how to pick a consulting firm

By George R. Aldhizer, III, CPA, and Leslie D. Turner, CMA, CFM

HERE ARE THE **TOP 10 ISSUES** YOU SHOULD CONSIDER BEFORE HIRING ONE.

The Enron and WorldCom bankruptcies have triggered many changes in the consulting environment for accounting firms. Securities & Exchange Commission and Congressional limitations on consulting services have caused the Big 4 accounting firms to either sell or spin off their consulting divisions. Although several of the Big 4 are rebuilding their consulting operations, they haven't been as aggressive in procuring new consulting engagements, especially when it involves an audit client.

ILLUSTRATION: LOLA KAMOLOVA AND BEK SHAKIROV/LOLABEK.COM

The September 11 terrorist attacks also changed the landscape for consulting. TechRepublic.com recently reported that the demand for disaster recovery/business continuity planning, global security, and private engagements has increased significantly. Also, the Information Technology Alliance, a consortia of consulting firms, reports that two service areas are expanding: custom software development and customer relationship management (CRM) solutions.

This ever-changing environment makes selecting an appropriate consulting firm more complicated. Some management teams may have little or no experience in using a consulting firm and rely solely on in-house expertise to solve complex accounting and systems issues when they might benefit from using outside consultants. Other companies may have used consulting firms in the past but felt that they received inferior-quality services.

To help you choose the right firm, let's look at information we obtained from two recent research projects. One focused on nearly 300 consulting engagements involving U.S. companies with annual sales between $50 million and $1 billion. These engagements were classified into one of five categories derived from the accounting profession's Statement on Standards for Consulting Services (SSCS): implementation/installation services, advisory services, transaction services, support services, and consultations.

The other project analyzed 250 consulting engagements to determine the impact of fee structure and cost overruns on satisfaction with consulting quality and cost. We'll concentrate on accounting and information systems consulting since they represent a large portion of all consulting engagements, historically generating more than $25 billion in annual revenues for accounting and nonaccounting consulting firms.

Based on the results, we determined that financial managers should take the following 10 steps in order to obtain high-quality consulting services at relatively low costs:

1. Rely more on recommendations from contacts within other companies who have recently used the same consulting firm.
2. Realize that software and/or hardware installation services may present unique challenges.
3. Focus more on specific attributes of the consulting team that will actually provide the service and less on the firm's general reputation.
4. Ask how much time will be spent in the engagement's planning phase vs. the fieldwork phase.
5. Establish clear, agreed-upon project goals and specific milestones to avoid scope creep.
6. Ensure that you are an integral part of the project team.
7. Negotiate a fixed-fee dollar amount, if possible.
8. Don't accept the lowest bid without considering service-quality implications.
9. Ask about the use of local talent.
10. Carefully review the assumptions that form the basis for any payback period claimed by the service provider.

1. Rely on recommendations.

The initial challenge is to obtain information to narrow your search to only a few providers. Many consulting firms maintain websites and advertise via newspapers, magazines, television, etc., in order to communicate the types of services they provide. Some consulting firms have sales representatives that can visit your organization to clarify how their firm differentiates itself from its competitors. But nothing is as valuable as recommendations from other companies who have recently used the same consulting firm.

Your company also may have had a positive experience with a firm that has provided, say, tax or market research services in the past. If this firm also provides accounting and information systems consulting, consider it as well.

2. Software and/or hardware installation services may present unique challenges.

When we analyzed the five SSCS categories, we found few differences in clients' perceptions of consulting quality—except for implementation/installation services, which was the most common service and was rated substantially lower than the other four categories, partly because of higher task uncertainty and complexity issues. This service most often involved software and/or hardware installation services. See "Implementation/Installation Services: How to Minimize Surprises, Maximize Results" for helpful suggestions.

Here's a look at the other four categories. Advisory services, another common type, develop findings and conclusions for client decision-making purposes (i.e., identifying benefit plan deficiencies and providing recommendations for improvement and computer system design services). Transaction services relate to specific client transactions that normally involve a third party (i.e., mergers and acquisitions due diligence, business valuation, and capital restructuring) and is another common service.

implementation/installation services:
how to minimize surprises, maximize results

TO DETERMINE A REALISTIC FINAL COST, make sure that *you* control the demonstration of features that you really need. Sometimes firm representatives focus on the most advanced features available within a software package, but these features may cost a lot more than the basic features that must be implemented first.

The firm representative may claim the software is very similar to existing processes when, in fact, it may not be, especially if highly complex software applications are involved. So remember that business processes may need to be reengineered to conform to the specific configurations within the new automated application. If your goal is to minimize the amount of process reengineering required, ask the presenter to actually show you, for instance, how cash payments are processed, then compare this process to your current one. It may be cost-effective to select the software that's most compatible with your current business processes. One caution, however: Don't be so resistant to change that you miss an opportunity to streamline your business processes to ultimately reap significant cost savings in the future.

To avoid other surprises, make sure to estimate the cost of employee training before and after system installation. The Gartner Group indicated that in 2001 most companies budgeted only about 5% of an installation's total cost for training when about 15% was more accurate. Financial managers may believe that they can't afford training because the original installation may have already gone over budget. They often don't realize that they can have the best system, but if their employees aren't adequately trained to use it, many of the potential productivity gains may be lost. End-user training should take place about one week before the new system goes live, and supervisors should be involved in intense training and in writing the end-user manuals (if necessary) well in advance of going live. After installation, the software provider should offer a help line to answer additional questions.

Should you implement a brand new software product? Probably not, unless there's a critical new functionality that justifies the cost of the software installation and subsequent end-user training. For example, if your company believes that it's necessary to install a new capability such as a business-to-consumer (B2C) Internet-based sales module in order to maintain and/or increase your market share, the benefits may exceed the costs. But you may want to delay installation for six to nine months in order to let other companies go through beta testing to work out bugs that may still exist within the new software package.

LISTEN CAREFULLY TO THE QUESTIONS AND SUGGESTIONS FROM FIRM REPRESENTATIVES SO YOU CAN DISCERN WHETHER THEY TRULY UNDERSTAND YOUR COMPANY'S SYSTEMS AND OPERATIONS.

Other, less common services include support services and consultations. Support services, for example, involve providing staff to temporarily fill important cost accounting positions, while consultations can be completed quickly and include issues such as how to account for a fairly complex business transaction.

3. Focus on specific attributes of the consulting team.

The results showed there weren't a lot of differences in perceived consulting quality between accounting and nonaccounting firm providers. At the consulting team level, though, we found a lot of variation in perceived quality, regardless of whether the provider was an accounting or a nonaccounting firm, so when interviewing prospective consultants, focus your questions on the specific consulting team members. In fact, based on discussions with other companies who have had positive experiences with specific consulting team members, you may want to inquire about the availability of consultants by name. And under no circumstances do you want to focus exclusively on a firm's general reputation as the sole basis for selection.

Obtaining specifics on team members is so important because the most common criticism of survey respondents regarded inexperienced team members who lacked industry experience, knowledge of client operations, and service line expertise (i.e., a lack of expertise with accounting software and ERP packages). Client comments included: "The consulting team was very inefficient" and "…lacked time management skills" that contributed to significant cost overruns. If you're a relatively small organization, consulting firms may be tempted to use less experienced consulting staff so they can save the more experienced staff for engagements that generate larger fees. This may even be true for firms with a general reputation for providing high-quality consulting services.

You should also request the name of your project manager because other companies that have recently used the consulting firm may provide insight into the individual's leadership capabilities. Some respondents indicated that more effective communication across the consulting team could have enhanced service quality. In some extreme cases, the project supervisor viewed every problem as a personal attack on his/her ability to effectively manage the project. Thus, other team members hesitated to identify potential problems, which caused the project to miss its agreed-upon completion targets.

It's also possible that a consulting firm as a whole doesn't have the in-house expertise to provide high-quality services in your area of need. Listen carefully to the questions and suggestions from firm representatives so you can discern whether they truly understand your company's systems and operations. And don't let your emotions control your decision. The smoothest presenter may lack the technical expertise to provide high-quality services, and if a firm lacks a basic knowledge of your systems and operations, you may not want to hire them regardless of how low their initial bid is.

4. Ask how much time will be spent in the planning phase.

Inquire about time spent in the planning phase vs. the fieldwork phase. Service reliability can be greatly enhanced by consultants who spend more time in the planning phase to more clearly define the project's objectives and scope. As a result, consultants can minimize false starts and can communicate more realistic expectations about total costs and completion dates. For example, one respondent complained that "…process improvements (should have been) implemented prior to system implementation." You may want to request that bid proposals separate the number of hours to be spent on project planning vs. fieldwork.

5. Establish clear goals and milestones to avoid scope creep.

Specific milestones, based on the original project goals, should be established in writing so you can determine when the project is actually complete. For example, the project's basic goal may be to improve financial reporting, especially in the payroll area. The consultants may initially focus on payroll accounting but then begin to address accounts payable, accounts receivable/revenue, and cash receipts issues because the initial project objectives weren't clear.

6. Ensure that you are an integral part of the project team.

Several respondents didn't feel like they were an integral part of the project team, and, as a result, the consulting team didn't address their needs on a timely basis. For example, one respondent indicated that the consultants "should have involved the finance department more…" in a capital restructuring project.

Depending on the project's complexity, you can dedicate one or more of the best and brightest in-house employees to work with the consulting team. Don't involve less motivated employees because they won't monitor the project's progress as well and, consequently, may contribute to costly overruns. Ensure that employees and their supervisors are clear about the time commitment required to support this project because they can become fatigued trying to satisfy the expectations of the consulting team and their supervisors. As a result, the quality of employees' work may be compromised. Also, remember that in-house employees can complete menial tasks to reduce the project's cost.

7. Negotiate a fixed-fee dollar amount, if possible.

Not surprisingly, clients were more satisfied with consulting quality and cost when a fixed-fee dollar amount was used. Here's the percentage of times certain structures were used:

- A fixed-fee dollar amount, 22%;
- A fixed-fee range, 35%; and
- An hourly rate basis, 43%.

The type of fee structure proposed by a consultant has implications for credibility because 19% of engagements exceeded initial cost estimates. The average cost overrun represented 36% of the total consulting fee, and, furthermore, 96% of the cost overruns involved fixed-fee range and hourly rate fee structures. Therefore, if possible, try to negotiate a contract with a fixed-fee dollar amount. Interviews with two consultants from Big 4 accounting firms revealed that these firms expect to absorb some cost overruns when using a fixed-fee structure.

8. Don't automatically accept the lowest bid.

The firm that offers the lowest bid may be limited in its ability to use more flexible and creative approaches to address unexpected problems during your engagement, which may be caused by relatively low profit margins on the engagement. Therefore, don't accept the lowest bid without carefully considering whether the firm will deliver an acceptable level of service quality.

9. Ask about local talent.

The use of local talent is also an important question to ask during the interview process. If consultants from remote locations provide part of the service, you may have to pay for increased travel and lodging costs, which may significantly increase the cost of the consulting service. Alternatively, your particular needs may require expertise that isn't available locally. Knowing this up front may help you make a more informed cost-benefit decision about whether to pursue the project.

10. Consider payback-period claims carefully.

For example, a consultant may claim that improved employee productivity will generate cost savings equal to the original cost of the service within three years. A careful review of the assumptions underlying this claim may provide evidence that the claim is overly optimistic.

Key to Success

Now that you know how to narrow your search, the impact of service type on consulting quality (especially implementation/installation services), and eight interview-related issues, you're primed to find a high-quality accounting and information systems consultant at a relatively low cost. ■

George R. Aldhizer, III, Ph.D., CPA, CIA, is an associate professor at Wake Forest University's Calloway School of Business and Accountancy in Winston-Salem, N.C. You can reach George at (336) 758-5778 or aldhizgr@wfu.edu.

Leslie D. Turner, DBA, CMA, CFM, is a professor of accountancy in the College of Business at Northern Kentucky University in Highland Heights, Ky. You can reach Leslie at (859) 572-6381 or Turnerl@nku.edu.