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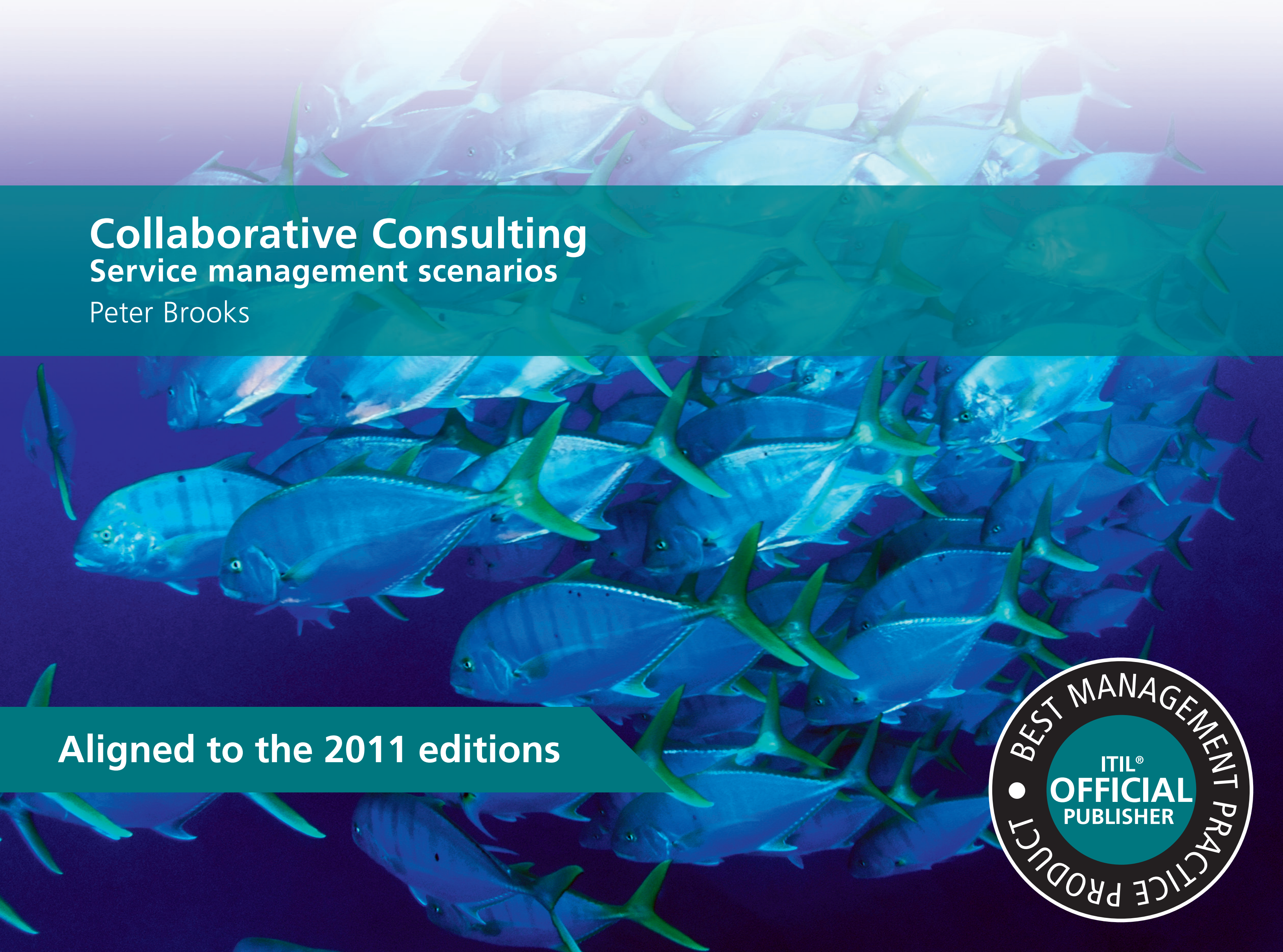

Collaborative Consulting

Service management scenarios

Peter Brooks

Aligned to the 2011 editions

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AUTHOR

Peter Brooks (FISM)

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Introduction

Welcome to the fascinating, engaging, rewarding and exciting – with any luck not too exciting – world of service management consulting!

This publication is a practical guide to consulting collaboratively with your stakeholders, whether you are an internal or external consultant, and whether or not 'consultant' is in your job title.

Consultancy is, perhaps surprisingly, very much like both teaching and management: all three have the same goal – to enable people to give of their best. With that as your guiding principle, your reward will come when you see others delight in the success of their efforts and their enriched capabilities. The client, the student and your staff should see not merely your success and ability, but their own. Like a stage magician, you and your techniques must be almost invisible, leaving just the magic of people's own achievements showing through. Of course, you are likely to add value later, when it makes sense, by helping clients understand the techniques themselves.

Ethical consultancy, discussed in Chapter 3, is extremely important; if you are going to advise on good governance, then you must be familiar with applying it to yourself.

The main framework used for guidance and reference is ITIL®, for the following reasons:

- ITIL is the most widely used framework for service management.
- ITIL is not a rigid standard or rule book; it gives guidance.
- ITIL is not theoretical; it is based on practical experience in real situations, providing pragmatic advice.
- ITIL is about how to manage services through their lifecycle, providing insight into the strategy, design, transition and operation of services.
- ITIL is based on the principles of quality management – in particular those of continual improvement.
- ITIL provides a common vocabulary, supported by a comprehensive glossary, enabling effective communication of service management matters.
- ITIL relates to, and supports, the other important frameworks and standards used, such as ISO/IEC 20000, COBIT, Business Analysis (BABOK), ISO/IEC 27000, PRINCE2®, CMMI and TOGAF.
- ITIL is part of a wider family of guidance from the UK Cabinet Office. These titles include:
  - *Management of Value* (MoV®)
  - *Management of Portfolios* (MoP®)
  - *Management of Risk* (M_o_R®)
  - *Managing Successful Programmes* (MSP®)
  - *Managing Successful Projects with PRINCE2*
  - *Portfolio, Programme and Project Offices* (P3O®).

See Chapter 8 for a brief discussion of frameworks, governance and compliance. No attempt is made to duplicate information that is fully covered in the above sources, so this publication will be most useful to somebody who is familiar with ITIL, at least to foundation level (and preferably to intermediate level).

There are many jokes about consultants; mostly they revolve around the use of jargon and the question of whether consultants provide any value at all. Consultancy has gained a poor reputation in some circles because it has not paid attention to what delivers value, who in the organization is able to muster the resources and capabilities to deliver it, and how exactly the delivery can be managed. These questions are addressed here. However, one publication will not teach you how to be a successful consultant. The capability, like any other, is developed over time through learning, practice and the building of experience. Nevertheless, this publication should help you to recognize some of the traps that lie in wait for the unwary and will suggest some ways of avoiding many of them. If it manages to do that for you, then it will have succeeded.

Unfortunately, every field has its jargon; this specialized language is a necessary evil that enables conversations to take place without spending too much time explaining the basics. Jargon should not, however, be used to confuse, to obfuscate or to try to give the impression that you know more than you do. If you find yourself hiding behind jargon to avoid answering a question, stop yourself, apologize and explain the matter in plain English. You may be embarrassed for a moment, but your credibility will increase, you'll find that people are more inclined to trust you and, most importantly, the process of explaining the issue is likely to help you to understand it properly.

People often complain, particularly in large organizations, that politics interferes with their ability to get things done. This is a common source of frustration. It is foolish, though, to expect any human organization to exist without a political dimension. We are social animals, we order ourselves into hierarchies; we have ambitions for ourselves that, if we're honest, come before our ambitions for the organization. We suffer from human frailties such as jealousy, pride, laziness, impatience, boredom and more – but in the right circumstances, we are also capable of surprising even ourselves with our energy, optimism and commitment to doing things the right way. All this is the source of politics in the workplace.

There is no point in fighting politics; it will always be there. Instead, we must recognize it, acknowledge its strengths and its weaknesses and understand how to use it to help achieve the objectives that will build value for the organization we're working with. Some identify politics with dishonesty or underhand dealings – Machiavelli has given it a bad name, after all! The section on politics (section 4.6) covers this in more detail.

You will find practical examples, with suggestions on how to deal with them in real life, in most sections of this publication – and there are two scenarios at the end (see Appendices) which illustrate the whole life of an engagement as it might happen and offer guidance on quotations, fees and billing. The intention throughout is to make this guide readable and useful. As with service management frameworks such as ITIL, do not take advice here as canonical but adopt what is useful to you.

With something as potentially intangible as consultancy, it is important to communicate effectively the goals and what is actually achievable within the budget and time constraints, so that realistic expectations are set. For this reason there are sections covering roadmaps and assessments (see Chapter 7 and section A.2.6), which are extremely useful in framing the discussion with the client in order to build a shared vision.

As a consultant, much of your work will involve interaction with managers. Service management, indeed, is more about management rather than anything technical. For this reason it is important to understand the nature of management and managers and how to work effectively within an organization. This can't simply be learned from a book – experience is essential – but this publication will help you to start building your own capability.

Similarly, much of the working life of a consultant involves negotiation. There are many books and excellent courses on this subject. Here the intention is to open up the topic and give a broad-brush view of some of the principles of successful negotiation and some common traps – not to teach negotiation itself, but to see it within the context of service management consultancy.

The publication ends with the Orchid Bank and Northern University scenarios (see Appendix A and Appendix B). These are not supposed to be model answers. After all, these are only imagined scenarios. The value of the analysis is to provide insight into the thought process involved in approaching an engagement. The scenarios are an attempt to tie together all of the main strands of the publication itself. They are probably best read critically – what would you do that would be different? Why? What pitfalls can you see that have not been addressed by the analysis of the scenario? This should help bring them to life and give the examples more value.

The scenario of Orchid Bank (Appendix A) is deliberately that of a very large organization. This is not because most readers are likely to be involved in being the lead consultant for such a large engagement, but rather that the broad scope means that most areas of service management have to be considered – not just as they are described in the ITIL publications, but as you'd need to consider applying them in practice. As a balance, the Northern University scenario (Appendix B) deals with a much smaller organization that is also non-commercial.

The matter of consultancy fees, billing and related matters is important, but difficult and potentially contentious. General advice on reducing financial exposure is given in section 1.3, and the matter is tackled in more detail in the context of the Orchid Bank scenario in Appendix A (section A.3).

Consulting engagements 1

1 Consulting engagements

'*No campaign plan survives first contact with the enemy*.' Carl von Clausewitz

The enemy here is not your client! Rather, as with von Clausewitz, the enemy is reality. It is vital to make plans – but equally important to realize that plans will have to be changed during delivery.

A consulting engagement is in some ways similar to a project (some may even be projects), but there are important differences. The main distinction in service management is that the consultant bears a responsibility for setting the vision, aims and goals of the engagement – and for making these fit as far as possible, and where it makes sense, both with best-practice guidance (from ITIL for example) and with the corporate vision and goals of the client organization.

Engagements may arrive as formal requests for proposal (RFPs); or they might arise after an informal chat at a conference or training course, where somebody has identified you or your organization as a good fit for their company's style and culture – or has seen you as projecting the level of competence, professionalism and breadth of knowledge that suggests you are a trusted adviser.

In the former case, if your reply to the RFP is accepted, then the overall parameters will be set quite precisely. In the latter, it may be difficult to be sure exactly when the engagement itself should start – when should you actually present a costed proposal?

Despite the very different routes to an engagement – and the above only sketches two extremes of the process as examples – there are some important steps that must be taken to gather data and understanding about the exact nature of the requirement. (There will be many details to be gathered during the requirements elicitation phase of the engagement – but this refers to the overall business requirement for your involvement.)

Questions that need to be asked are:

- Who is the sponsor? What level of the organization does the sponsor come from? What level of senior management support does the sponsor have?
- Who are the stakeholders?
- What has triggered the requirement? Is it an audit failure? Is it a need to improve customer satisfaction, to save cost, to gain ISO/IEC 20000 certification? What has actually uncovered this need?
- Is it part of a larger service management programme, or does it stand alone?
- What is the cost of NOT doing it? This helps to assess the overall value to the client and also justify the cost of the consulting engagement.
- What documentation do you have to help you understand the company and its present position? Who wrote these documents – if there is an RFP, who wrote it? Who gave advice during the development of the requirement?
- What service management capability already exists in the organization? Is there a picture of its level of maturity?

- What, if any, approaches have been tried before? Which of them have succeeded, and which have failed?
- Is it possible to characterize the organization's corporate culture?
- What are the expectations from this engagement? Are they realistic?
- What are the risks that the organization sees? What are the risks that you can see?
- Is there something important about the engagement that is not stated in the documentation or the discussions that you've had? (There will be at least something; asking open questions about this helps to reveal possible political drivers or stress-points.)

This list is not intended to be comprehensive or a minimum set of questions. The idea is not just to get answers, but to start to build a picture of what is well understood before the engagement, what is unknown and possibly risky, and what is vaguely understood. The answers to the above questions can be captured in a visualization tool, to give an easy-to-grasp graphical representation. There are a number of useful tools for this: 'mind maps' and 'fishbone diagrams' (also known as Ishikawa diagrams) both allow the breaking down of a topic into sub-topics to produce a tree-like (or fishbone-like) representation of all the components of the subject – this helps to ensure that no important part is left out.

This can then be used, working with the client team and their management, to clarify vague areas and to remove or otherwise resolve misunderstandings. Using this as the concluding session before the engagement begins should inspire confidence in your prospective client. Your client should be satisfied that you have understood the situation and have a picture of what can be done. This will start to build the trust necessary for a good working relationship.

From the point of view of the consultant, or consultant company, this high-level understanding of the engagement is a fundamental requirement. Without it, it is virtually impossible to establish the risks involved in the engagement. Without knowing the risks, it is difficult to plan or cost the engagement – or even to decide whether it is wise to accept the engagement or better to walk away.

It may seem counter-intuitive, but understanding which engagements to walk away from is an essential tool for any consultancy. There is no point, for anybody, in taking on work that will fail. Turning down an engagement need not actually lead to a permanent parting of the ways – it may well be that the engagement, in its current form, does not make sense. Walking away from it can allow further discussion to establish a new approach to the requirement that is more practical, lower risk and more likely to deliver business value.

Once these stages have been passed successfully and there is general agreement and understanding of what the engagement will involve, the exact scope can be agreed; it is then possible to draw up a timeline, a roadmap and preliminary project plans. At this stage, it is also useful to produce templates of the final deliverable documents, metrics and sign-off criteria. As in service design, if you design your engagement with a package that makes the sign-off clear, it makes it easier to deliver to the agreed standard and facilitates a clean exit from the engagement, agreed by all parties.

1.1 SCOPE CREEP AND THE REQUIREMENTS REGISTER

All engagements, like all projects, are susceptible to scope creep, particularly if the scope is not well understood and agreed from the start. 'Scope creep' is the popular term for the well-known phenomenon where a small project that has management backing has more and more things added to it that are so different from the original scope that the scope of the project starts increasing – creeping – until there are inevitable overruns of time and budget. The problem is well described in the computing classic *The Mythical Man Month*.

All requirements should be listed in the scope and sign-off documents. If the organization does not have its own requirements register, it would be wise to produce one for the engagement (see an example in Table 1.1) – it can later be taken over by the client and used as their own requirements register. A requirements register keeps track of all requirements through their lifecycle. It is more than just a repository (database) of requirements because it also includes the status, owner, history and other vital information needed to track requirements.

The requirements register not only clarifies the shape of the engagement, but also enables new requirements to be identified when they are uncovered, registered at that time and costed. This allows for an interim scope-adjustment meeting where changes to the contractual cost can be agreed

Table 1.1 Requirements register template

Requirement	46	*Engagement*	Service level management (SLM) update	*Originator*	J. Smith
Description	Service levels tracked by service design package (SDP)				
Accountable	M. Jones	*Responsible*	J. Smith: SDP design	A. Aronse: metric design	A. Aronse: workflow design
Consulted	Service owners	Process owners	Service desk	Knowledge management	Business team
Informed	IT	Customers	Sponsor	Service managers	Users
Informed	Development	Suppliers	Communications		
Logged	4/5/2012	*Agreed*	15/5/2012	*Due*	20/11/2012
Milestones	Monthly: 1st Tuesday	*20/06/2012 eval (init)*	10/07/2012 risk assessment	15/10/2012 eval (final)	
Full description	//docstore/SLM_update/Req_645				
Version	1.3	*Status*	On track	*Risk level*	Medium
Type	Original X	Phase 1	Phase 2	Phase 3	Deferred

Note: the items in italics are the names of the items in the requirements register; the items shown in normal non-italic script are the values for this particular example. So every requirement has a 'risk level', but for this requirement the risk level is 'medium'.

Table 1.2 Acceptance criteria for the agreed requirements (one example)

Requirement	Agreed		Evaluated		Accepted	
46	M. Jones	15/5/2012	Status: Green	20/06/2012	Yes	15/10/2012

and included in the staged billing process; it is always wise, if not actually essential for your cash flow, to work only within a staged billing agreement.

A possible template for a requirements register and sign-off document is shown in Table 1.1. This is intended as a starting point to be adapted for your own use, rather than a final finished product. This table enables the tracking of all requirements, including those that are late, along with versioning, RACI ownership (the 'RACI' matrix is a tool used to document, for any project or activity, who is 'Responsible', 'Accountable', 'Consulted' and 'Informed' about the particular line item), delivery status and milestones, and authorizations. What it lacks is integration with a company-wide (or even IT-wide) requirements register. It would benefit from colour coding.

Table 1.2 shows one criterion, that for the requirement above, showing when it was agreed that it would be part of the engagement, when a change evaluation found it acceptable to continue and the date when it is scheduled to be accepted as complete. The status could be defined in many different ways. In this example it is simply classified as 'Green' (i.e. the requirement is ready for the next stage); 'Amber' would indicate that the requirement needs to be modified for the next stage, while 'Red' would signify that the requirement is not appropriate for the next stage and there will be a note about how this can be resolved.

1.2 HOW TO SELL SCOPE CREEP LIMITATION MEASURES

All of the previous section may seem unremarkable and sensible to you. After all, who could possibly want scope creep?

Unfortunately, there are good reasons why scope creep appeals to some stakeholders:

- Requirements added late don't suffer the same scrutiny.
- Extending the scope can slow down or kill an unpopular project.
- Putting back requirements from a previous system can prevent planned, but unpopular, innovations.
- Those who negotiated the initial cost of the new service may not be the people who are working on developing it.
- Late requirements may be incorporated without the overall project cost being increased.
- Scope creep is a way of getting more project for the same money.

A rational view would be that none of these factors outweigh the risk. However, the person demanding the late requirement is usually not running the risk – it is being taken by the organization as a whole, IT or perhaps the supplier. So a requirement that is in the interests of only one department and is not in keeping with the intended delivery of business value might be introduced late in the day, where it may receive little scrutiny before being made a new feature and involve no cost.

The wonder really is that there are so few late requirements. Project managers, consultants, developers and suppliers manage to do a good job, despite the pressure for last-minute changes with little justification.

The use of a requirements register (especially one that allows the controlled introduction, or deferring, of late-arriving requirements) introduces a level of visibility – particularly of the person responsible for introducing them. If there is a cost implication as the scope change is referred back for a fee renegotiation, the negotiation can be made considerably easier by suggesting that the originator of the new requirements pays for the cost uplift. If that can be achieved, the appeal of introducing new requirements in the future is considerably reduced.

This also allows the tracking and measurement of the source of late requirements, so that once the service is operational, the post-implementation review can investigate to find out:

- Could the late requirements have been discovered earlier?
- Was a stakeholder missed out of the early investigation?
- Do most of the requirements come from the same originators?
- What is the actual cost of a late requirement versus one submitted during the early specification phase? (This allows better organizational visibility.)
- How many incidents and problems are caused by late requirements versus early ones?
- Is the cost and risk caused by the poor management of requirements visible to the organization?
- How could requirements be established sooner?

It is important to remember that not all requirements can be known early on. There are legitimate reasons – for example business changes, legislative changes, unknowable technical quirks – for uncovering requirements at a late stage. Provision has to be made for them, and for their control.

1.3 REDUCING RISKY FINANCIAL EXPOSURE IN AN ENGAGEMENT

An external consultant delivering an engagement to a company has a responsibility to their client to deliver the best advice and service possible. Make sure that you handle difficult discussions about payments with your client in a professional manner – it is in both your interests that you have an adequate cash flow. It is important to be clear about the cost of the engagement with, as far as possible, any risk of unexpected costs made clear in the proposal. The following points are worth considering in order to reduce the risk of finding yourself exposed to financial difficulties as a result of an engagement:

- **Insist on staged payments based on time, materials and expenses** Monthly billing works well and ensures that you are, at least, reimbursed for work done. There is a temptation to agree to payment at the end of the engagement, based on final deliverables; it is unwise to agree to this.

  Scope creep and circumstances beyond your, or your client's, control can push dates far beyond the level at which you can manage the deficit. This can easily move your focus from where it should be – getting the job done – to worrying about when you will be paid. The agreement that exit criteria have, or have not, been met should not mean the difference between you being paid for work honestly delivered, in good faith, and penalties. This, at the very least, disturbs the important relationship you have with your client.

It is reasonable to agree a fee to be paid by the client once all agreed documentation and other specified items have been delivered. You will, of course, as an ethical consultant, make sure that this is done in any case. However, some organizations put accounts payable under pressure to query and, if possible, discount such invoices.

You can end up in a position where minor changes are demanded in documents that are not truly relevant to the engagement – but lead to a delay in payment. If you ensure that this fee is not a vital part of your necessary revenue, then you can opt to waive the fee, rather than engage in long, involved adjustments that are, in reality, aimed at evading or delaying your payment.

Some organizational cultures see it as macho to engage suppliers in such last-minute haggles in order to obtain a discount or to delay payment. If this is the case, you can end up spending a lot of time and effort in a hopeless endeavour to negotiate each paragraph to the exact satisfaction of your client. Don't assume that this is the case at once; be prepared to make reasonable improvements or adjustments to deliverables – make sure to cost this work into your original proposal – but make a point of spotting when it has gone beyond reasonable requirements and call a halt.

The cost of complying with such nit-picking can easily erode your profit margin – rather agree to move on to the next phase and settle for a proportion of the fee. This is another reason to make sure that your revenue arrives in regular instalments.

- **Sometimes an engagement can be derailed for reasons of corporate policy changes or genuine difficulties with budget payments** (some organizations have a policy, for example, of reducing budgets by a fixed percentage near year-end to improve their profit margin).

  If you have regular monthly payments, based on invoices for work done, you can spot this and discuss remedies with your client. If, on the other hand, you've made the mistake of basing your revenue only on a final payment, you'll miss these warning signs and might be seriously out of pocket. It would be very damaging to your relationship to stop all work simply because of one late payment of an agreed staged invoice – two or more unusually late payments, though, should lead to an emergency meeting with your client, and if possible the finance department, to discover why the situation has arisen.

  In extreme cases, if this is not addressed satisfactorily it might make sense to suspend all work – you can be sure that if the work is truly valuable, the organization will have a mechanism to enable emergency payments. If such emergency payments are not forthcoming, it is a signal that your engagement is not seen as delivering value, at least at some level. You need to find out why, remedy it or disengage.

  Human beings, as a general rule, have difficulty in cutting their losses, so it might be wise to decide on a policy (for each client, because payment schedules differ), so that you don't end up spending time on a dead project that would be better spent on seeking out an alternative.

  If you develop a proper, open relationship with your client, and discuss the financial state of the project and your payments in a non-confrontational manner, then you should learn of any potential risks in advance and be able to work out a means of dealing with them that doesn't involve actually stopping work or threatening to do so. This is another case where regular, open and honest communication pays dividends (literally).

- **Work out your own revenue/risk position and policy** The author of this publication has decided, in most situations, to charge a market-based rate that isn't the top rate (which leads to you being perceived as over-priced) nor the bottom rate (which leads to the perception that you are desperate, or actually not worth more, or even worse that you are naïve as to your actual value). Rather a rate at 60–80% of the general market rate makes sense. It is, though, as with any pricing, a matter of judgement – some clients might feel happy with a consultant who is reassuringly expensive; it works for lawyers.
- **It is common to request a discount of the hourly, or daily, rate if it is a long-term engagement** This is because the risk to you of no income is reduced in such an engagement. Your fee should allow for a reasonable discount – there is likely to be a negotiation on the fee structure and it is wise to have something in reserve to offer during the negotiation. If you quote the bare minimum, there is the danger that it will not be adequate and, if you do then discount it, you will end up in a poor financial position.
- **Your engagement contract ought to involve some stipulation as to the expected level of expenses** Not first-class travel and expensive restaurants, but a stipulation that you, and your colleagues, should be able to travel in reasonable comfort. (Unless you are working with a not-for-profit organization this should usually extend to business-class airline, rail and other transport as a norm.) You should be able to claim expenses for arriving in reasonable time (usually the previous day) and leaving the following day, allowing for time overrun. The reason for business-class travel is two-fold: it is usually more flexible, so there aren't unexpected costs if you have to change a booking at the last minute, and you will produce better work if you are rested after a reasonably comfortable journey.

  In some situations and countries, expenses claimed against receipted expenditure make sense; in others (particularly cash economies), a reasonable per diem expense rate works better. The watchword should be 'reasonable' – if put to the test, an expense is reasonable if it enables the consultant to live in a manner similar to that at home.

  Expenses ought not to result in a consultant profiting from a trip. One problem with per diem expenses is that some people may elect to book cheap travel, accommodation and meals and then pocket the difference as income. However, this risks leaving the person too tired to be effective or too far from the office to be able to arrive in reasonable time for meetings.

  If somebody is expected to stay abroad over a weekend, reasonable expenses for travel and entertainment should be factored in. Ideally, the contract should stipulate that consultants should follow the company rules and guidelines for the expenses of a middle-level manager. This also avoids the embarrassment of meeting your team at the airport and finding that you, the consultant, are travelling in business class, while they are in economy.
- **As a service management professional, income might not be your main objective – job satisfaction is probably the main reason you've taken the role** However, we all need to be paid.

A financial institution (for example, the Orchid Bank covered in the scenario in Appendix A), will be familiar with the notion of shared risk and monetary rewards for good performance – especially if it is coupled with an agreement to pay a bonus for achieving various mutually agreed key performance indicators.

This reassures the organization that you are serious in believing that these targets can be achieved – and, importantly, gives you an incentive to make sure that your predicted cost reductions, efficiency improvements and other business benefits are realistic. It also means that, over and above the regular interim payments, you can charge a bonus payable for results. If possible, negotiate this as a percentage of the revenue increase or cost savings – even a small percentage could lead to a very satisfactory bonus when you deliver, as well as satisfying the client that you are sharing risk satisfactorily.

- **You may need to agree to a standard contract that involves penalty clauses** It is reasonable to sign a contract that penalizes poor performance because of a lack of skill, turning up late, or similar actions that you, as an ethical consultant, will be certain to avoid. Penalties should not apply in the case of unanticipated, unpredictable events – acts of God, as the insurance industry terms them.

  If your flight is delayed, and you've taken the precaution of making bookings that will get you there a day early, or you break your leg or similar, you should not find yourself in a position where you have to pay penalty clauses.
- **If contracts are managed well, with good will on both sides, then the detail of the contract hardly ever needs to be a matter of concern** However, if you find yourself in constant discussion about contract clauses in the early stages of an engagement, seriously consider cutting your losses and breaking off the engagement altogether – make sure your contract allows for this.

  One reason for insisting on regular staged payments is precisely this, to be reassured that the company you are dealing with has an effective and honest supplier policy. However large the apparent opportunity, it is worth nothing if you have to fight for every invoice to be paid and find everything under scrutiny with the aim to minimize even agreed payments – rather move on and find another opportunity where payments are not an issue.
- **Try to put yourself in your client's shoes and consider how your charges and expenses will appear** Make sure that they are reasonable and that you will not be out of pocket.
- **Remember that the person approving the final invoice is likely to be somebody different from your direct contact** Your costs and expenses should not cause them to escalate the matter as appearing overly expensive.

There has been something of a trend in recent years for organizations to insist on fixed-price contracts. For a small engagement this is reasonable. The larger the engagement and the longer it is likely to continue, the less reasonable this becomes.

The temptation is to take the easy route and include all the contingencies you can anticipate in the contract – and then add some extra 'padding' to cover unexpected items. There are a few problems with this:

- It is not honest. You're presenting a proposal that is supposed to be for the engagement, but it is actually for the engagement plus potential risks.

- It puts you at a disadvantage relative to competitors who don't include contingency for risk because they expect to negotiate extensions with clients once they have them over a barrel – that is, near the end of the contract when the sunk cost of the project makes it difficult for the client to refuse to agree to overrun extensions. This approach is also dishonest, so is not recommended, but it will make your proposal appear cheaper. Suggesting that your competitors are not honest is not sound, ethical practice, even if you happen to know for a fact that they are!
- The nature of unexpected contingencies is that they are unexpected, not just in what they are, but in how much they cost. So, if things go wrong, possibly for reasons beyond your control, your padding may be inadequate cover for the risk.
- The practice, if it becomes general, causes price inflation in consultancy projects.

What can be done to avoid this? One solution is to calculate the risk of contingency costs, but label them explicitly as such and add them as a specific line item to make them visible. This enables the organization to understand the risk and, if possible, take steps to minimize them before the contract starts, to the benefit of all parties. It also enables the genuine cost of the engagement to be visible for comparison with other bidders.

The other solution is to split the engagement into phases, with regular partial payments where possible (or payment against milestones if these are clear enough to all parties). Provision can then be made in the contract to renegotiate price and deliverables for each phase. This allows for client scope changes and extra requirements to be taken on in an agreed process – which reduces risk significantly. Such provision also allows for an increase in fees to be agreed when it is clear that circumstances have changed, without it becoming an issue of cost overrun.

The danger with this approach is that the organization may decide to terminate the engagement at the end of a phase, either to take the rest in-house or to engage another, possibly cheaper, consultant at that stage – once the heavy work of the fundamental planning and initial organizational change is complete. Balancing these risks is not easy, but forewarned is forearmed.

This section has raised ethical issues, which are discussed in more detail in Chapter 3. Further practical advice on reducing financial risk can be found in section A.3, set in the context of the Orchid Bank scenario.

1.4 EXTERNAL AND INTERNAL CONSULTANCY

'*A prophet hath no honour in his own country.*'
John 4:44 (King James Version)

1.4.1 External consultants

Usually consultants are conceived of as external. They are hired to achieve specific jobs and leave after the engagement has completed. This model of engagement has the advantage of allowing clear objectives and scope to be determined, as well as setting limits on the time to be allocated to the various tasks and the final documentation of deliverables.

External consultants have a certain distance from the company and staff, which allows for more objective engagement. However, this comes with the disadvantage of not having the expertise generated by being an employee of the company, which involves not only inside knowledge, but also an ease with the corporate culture and the ‘way things are done’.

An external consultant also has the advantage of being entirely devoted to the engagement, and not involved with internal meetings and other operational responsibilities.

1.4.2 Internal consultants

Often managers have to work as internal consultants (see section 4.5 on ‘influence management’). The advantages outlined in the previous paragraph are now not available – the engagement is open-ended and it is difficult to treat the engagement separately from the day-to-day operational responsibilities that the manager has to work with.

The key to success as an internal consultant is to appreciate the differences, along with the advantages and disadvantages. This enables the internal consultant to play to the strength of being part of the corporation, which can be a great advantage when it comes to gaining support and sponsorship – though not necessarily an adequate budget.

The internal consultant also needs to overcome the perception, or perhaps prejudice, that they somehow lack the expertise, experience and capability of an external consultant.

1.4.3 Consultancy partnerships

If possible, a common way to square this circle is to hire an external consultant not as a full-time resource, but rather as a mentor or guide to the internal consultant. The external consultant can help with techniques and communication such as workshops or presentations, thus providing the perception and confidence that an expert with the required skills is engaged on the matter; this enables the internal consultant to conduct most of the engagement, using their capabilities as a manager and part of the corporate culture.

In terms of promoting a collaborative consultancy partnership, this is probably the ideal way to proceed. It offers value to both consultants, whilst delivering the best expertise to the organization. The partnership approach reduces both the risk of insufficient technical expertise and insufficient understanding of the business, whilst achieving the goals of the organization cost-effectively.

With this in mind, an organization may appoint a manager, preferably a respected senior manager with service management expertise, as the internal consultant with accountability for the engagement, charged with working with the external consultant to optimize the value and cost of the engagement itself.

Similarly, to reduce the risk of time and scope overrun, a consultant or consultancy company may require the customer to arrange such a working relationship for the same reasons.

This approach has the added benefit of preventing the company from making the dangerous mistake of trying to outsource accountability to a third party (the external consultant). It also ensures that the external consultant has a role as the responsible partner, effectively reporting to the internal consultant. This is not as clear-cut as a normal manager/employee relationship, but it does mean that the external consultant is not left in the untenable position of making, rather than recommending, decisions that should properly be made by an accountable employee of the company (see section 3.3).