friendly manual” can assist your firm in making the best use of consulting services.

The authors gratefully acknowledges the assistance of the following sources, which were used extensively in developing this publication:

- *How to Select a Management Consultant and Get Your Money's Worth*, The Institute of Management Consultants (IMC).
- *Hiring a Consultant*, Technology Management Group.
- *How to Select and Use Management Consultants*, The Association of Management Consulting Firms (ACME).
- *Starting an Independent Consulting Practice* the U.S. Small Business Administration.
- *When and How to Use a Consultant*, Public Administration Review, Sept./Oct. 1978.

WHAT IS CONSULTING?

Consulting is a Service

The ultimate purpose of every consulting engagement is to make something happen in the client organization that will improve its performance. Change, for the better, is the ultimate measure of success. Thus, in simplest terms, consulting is a service to help companies manage change. Consultants are independent outsiders who, for a fee, undertake a specific assignment, serving as an agent of change.

What Consultants Do

Depending on the problems and issues facing a firm, a consultant may offer one or more of the following services:

- Provide extensive experience or capability on a temporary basis,
- Offer expert knowledge and technical skills for special functions or technical areas,
- Serve as a catalyst to complete an important job on time,
- Provide an impartial viewpoint for a fresh, unbiased approach to a difficult problem, or
- Handle confidential matters of a sensitive nature.

Occasionally, a situation will require that a consultant be retained until in-house capabilities are enhanced by adding qualified, permanent staff.

Tasks Performed by Consultants

Although the day to day duties of a consultant may vary based on the requirements of each individual client, in general, consultants perform the following tasks: problem definition, strategic planning, implementation, training, counseling, analysis, design, evaluation, testing, reporting, research, concept and idea generation and inventing.

Profile of a Typical Consultant

Consultants are usually:

- Sole proprietors or independent contractors (not employees) who offer, for a fee, specific services.
- Individuals assigned to complete a specific task or project within a specific period of time (typically without a long-term commitment).
- Specialists and professionals possessing expertise, experience, skills and knowledge within a defined field or fields.
- Advisors, counselors, or objective third parties who apply their knowledge to solving a specific problem.

Generalist versus Specialists

Consultants, as with most disciplines, can be divided into either generalists, who may have a wide range of skills and experience, or specialists, who may specialize in a particular field. A good comparison can be made between consulting and medical care. A general practitioner (generalist) can check a patient's (firm's) overall health to ensure general health and spot any broad problems which might exist. A specialist may be necessary after the problem has been identified and action is necessary. As is the case with a medical doctor, it is unwise to wait until the company is very sick before calling in a consultant.

Technical consultants and consulting engineers generally specialize in electrical and electronic work, product design and prototyping, operations and production work, automation, mechanical design and engineering and materials testing.

Consultants' Areas of Expertise

Consultants may specialize in a wide variety of fields, including:

- | | |
|---------------------------|--------------------------|
| - Recruiting | - New product definition |
| - Outplacement | - Engineering |
| - Acquisitions | - Design |
| - Divestitures | - Advertising |
| - Mergers | - Technical writing |
| - International marketing | - Manufacturing |
| - Sales | - Legal |
| - Marketing | - Quality control |
| - Quality assurance | - Safety |

- Management
- New business ventures
- Personnel
- Training
- Packaging
- Data processing
- Finance
- Public relations
- ~- Research and development
- Security

WHY HIRE A CONSULTANT?

Stimulus/Why Consultants are Needed

Society continues to make great strides in technology and communications. The resulting complexity requires us to become a nation of specialists. Two examples of this trend can be seen in the medical and legal professions. Graduates in these professions are increasingly choosing to emphasize specific disciplines. The number of general practitioners continues to decrease annually. Consultants can provide specific expertise to address clients' needs.

Consultants are often brought in to analyze situations from an objective, unbiased viewpoint. Consultants play an important role in service and support functions such as accounting and legal matters. Hiring additional staff for a firm is more expensive than using consultants for specific short-term projects.

Regardless of the stimulus, the assistance sought from a consultant is likely to fall into one or more of the following categories:

The need for an independent view. Outside consultants can often provide an independent, fresh viewpoint that is free from personal interest, internal loyalties or preconceptions.

A requirement for expertise not available within the firm. Consultants can bring to the project specialized skills and information resources that are often not available within the client organization. Even large organizations have difficulties identifying sufficient quantities of in-house competencies quickly and in the quantity needed. Supplementing limited institutional capability with outside resources is often the only effective way to sufficiently cover gaps in in-house expertise.

Reasons of economy. Many times, the decision to use a consultant is ultimately based on economics. If the use of consulting services will save the firm money or help it become more effective or efficient, it should consider engaging a professional consultant. In addition, unless the specialized services of a consultant are needed full-time and on a continuing basis, simple prudence dictates the use of part-time consultants rather than hiring permanent staff.

The need to expand capability on a "crash" basis. Occasionally, a situation will arise which requires a firm to augment its existing staff with consultant help as a way of speeding up work in progress to enhance the timeliness of a rush project or handling a problem which couldn't otherwise be handled while discharging other responsibilities.

The confidential handling of a sensitive situation. Some organizational situations such as mergers, divestitures and reorganizations require a high degree of security, which might not be available from permanent employees of the firm, especially if the situation affects them.

ROLES SERVED BY CONSULTANTS

There are several different roles that consultants assume when interacting with clients. The firm should discuss appropriate roles with the consultant prior to the beginning of the engagement. Based on the work to be done, the consultant may assume one of the following roles:

Advocate. The consultant can serve as either a process advocate or a content advocate. A process advocate attempts to influence the methodology of the problem-solving efforts. A content advocate attempts to influence the choice of goals and the means for attaining them.

Information Specialist. This is the traditional consultant role. The client is responsible for defining the problem and the extent of the engagement, while the consultant is responsible for carrying out the project based on the client's previously-defined parameters.

Trainer (Educator). In the role of a trainer, the consultant helps the client understand and utilize new technologies, methods or processes.

Problem-Solver. In this role the consultant works closely with the client, as a peer who has special skills and knowledge, to define the problems and help solve them.

Facilitator. The consultant functions not as a participant but as one who identifies alternatives and makes the appropriate link with resources to solve the client's problems.

Fact Finder. This is a research role and can include both primary (observation) and secondary (prepared statistics, reports, analyses, etc.) research work.

Process Counselor. The consultant's major focus is on the interpersonal and group dynamics affecting problem resolution.

Observer. In this role, the consultant asks a series of questions that help the client clarify and confront problems and make decisions. The consultant does not communicate ideas or make recommendations to the client and is not responsible for the outcome of the project.

Whatever role is chosen for the consultant in the engagement, it should be based on his or her qualifications. For example, a consultant whose primary skill is analytical might be best qualified for a fact finder role, rather than a role as a process counselor.

PREPARING THE FIRM TO WORK WITH A CONSULTANT

FUNDAMENTAL GUIDELINES

In order to achieve a successful consulting engagement, the following fundamental guidelines should be observed:

Handle Company Problems in Their Infancy. Don't allow a problem to become so serious as to be unmanageable before calling in professional help. No one can help a terminally ill patient.

Isolate the Problem to be Addressed. In order to identify what type of assistance is needed, or which consultant is best for the engagement, the company must first have a clear understanding of the nature of the situation and its scope.

Define the Expected Outcome of the Engagement. Define the problem or opportunity, including the reason for undertaking the project and an estimate of the potential benefit to be achieved. The definition also should include information about the conditions for the problem's resolution, the end results to be achieved and any company rules or limitations within which it must be solved.

Interview Potential Consultants Carefully. The consultant should possess objectivity, also be well qualified to meet the requirements of the project in terms of experience, organization and resources. The "chemistry" that exists between the consulting team and the client's personnel with whom they will work also deserves consideration.

Check References. Of particular interest during the reference check should be the degree to which the consultant has had experience directly related to the proposed engagement. The organization should also decide if number of references to check and whether references other than those volunteered by the consultants are to be contacted.

Examine Proposals Thoroughly. Each consultant's proposal should be reviewed and compared with the others submitted. Use the proposal of the consultant selected to draft contract language, including a well-defined scope of work and specific deliverables or end results of the engagement.

Agree on Mutual Obligations. The client and the consultant share responsibility for defining the purpose, scope, time and cost of the study. Findings and recommendations developed during a study have practical application only if the client understands them, challenges them and accepts those that are best suited to the firm's needs.

Prepare Yourself to Work With the Consultant. In order to produce a successful end result, review the nature of the problem, the company and the consultant in comparison with the work to be undertaken. To prevent the development of rumors and morale problems, inform the staff about the purpose of the project, its relationship to their job assignments and the importance of their cooperation.

Keep the Lines of Communication Open. The consultant will need free access to ideas and information of the client's management and staff. Management should keep abreast of the project's progress and problems and support the consultant's work. Hold periodic meetings to assess progress and make certain that the anticipated results of the study are reasonable and attainable. The staff should be instructed to cooperate fully and politely with the consultant that will speed the progress of the project and therefore reduce the intrusion into the employees' daily routine. A single, strong liaison point through which the consultant can obtain necessary staff assistance may help smooth the process as well.

Capture the Consultant's Advice. Make the best use of the consultant during the engagement and ensure that the firm absorbs as much of the consultant's knowledge as possible.

Action on the Consultant's Recommendations. The final decision and responsibility to take action are the firm's. Make sure that the recommendations that are accepted are implemented or no change will take place. At suitable intervals, reports might be required to monitor the progress being made in installing or implementing the recommendations.

Measure the Results. When an engagement is completed, evaluate the cost of the consultant and measure the part that the client's staff played in making the project a success. In some cases, savings may be evident immediately. In others, the changes may not pay off until sometime later and then only as one of many contributions to the company's success. Some of the positive signs to look for include the following:

- The engagement was carried out with minimal disruption within the organization.
- The cost and time estimates were realistic.
- The recommendations were complete, timely and realistic.
- The consultant's recommendations have been implemented.
- Staff members received new knowledge and have become more valuable to the organization.
- You would use the same consultant again.

DEFINE AND PREPARE

Problem Definition

Before engaging a consultant, first investigate the nature of the problem. Performing a preliminary analysis will help identify the actual (as opposed to the apparent) problems confronting the firm. In addition, this will help determine where to look for help. Money and effort have been wasted or misdirected because managers have focused upon how to reach a solution to what seemed an obvious problem, rather than first penetrating the symptoms to find the deficiencies which need to be remedied.

Generally, a preliminary analysis consists of the following three steps which will assist in defining the problem.

1. Collect and analyze the facts, making sure to separate important and relevant information from superficial and irrelevant data.

2. Identify what has created and is sustaining the problem. The solution often becomes apparent when the causes are known.
3. Determine the conditions for solving the problem and achieving the desired results.

Preparing this information provides two distinct benefits:

1. It identifies specific areas of expertise which are necessary to address issues facing the firm, and
2. It provides an outline against which to measure the consultant's performance in accomplishing the goals of the engagement.

After the preliminary analysis has been performed, the firm must decide whether its staff can address the problem effectively and economically or if it needs the expertise of a consultant. It should be noted, however, that the biggest contribution a consultant often makes is to help the client define problems or opportunities. The client's initial conversation with a consultant should disclose whether a situation has been properly defined.

Define the Objectives

A thorough review of the nature of the problem facing the firm is essential to determining the objectives of the proposed project. Without a thorough review, the objectives can be inadequately defined or inappropriate to address the problem. Make sure that the objectives that are assembled for the proposed project are reasonable and measurable. If the objectives are not reasonable, it is unlikely they will be attained. If the objectives are not measurable, no one will know whether they were actually attained.

COMMIT TO THE PROJECT

Although consultants offer many advantages, situations occasionally arise in which hiring a consultant may not be the best course of action. These usually occur when the project or problem is not sufficiently defined or when management is not totally committed to the engagement. To avoid the disappointment that can result under these circumstances, remember these four rules:

1. Ensure that both management and staff have a clear understanding of the project's objectives.
2. Secure an organizational consensus to proceed with the project so that there will be no financial or organizational surprises.
3. Recognize the risk of change which might result from the project and obtain an organizational commitment to implement the recommendations resulting from the engagement in good faith and on a timely basis.

4. Prepare the firm to provide ongoing support during and after the project. Many consulting assignments require client personnel to be retrained and to supervise the program after implementation to ensure its success.

THE CLIENT'S ROLE

It is important to remember that simply signing a contract does not guarantee a successful consulting engagement. As a result, the consultant and the client must understand their respective roles and responsibilities.

Employee Briefing

At the outset of the engagement, management should explain why the consultant has been retained, and employees should be briefed before the general announcement is made. The briefing and announcement should indicate genuine management support for the project, pointing out the consultant will be making requests on employees' time and the degree of cooperation and confidence that is expected of them. Failure to establish this understanding creates uncertainty and speculation, and impairs the ability of the consultant to function effectively.

Company Liaison

Many clients assign an executive or a committee to work closely with the consultant during the engagement. The liaison will help to bridge any gap between the management consultant and members of the client's staff. This liaison activity is particularly important since it provides for one or more members of the client staff to be deeply involved with the project and to be able to interpret and support its activity long after the consultant has left.

Open Relationship

It is also important that an open relationship be maintained to ensure that the consultant has ready access to needed working papers. In addition, it is important that management be available to the consultant when he or she asks for time to review progress, clarify information that has been developed, or resolve temporary difficulties. The quality of the final analysis will be in direct proportion to the level of openness the client affords the consultant.

Absorb the Knowledge of the Consultant

Since firms pay consultants not for their labor, but rather for their skills and knowledge, make sure the company absorbs as much of the expertise of the consultant as possible. This goal can be attained through a number of methods, depending on the nature of the engagement. One method might be to build a training and education aspect into the engagement. If this method is employed, perhaps the firm can avoid hiring a consultant to complete a similar project in the future.

Another method might be to assign a staff member to work closely with the consultant for the purpose of observing and learning his or her techniques. Make sure that the person assigned to the consultant is attentive, asks questions and takes notes, but not to the degree that it becomes a

hindrance to the consultant. Regardless of the method used, be sure to participate in the project from the outset and learn as much as possible.

Engagement Progress and Follow-Up

During the engagement it is important to hold periodic meetings to review the progress being made, to evaluate the thinking of the consultant and to see that the anticipated results are reasonable and attainable. The findings and recommendations should be continually discussed informally with management to make certain management understands the reasoning behind them. The consultant should also be prepared to explain what alternative solutions had been considered and why they were discarded.

THE CONSULTANT'S ROLE

Consultants solve problems by analysis and synthesis. They seek relevant facts about the problem to determine its causes, then fit all the parts of the problem together for an overview. Once this is done, the consultant can determine the end results that can be achieved, develop and consider alternative solutions and recommend the best one.

Analysis

The consultant's first objective is to determine the conditions that have created and are sustaining the problem. Since this is best achieved by reviewing client working papers and other material, it is best for the consultant to use approaches and techniques that foster an open, trusting relationship with the client. After thoroughly reviewing the organizational situation, the consultant can begin to develop alternative solutions that may provide answers to the problem.

Recommendation

After the analysis is completed, the consultant should select the most timely, practical, and appropriate solution. It is best that the consultant work closely with management at this stage in order to reach agreement with the firm on the acceptability of the solution. The consultant should provide an outline of what needs to be done, by whom, and in what sequence so that the recommended solution will be understood by everyone.

FINDING AND SELECTING A QUALIFIED CONSULTANT

FINDING A CONSULTANT

Conducting the Search

An individual firm may have difficulty finding a qualified consultant due to a number of factors. Unfortunately, since there are no external standards or controls, "consultant" can mean whatever the service provider wants it to mean. Further, there are many types and sizes of consulting firms ranging from independent consultants to national firms. Metropolitan telephone directories may prove difficult and frustrating to use since directories seldom indicate the quality or capabilities of individual consulting firms. Complicating this problem of sheer numbers is the fact that many firms in specialized professions (such as some national public accounting firms) now reach out into general consultation. To the list of consulting firms also must be added the myriad of individual consultants, including growing numbers from the ranks of academia and retirement.

In addition, there are a variety of public resources available to firms that might not possess the financial resources necessary to engage a consultant (depending on the type of assistance required).

The small business development center, manufacturing extension centers, business resource centers and the Service Corps of Retired Executives can provide technical assistance in marketing, management, finance, international trade, government procurement, energy management and commercialization of technology-related products. (Check with the local chamber of commerce or your regional economic development organization for information on the availability of these resources.)

Referral Sources

Although the consultant search process sounds foreboding, there are many sources management can consult for assistance in selecting a consultant. The organization's attorney, accountant, or banker may be a good source for referrals, as well as associations the company may be involved in. Executives of other organizations with similar interests also can provide leads. For a broader view of the possibilities, companies can contact the Council of Consulting Organizations at 230 Park Avenue, Suite 544, New York, New York 10169, or by phone at (212) 697-9693.

Additional referral sources may include the Yellow Pages or directories of professional consulting organizations such as:

- PATCA - Professional and Technical Consultants Association
- ACME - Association of Consulting Management Engineers
- IMC - Institute of Management Consultants

It is important to remember that each client-consultant relationship is unique. Therefore, the usefulness of any referral source is only as good as his or her personal experience with a given consultant.

HIRING A CONSULTANT

Selection Process Summary

The following outline describes a systematic approach to help a firm select the appropriate consultant for its needs. A more detailed discussion of each activity is presented following the outline.

1. Define the Problem
2. Identify Potential Consultants
3. Conduct an Initial Screening Process
4. Conduct Interviews
5. Review Proposals
6. Check the Consultants' References
7. Review Project Costs and Consultant Fees
8. Make the Final Selection
9. Prepare and Sign a Contract

Define the Problem

Perhaps the most important step in working with a consultant is defining the problem facing the firm. The firm's own internal inspection is required to determine whether a consultant is actually needed or not. For specific information on how to define the problem, refer to Chapter Two, "Preparing the Firm to Work with a Consultant."

Identify Potential Consultants

Defining the problem will assist in determining the kind of consultant required for the engagement. In addition, the search for a qualified consultant may assist in further defining the goals and objectives for the engagement. For information on how to find a qualified consultant, refer to Chapter Three, "Finding and Selecting a Qualified Consultant."

Conduct an Initial Screening Process

As a third step, the firm should conduct a brief screening process of the consultants whose names were recommended. This screening process can be accomplished most efficiently by contacting each consultant referred and requesting background information and names of recent clients as references. Each consultant's background information should be reviewed to determine if the

consultant's expertise and experience are compatible with the nature of the needs of the firm. Overall, during the initial screening process, the firm should ask consultants to answer the following questions:

- How long has the consultant been in business?
- What are the backgrounds of the consultants who will be assigned to work on your project?
- What standards of professional conduct and practice does the consultant follow?
- What kinds of clients has the consultant served?
- Has the consultant had experience that is applicable to the problem?
- How much of the consultant's business is repeat business?

Conduct Interviews

Upon conclusion of the screening process, management should select the two or three consultants whose experience comes closest to matching the situation as defined, and they should be interviewed. Each of the final candidates should also be asked to submit a proposal which should generally include a definition of the work to be performed, the nature of the problem, a schedule of activities, and an explanation of the consultant's fees.

Management should determine that each consultant (not just the consulting firm) displays a thorough familiarity with the situation and can suggest a few other possibilities or points of inquiry regarding the problem. A personal interview conducted prior to the final selection will better enable the firm to reach conclusions regarding the consultant's personality, flexibility, and other issues, such as:

- Image and style.
- Attitude, mood and manner.
- Objectivity.
- Professionalism.
- Results oriented attitude.
- Communication skills.
- Type of fact finding questions asked.
- Confidence and openness.

Review Proposals

Study the proposals in terms of the consultant's understanding of the problem, the suggested approach, probable benefits, and the particular experience and ability of each consultant to meet the requirements of the engagement. Also, consider the qualifications of the individuals working on the project.

The amount of detail contained in a proposal will vary widely from situation to situation, but should generally address the following topics:

- Definition of the problem or opportunity.
- The objectives, scope, and nature of the engagement.
- The areas to be reviewed/covered by the engagement.

- A recommended program for accomplishing the work.
- The general methods to be used.
- A statement of who will perform the work activities.
- An estimate of the time required to complete the engagement.
- An estimated fee for professional service and out-of-pocket expenses.

The proposal should also include an indication as to when the consultant can begin the engagement and a description of the billing method. Occasionally, a proposal may outline in some detail the first phase of the engagement and describe future phases in more general terms. This often happens when the situation requires an initial study before an agreement can be reached on actions that may be required to address the problem(s) identified.

Check the Consultants' References

It is important to check the consultants' references carefully. The number of references checked and whether the firm should settle for only those references volunteered by the consultants are matters of judgment. It may be risky to settle for a single reference because it could be an individual consultant's only good reference. Ask for a list of several recent clients where the consultant completed similar assignments and randomly select some to contact for references. Of special interest should be the results obtained, the honesty and tact with which recommendations were made, and the ease with which the consultant worked with the organization's people. Additional areas to consider when conducting reference checks include:

- What was the nature of the work done by the consultant?
- Did the consulting staff demonstrate professional competence, objectivity and integrity?
- Did the consultant work constructively with client personnel?
- Did one or more principles spend sufficient time supervising the work?
- Were the solutions complete, timely, practical and suited to the client's specific needs?
- Was the suggested course of action the most effective and economical in the client's opinion?
- Was the work accomplished within reasonable time and fee limits?
- What was the operating impact of the consultant's work in the client organization?
- What is the overall evaluation by client executives of the value of the consulting engagement?
- Would the client retain the consultant again?

Review Project Costs and Consultant Fees

It is important to review each of the consultants' proposed cost and fee structure with the scope and complexity of the proposed project. The final selection should be equally based on cost and quality of the services to be provided. For more detailed information on consultant costs, refer to "Consultant Fee Structures," below.

Make the Final Selection

Once each consultant's experience has been confirmed and his or her references checked, the final selection should be made. Each consultant's approach to the problem, its solution and its fee should be taken into account. The project cost should be considered an investment. In consulting services, the important factor is the result. A good job is worth the cost; a poor one is not, no matter how

attractive the price may be. Measure what the project is expected to achieve as a return on investment. Compare the quality and contractual performance of a consultant to the available funds. In addition, the following criteria should also be considered:

- Breadth of experience which encompasses and goes beyond the situation as defined.
- Demonstrated ability of the consultant to complete assignments within budget and on schedule.
- Demonstrated ability of the consultant to develop practical recommendations and to have them implemented successfully.
- Demonstrated ability of the consultant to work with people diplomatically and effectively, with the least disruption of ongoing operations.
- The trust and rapport established between management and the consultant during initial contacts.

Finally, it is important that the firm maintain a written record of its evaluation of individual proposals and the selection rationale as justification for making the final selection.

Prepare and Sign a Contract

It is extremely important that the parameters of the engagement be set out in writing. Without a written contract, the project can veer off course, client and consultant roles in the project can become blurred and project costs can skyrocket.

CONSULTANT FEE STRUCTURES

Good consulting services are not inexpensive. However, consulting fees should be measured against the depth and breadth of the proposed project. When calculating fees, a consultant will include the principal costs involved in the assignment, such as:

- Salary of people working on the engagement, including technical and clerical staff time.
- Travel, materials and supplies.
- Special research.
- General overhead costs, which include the usual expenses involved in the operation of a professional office.

Because of many variables, it is not possible to establish standard fee schedules for consulting services. The consultant's level of education, experience, variety of work and area of specialization are some of the main factors to consider. Consultants with established reputations and in-depth expertise may demand higher fees than those less well-known and with less experience. Typically, four general methods of consultant pay are utilized: negotiated per diem or hourly rates, contingency fee, lump sum or fixed price, and "cost plus. "

Negotiated Per Diem or Hourly Fees

As a practical matter, negotiated rates will only apply when hiring consultants as individuals. The consultant's rate will be based on the number of days or hours required to complete the engagement

. When using this method, consultants will generally also submit an estimate of the total fees. If a specific estimate is not appropriate for the given situation, the consultant may submit a bracket quotation. A bracket quotation quotes a minimum and maximum fee, with the understanding that the work will be accomplished within this range unless unforeseen conditions arise or the situation is redefined.

Contingency Fee

With this method, the consultant's fee is contingent on the achievement of certain goals or dollar value of benefits to the client. Care should be exercised before entering into a contract calling for this type of fee arrangement to ensure that the consultant's independence and objectivity will not be impaired. The integrity of the project should not be jeopardized by too much emphasis on short-term "results" to the detriment of long-term change.

Lump Sum, also called Fixed Price

This is usually a contract for a sum that includes both per diem fees and out-of-pocket expenses, although some contracts distinguish between the two. With this method, the consultant must estimate the time, expenses and overhead involved using past experience in similar work as a guide.

"Cost Plus"

This type of contract is based on an estimated cost for the project plus any additional expenses. "Cost plus" contracts will result in greater expenditure because of most organization's to revise or add to the work of the consultant and the consultant's tendency to relax administrative controls. The only real advantage of the "cost plus" consulting contract to the firm is when a project covers new or uncertain ground or involves substantial cost hazards for potential consultants. Actually, these instances will prove be few if the firm and the selected consultant discuss the problem thoroughly and the manager receives and agrees to a detailed task schedule and cost estimate in advance of the final cost determination.

Compensation

The primary point to consider is whether the consultant's compensation is directly related to the cost of providing agreed-upon services (scope of work) rather than to an arbitrary yardstick. Some other points to remember when considering the remuneration of the consultant are:

- Don't confuse direct and indirect expenses.
- Clearly set out the method of payment and relate it properly to the scope of work.
- Make sure the contract covers certain contingencies if the project is abandoned.
- Don't agree to an indefinite or contingent payment based on the consultant's future action.
- Make sure the consultant is solvent.
- Establish provisions for additional work, including unreasonable and unforeseeable time overrun of the engagement.
- Work with the consultant to agree on a maximum cost for performance of the work indicated.

Should You Solicit Bids or Negotiate?

Consultant selection can be approached through two methods. First, bids can be solicited either at large or from selected consultants. Under this process, bidders are notified by the client as to the general scope of work and time schedule of the project and asked to submit their proposals. It is important to note that the cost of the consultants' proposals is only one of the issues to be considered in the selection process. The lowest bid is not necessarily the best bid.

The second method of selection, direct selection, involves negotiation with a single consultant. Under this method, the client solicits only one bid (from the consultant selected), based on the parameters of the proposed project. After submission of the bid, the consultant and the client then negotiate until a final agreement is reached.

The best method for selecting a consultant is actually a combination of both methods. It is worth the firm's time to solicit proposals from a number of consultants and competitively review them. This hybrid method will ensure that the client receives the best service for the cost.

PREPARING THE CONTRACT

SUMMARY

Contracts /Agreements

Because unwritten agreements may lead to misunderstandings and dissatisfaction, a formal written document that accurately describes the terms of the engagement should be prepared . As such, it should address the following issues:

- Relationship of the consultant and the client.
- Required client support.
- Statement of capabilities.
- Obligations of both parties.
- Terms and conditions.
- Actual costs/fees.
- Invoicing/payment schedule.
- Guarantee.
- Termination conditions.

Note that the contract should include termination conditions. These should indicate under what specific circumstances the client may terminate the assignment as well as how the consultant can withdraw if circumstances beyond the consultant's control interfere with the successful completion of the engagement. These options are seldom exercised if clear communication is maintained during the course of the work.

ELEMENTS OF THE CONTRACT

The elements of a consulting contract are essentially the same as the elements of the consultant's proposal, after modification based on the company's needs and negotiation on the consultant's fee structure. A description of the major sections of a contract follows.

Background/Problem Explanation

This portion of the proposal should be written in a narrative fashion, with the purpose of providing a clear understanding of the nature of the problem and relating it to the industry of the client where appropriate. The narrative should indicate that the consultant took time to review the situation rather than just restating the findings of the client's original review of the problem.

Scope of Work

The scope of work should clearly state the approach to be taken by the consultant and outline the process in chronological order. The scope should also detail how each task in the process is related

to or leads to subsequent tasks. Enough flexibility should be left in the scope of work to allow for minor changes in the direction of the project without requiring changes to the contract and scope of work after it is signed. Make sure that the needs identified in the company's initial review of the problem are reflected in the contract in the form of a well-defined scope of work and concrete deliverables which address the underlying cause of the problem, not just the symptoms.

Scope of Work Outline

The following outline lists the principle components of a scope of work for a consulting engagement. A more detailed discussion of each of the components follows the outline.

1. *Project Summary*
 - A. Objective of project
 - B. Scope of project
 - C. Categories of improvement expected by company
(Organizational management, operation management, shop management, resource management/capital equipment)

2. *Approach*
 - A. Review and assessment
 - B. Design activities
 - C. Implementation activities
 - D. Final report preparation

3. *Project Deliverables*
 - A. Written plans for specific company improvements
 - B. Final report preparation

4. *Level of Consultant Effort*
 - A. Expected costs of project
 - B. Hours of effort
 - C. Time frame of project
 - D. Participants

5. *Evaluation*
 - A. Company benefits expected
 - B. Public benefits expected (jobs created, retained)

Project Summary. A brief summary of the project should be included in the scope of work for quick reference. Included in this summary should be the objective and scope of the project, along with what areas of the client's business will be addressed by the project.

Approach. The scope of work should also explain the approach the consultant will take with regard to the project. This section should specifically detail what research and analysis will be conducted to determine the nature of the situation that created and is sustaining the problem. Also to be covered under the approach is any design work the project might require, including development of alternative solutions, and what steps will be taken to implement the best solution.

Project Deliverables. Depending on the project, the deliverables can include any number of items, ranging from mechanical drawings or designs, computer software, manuals, facility designs, studies or evaluations. Also included in the deliverables should be a final report that details work conducted by the consultant and outcomes of the project. Additional steps that need to be taken by the client to maximize the benefits of the project should be included in the final report as well.

Final Reports. The scope of work should detail the type of final report to be submitted, including both format and contents. This report should review the work conducted during the project and identify outcomes resulting from that work. Follow-up steps that might be necessary should also be addressed in the final report.

Level of Consultant Effort. To ensure that there are no future questions regarding the scope of billable services, the expected cost of the project should be detailed in the scope of work. The total project cost should be broken out by line item and justified. Vague items such as project administration should be reviewed carefully. Payment terms should be set out as well.

Although hourly consultant fees might not be a part of the engagement, it is still a good idea to include an estimate of the amount of time required to complete the project. Including this information in the scope of work will provide two benefits. First, it will demonstrate the consultant's commitment to addressing the client's needs. Second, by comparing the estimated hours of effort with the estimated cost for the project, the value of the consultants' services can be determined.

Timelines. The scope of work should also specify concrete timelines, including "milestone" events to gauge the progress of the project. Penalties should be detailed for failure to meet deadlines. To keep the project on track, the proposal should include regular progress meetings between the consultant and client staff.

Participants. The proposal should detail which employees of the consultant will be conducting the project, what their qualifications are (including resumes) and their level of previous experience related to the proposed project. The client should insist on meeting all major participants in the project prior to the initiation of the engagement.

The client's role in the project should be specified in the proposal, since many times it is crucial that the consultant have support and active assistance from client personnel to successfully carry out the activities outlined in the scope of work.

Evaluation

The proposal should clearly state the specific benefits expected as a result of the project and the standards by which success of the project will be measured. However, it should be noted that quantitative measurements of success are not appropriate for all projects. Where a project's objective is not quantifiable, the criteria for success can be written to require a sufficient level of information to make an informed decision regarding an issue.

CONCLUDING THE ENGAGEMENT

EVALUATION

The Final Report

At the conclusion of the engagement the consultant will normally submit a report that includes conclusions and recommendations. Review the report thoroughly with the consultant to be sure you understand it. Then determine whether staff can implement the recommendations alone or whether the participation of the consultant is needed and what the degree of the consultant's participation should be.

Implementation of Recommendations

Once recommendations have been accepted, it is the client firm's responsibility to implement them. Since some consultants have technical or specialist capabilities that can contribute substantially to implementation, they may be asked to continue the engagement as part of a team effort with client personnel to help achieve the solutions and goals identified by the analysis. If implementation support is not a part of the engagement, the client should ask the consultant for recommendations as to other professionals who are able to provide this type of service.

Evaluate the Results

As stated previously, when the goals and objectives for the project are reasonable and measurable, evaluation of the project results is much easier. The project evaluation should cover many areas, including an analysis of the project's impact on the firm. A thumbnail indicator of the success of the project is the number of the consultant's recommendations that were implemented, modified or rejected.

Intangible results also can be measured to a degree. Consider evaluating the following:

- The impact of the project on the company's internal relations.
- Discovery of problems or opportunities that were unknown previously.
- The amount of the consultant's knowledge that was assimilated by the staff.
- Generation of new ideas or approaches on the part of the staff.

This type of evaluation usually is not very meaningful until a reasonable time has passed. Depending on the nature of the project, a year may not be too long to wait until evaluating the usefulness of the engagement, due to long implementation timelines and other factors.

Measurable project objectives can be used to obtain a more immediate evaluation of the success of the engagement. The following criteria can be used to evaluate the engagement's results:

- Were the objectives set forth in the proposal met?
- To what degree did the engagement have an effect on the situation that prompted it?
- Was the work accomplished according to the timelines in the scope of work? If not, were extensions agreed to in advance by both the client and the consultant?
- Was the cost of the engagement approximately the same as stated in the consultant's proposal?
- Did the consultant plan the work carefully and make consistent progress?

Project Follow-up

It may prove helpful to suggest a review with the consultant, a year or so after the project is completed, of recommendations which were accepted, why others were not, and how the accepted recommendations worked out. Such reviews result in better consultants and more sophisticated clients.

WHAT TO DO WHEN THINGS GO WRONG

Although the vast majority of consulting engagements are conducted and completed with no problems, occasionally situations do arise which must be corrected in order to produce a successful engagement. These situations can be classified into six categories.

Project Length

Consulting projects are not "cut and dried" issues. Project completion can be delayed by new information, new requirements may be placed on the consultant, and so on. As a result, the project length must necessarily be flexible. However, it should not be flexible to the extent that it allows the consultant to slow the progress of the project for reasons unrelated to the project. If it appears that this might be the case, determine a deadline date for project completion. Make it clear that the client will not pay for work which continues past the due date. If the project is not completed, follow through with the scheduled deadline, pay the consultant for the work completed and terminate the engagement.

Project Scope

Many times, a consulting engagement will be expanded due to one reason or another. When the scope of the project must be expanded, make sure that the changes to the scope are agreed upon and the contract amended as necessary. Make sure that any additional charges resulting from the expanded scope are spelled out as well. If the additional work to be done is not directly related to the original scope of work, create a separate project with its own scope of work. Whatever the situation, make sure the new activities are spelled out in writing rather than defining the project as it goes along.

Deliverables

One of the most important aspects of any successful consulting engagement is clearly defined objectives and boundaries, including specific project deliverables. Without these basic parameters, the project can easily get off track by missing deadlines, lacking forward progress or going over

budget. If these symptoms begin to appear, meet with the consultant, further define the scope of work, lay out specific corrective action to be taken, including when and by whom, and determine how to get the project back on line. It may also be helpful to schedule specific milestones and hold regular meetings to assess the progress of the project based on the new deadlines.

Another situation might result from less than clearly defined project objectives and deliverables. Without strict parameters and specific deliverables, what the consultant produces may not be what was outlined in the contract. If this happens, the client is not mandated to pay the consultant for what was provided. Further, the client has the power to demand that the deliverables conform to the contract specifications. To avoid this type of situation, make sure that the contract states that payment will be made upon your approval of the work, not upon submission by the consultant.

Project Finances

It is strongly recommended that the client limit project expenses in the contract. A clause of this nature will clearly define the situation for both the client and the consultant. If, during the project, you become suspicious of an expenditure for the project, ask to see a detailed account of the consultant's expenses for the project. If the expenses seem out of proportion when compared to the scope of the project, demand a justification of each expense.

Not all project financial problems are the cause of the consultant. It is possible that the financial situation of the client might change during the course of the engagement. If the firm is unable to pay for the consultant's work, inform the consultant immediately. Generally, the consultant will be willing to work with the client to conclude the engagement quickly and provide something meaningful for the money already spent. This might include a report of progress and findings to date, general recommendations or partial solutions. Whatever is provided can serve as a new starting point after the client's financial situation improves.

Recommendations

As mentioned earlier, successful implementation of the consultant's recommendations is up to the firm. Implementation can be either carried out with the consultant involved or by the client on its own. Where they are not involved in the implementation, consultants can only provide recommendations for solutions to problems. If you find that the consultant's recommendations are not providing the desired results, contact the consultant to discuss the implementation steps. Maybe the implementation has strayed from the original intent of the consultant. Whatever the case, the best strategy is usually to include the consultant in the implementation stage because the implementation will be more likely to stay on track if the consultant is involved. Further, the consultant will have a stake in the successful implementation of the recommendations .

Clients do not always agree with the consultant's recommendations . However, the client is paying for the consultant's advice, not for the consultant to tell the client what he or she wants to hear. The consultant is only obligated to tell the client what he or she thinks should be done, what the risks are, and what the rewards might be. It is then up to the client to decide whether to implement the recommendations.

Professional Ethics

Professional ethics is an important issue in the consulting business. It is unethical for a consultant to enter an engagement with a competitor of a current client. If this has happened, and there is potential danger for the firm, explain the situation to the consultant, recover any proprietary information still in the possession of the consultant, pay him or her for the work completed and terminate the engagement.

A related breach of professional ethics is the consultant's theft of material of information from the client. This is an extremely rare situation. This activity can take a number of forms, including writing articles or case studies based on confidential information, disclosing proprietary information to competitors or potential clients or retaining internal documentation for future use. If this situation has occurred, inform the consultant that he or she may not engage in this type of activity. If the consultant does not immediately cease, end the engagement and contact an attorney regarding legal remedies. To help avoid situations of this nature, make sure that a confidentiality or nondisclosure clause is contained in the contract with the consultant.

CONCLUSION

If the problem has been properly diagnosed, if the consultant has been selected carefully, if the firm has worked as a team with the consultant in solving its problem, and if the firm implemented the consultant's recommendations, the firm can expect to receive measurable benefits from using a consultant. Remember, however, that a consultant can't solve the problem, but can only suggest the best solution and urge the firm to take action. The final decision and responsibility to take action are the firm's.