FINANCE FORUM

Corporate Exposure: Engaging a Risk Management Consultant, Part I

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Engaging a risk management consultant firm requires careful consideration and probably some unique review. Recently, we participated in a roundtable conference that focused on the question of what clients should consider. The list was seemingly endless, with each participant offering a different ranking or hierarchy of considerations. I have detailed below my personal ranking and, where possible, provided some of my rationale. Although this subject forms the basis of a two-part article, it could easily have consumed the next 12 columns.

1. ***Client Self-Analysis.*** Clients need to perform an internal analysis concerning the objectives they hope to realize upon completion of the consultant review or audit. In particular, is the organization prepared for the consultant's advice, or is blunt honesty not really in the organization's best interest at this time? Clients who know where they are going, what they want, and how best to accomplish this, should develop a request for proposal.

2. ***Request For Proposal (RFP).*** Development of an RFP should always include a provision requiring a formal presentation that brings to the organization the individual(s) who will perform the service. Do not retain a consultant on the basis of a written reply to your RFP, or on the basis of pricing strategy. Bring consultants in and ask each representative to prepare a conceptual presentation detailing his or her interpretation of your needs and planned approach. Invite any employees who may be involved with the project to each presentation. This gives them a chance to ask questions and decide whether they approve of the strategy before implementation. At the same time, it will give prospective consultants an opportunity to survey the audience and decide whether they can offer what the company needs or wants.

These first points reflect one of our firm's early experiences. Had a client determined whether it was truly interested in an objective review, and had we met with all the principals before beginning the project, perhaps everyone's experience would have been far more rewarding.

3. ***Consultant's Perspective.*** Understand the consultants' biases or influences before you decide who to retain. To assume all consultants are equal and have no organizational or personal biases in any project is ludicrous. Some consultants are better suited for reviewing the financial aspects of risk management, while others are better at examining regulatory compliance issues. This is not to suggest your organization should not be concerned with compliance; however, it is possible to engage a consultant to assist with the development of prudent risk management approaches that may not immediately satisfy every aspect of certain state or federal standards. Specifically, certain OSHA standards detail precise protocol that the organization may not initially fully satisfy depending on various business objectives. We are not advocating breaking the law or avoiding your obligations—but priorities must be established.

Be sure you determine the consultant's hierarchy of issues to be satisfied. Are they legal, business, social, or personal? (Often, they cannot be addressed simultaneously.)

4. ***Consultant's Flexibility.*** Can the consultant adapt to your working hours and demands, perhaps working weekends and late nights if necessary? More important, is the consultant willing not to put all the findings in writing? For example, we have issued reports to senior management detailing suggested strategies without feeling obligated to provide written explanations of our findings in order to justify our suggestions. If the client agrees that Strategy X is appropriate, why place in writing all the circumstances that gave rise to that approach?

5. ***Consultant's Experience.*** There are only so many types of insurance policies and exclusions and endorsements you can add to an insurance contract. Similarly, there are limitations in the manner in which policies are funded. But there are no limitations or restrictions on the philosophical and practical approaches to controlling losses and their resulting costs. A consultant's experience in risk control (preventive) and loss management (claims) should weigh heavily in your decision. In fact, you should give consideration actually to dividing risk management studies into several components with various consultants addressing specific fields of influence. We have coordinated several projects on behalf of clients in which our role was limited to bringing all the consultants together and managing their efforts and direction, with us being responsible for presenting the group's findings and suggestions to senior management.

Still further, you should evaluate whether the consultant can represent your interest on certain state or related subcommittees. Some states require an organization to have an individual on the risk management team who satisfies specific educational and field experience. By and large, these states will permit a consultant to represent the organization and satisfy this requirement on the company's behalf. Be certain, then, that the consultant is an individual of the right calibre and has the necessary credentials to represent your interests during these sessions.

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