Choosing a Risk Management Consultant

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When a company needs help with a risk management problem, it's important to choose the right firm and/or consultant. The problem could be anything from setting up a new risk management department, evaluating the effectiveness of the one you have, studying the feasibility of alternative risk transfer, reducing workers' compensation costs or aligning the Board with Sarbanes Oxley, – and a nearly limitless list of other things. When such help is needed, it's important to find the right resource.

We live in a consumer oriented society that seems to think that if you pay more for something, then it must be better. This is based on the assumption that increased cost equals increased value in materials, ability, warranty, reputation, etc. However, when you want a risk management consultant, it isn't necessarily true.

On the other hand, we all believe that "You get what you pay for." and understand that there is a relationship between cost and quality. So how can you choose between these consumer concepts to find the right consultant for you? Here are some practical realities.

When hiring a consultant, understand that the first thing you pay him/her for is to find out what you and your employees already know. Often, what the consultant brings to the table is a light that can shine on the solution that someone in your organization already knows. The problem is that they are not in a position to test their theory or bring their idea before the right people. If they don't already have an idea of what the solution is, then they know the intimate details that define the problem.

The consultant brings a fresh new perspective, creativity, innovation, and most of all, objectivity. Since the true consultant does not sell products, he/she has no investment in the solution so it can seek its own natural course without bias.

Risk management consultants come in all shapes and sizes; everything from large national firms to single practitioners. Large firms have vast resources across a broad range of expertise and hourly rates to match. Wow, that sounds GREAT! Why wouldn't I just find the largest firm, find the person in the firm who has the most experience and pay whatever they charge with the expectation that they offer the best solution? This sounds easy.

Yes, it does sound easy – ah, if it were only that simple! Like so much of life, the devil's in the details. While there are several large risk management consulting firms, and one might be the right fit for you, here are some things to consider when evaluating a firm to solve your problem.

1. **Who is minding the store?**

   Large firms are large because they employee many people. Most of them do compartmentalized specialty consulting such as risk management, health benefits, actuarial, claims, legal, structured settlements, risk management information systems, safety and loss control, alternative risk transfer, etc. Each of them is supported by secretaries, analysts, etc.

   As a consequence, your consulting project will be handled by a lead consultant, the one with the most expertise, and supported by others in the firm. Because of his/her knowledge, often that person must balance several different projects for several other clients and may also be called in to be part of the presentation team to help win still other clients. Since large companies require large budgets, the client with the most clout (pays the highest fees) often receives priority.

   This can mean that the focus of your lead consultant isn't always on your project and the dictates of the firm may trump his/her passion for your problem. These internal conflicts can cause confusion of roles and with so many different hands in your project, if something goes wrong, it may be hard to pinpoint accountability.

   In a small firm, most of the time the owner is the principal consultant and he/she has total control of time, resources, simultaneous balls bouncing, and total accountability for each and every project. If the firm receives most of their business through referrals from satisfied clients, his/her reputation is on the line for every project undertaken and future business is dependent upon getting it right.

   While larger firms have a multidisciplinary approach using many different consultants each in his/her own sphere of expertise, there is very little pollination among peers so it's rare to find a single consultant who has much breadth of experience across disciplinary lines. In a small firm, often the principal consultant/owner has a wide range of experience since he/she has done the majority of all consulting personally.

2. **What you get vs. what you expect**

Your expectation is an original solution of professional quality taking into account all of those factors that are unique to your company. Large firms have a large client base and turnover can be high as firms continue to upgrade the quality of their staff by buying talent. Since a large firm invariably has had clients with problems similar to yours, sometimes there is a temptation to retrofit work already completed for another client and made to fit your problem.

Such an approach makes sense up to a point, but it assumes that every dog is the same. If you've ever owned one, then you know that the differences, even in the same breed, can be profound. One dog barks, one doesn't; One dog chases cars and one doesn't; One has short hair and the other long; One is an outside dog and the other is inside, etc.

Companies, even in the same industry are equally dissimilar. Every company has its own personality just like people have. Some companies are autocratic and authoritarian with a powerful and charismatic leader. Others are decentralized. Companies have their own way of rewarding their heroes and punishing mistakes. Each communicates, makes decisions and has its own unique culture.

Since companies can be so different, a solution that is perfect for one company would never work in another – because they're different! Therefore each solution has to be crafted from all available options and is selected because it has to work where it lives. In other words, the solution is only as valuable as its ability to work in your company's environment where it must be implemented.

In a small consulting firm, every project starts with a clean sheet of paper with no preconceived notions of what might work and what might not. When a solution is prejudged, then it is forced to fit every situation regardless of those dynamic differences that make your solution different, unique and distinct from any other.

3. **What you pay**

Large firms have large appetites and since they pay their leaders huge salaries and require more support staff, they charge huge fees. The price is based on all kinds of considerations including:

- How long will this take?
- How much time is required for each level of expertise necessary to complete this project?

- How much peer review would be required to guard against potential legal liability for the firm?
- How important to the firm is this project?
- How important is this client to the firm?
- What is the relative value of the solution to the problem? (Can we charge more?)
- Do we have an ongoing relationship with this client?
- Is there the possibility of retainer work for this client?
- Are there any political considerations for this client (relative of someone important, board member, politician, prominent company, etc?)
- Is there charitable value in doing this work pro bono?
- Is this worth our time?

As a general rule, smaller firms don't have as much overhead so they can keep their fees lower. In the smaller firm, many of these same considerations are made, but every decision is sifted through the filter of the owner and the decision is not made by committee.

Q&A

So should I go with a large firm or a small one?

In the final analysis, the strength of the consulting firm's reputation, the personnel assigned to your project, the price and the work they've done with similar projects should be your guide. Which seems the most innovative and creative? Which seems to have a better grasp of your situation? Which presentation did you like best? Which firm did the best job of communicating?

What circumstances might make a large firm the better choice?

There are several reasons:

- The Board is putting a lot of pressure on the company to solve the problem and you need the large firm's reputation as a guard against failure. If the giant firm with the unimpeachable reputation says so, then it must be so and no one can blame you for taking their advice. It is confirmation that you understood the Board's angst.

- You want to take a course of action that might be controversial within the confines of the corporate mind set and you need reputational support for your decision. You've consulted a renowned consultant and they agree with your course of action.

- The problem is someone's fault and there may be disciplinary consequences. You don't want to appear that the action was part of a personal vendetta on your part so you need someone else to come to the conclusion of fault. The perception that a large firm is objective and impersonal can help.

- The solution may have liability issues and you need a firm that has significant professional and contractual liability limits in case anything goes wrong and you get sued.

- Union concerns may add an additional layer of drama which larger firms may be better equipped to handle. They have inside resources to help communicate effectively with the unions and it is in their best interest to do so because they don't want to alienate the unions either.

- Money is no object and your executive peers have always used a large firm. No one wants to brag about the cheap picture they have hanging over the fireplace! They can only brag if it was expensive.

What are the advantages of using a small firm?

Whether you use a large or small firm, the dynamics of the decision are based more on reputation and the personality fit of the consultant on your project than any other factors. Having said that, there are some advantages that a small firm has over a large one everything else being equal, including:

- More pricing flexibility because often the owner of the firm is pitching the proposal and can make fee compromises and alter the price on the spot based on circumstances. Larger firms might not have the same flexibility without going through the firm's bureaucracy.

- Small firms offer a broader range of consulting expertise all in one person because the principal consultant is engaged in every project of every kind. The advantage of this is that if the consulting assignment uncovers unexpected risk exposures beyond the scope of work, they can be more readily dealt with because of this focused multi-disciplinary experience residing in one person. In a larger firm, the compartmentalization of expertise may reduce the range of experience in the consultant on your project. If, for instance, the project is a workers' compensation audit and the consultant on the project runs across a risk exposure dealing with professional liability, it may not be recognized.

- There is a reduced risk of conflicts of interest since the smaller firm deals with fewer clients concurrently. In large firms, clients of the offices in other cities may not be known so conflicts may occur. Since the owner has total control of his/her time, there is less chance of the priority of your project changing mid-stream. Large firms are attracted to large fees so larger clients often times receive priority in a crunch.

- Total continuity between the people who make the proposal and those who actually do the work is another plus. In a larger firm, sometimes the best proposal presenters aren't the most experienced consultants so the team changes and the person in which you had the most confidence is not the one who performs the work.

- Full attention of the owner of the company will be devoted to your project. If he/she isn't actually doing the consulting, then he/she will be intimately involved in all phases of peer review. Since the reputation of the firm is built one client at a time, you can be assured of a work product that meets your expectation. In a large firm, unless you are one of their larger clients, you will rarely come to the attention of the executives of the company and you are probably not their first priority.

What are the first steps when choosing a risk management consultant?

A. Define the problem exactly

Sometimes we buy a drill, but all we really wanted was a hole. We should ask the mechanic to fix our car, not assume that it needs a fuel pump.

B. Research the names of consulting firms or consultants with that specific expertise

C. Write a "Request for Proposal (RFP)" and send it to no more than three selected consultants

D. Interview several current and past clients of each to get their comments

E. Interview the last client they lost for another perspective that may be important.

F. Would they hire this firm again?

G. What is the company's reputation in the industry?

H. What experience do they have with similar projects?

What questions should you ask each proposer?

1. Exactly who will be the lead consultant?

2. What kind of commitment of his/her time is being made?

3. What are the hourly rates for every person included in the price?

4. What is their definition of "expenses"?

5. Do they bill for secretarial time or long distance phone calls?

6. Does it include First Class air travel?

7. Does all travel require pre-approval by the client?

8. Do they charge for travel time?

9. Is there a "Scope of Work" that defines exactly what they will do and the work product you will receive?

10. Will they give an estimate of what similar projects have cost?

11. Will they consider a project fee instead of billing for time and expense?

12. Can you finance the project past the delivery date?

13. How will the project be billed?
    Retainer up front? Bi-weekly? Monthly? Expenses as incurred?

14. Have they signed a non-compete, non-disclosure agreement?

15. Can they provide a Certificate of Insurance?

16. Will they indemnify you against their own acts?

17. When will they start work?

18. What is the target date for the project to be concluded?

19. Do they require any company resources?
    Office space, access to phone, fax, copier, computer, DSL, etc.

20. Will they need access to your computer system, network or payroll system?

21. Do they require access to executives, Board, auditors, outside vendors, etc.

22. If they require safety equipment on-site, who will provide it?

23. How will the work product be delivered?
    Written report, oral presentation, electronic media etc.

24. How many copies of the completed report will you receive?

25. Who owns the work product at the conclusion of the assignment?

Choosing the right consultant is important because a poor choice delivers a poor result that can be both costly and, even worse, not achieve your objectives.

If you need help writing a Request for Proposal or would like to discuss your needs with us, then please contact:

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