How to Buy Professional Services

This 7-minute read describes the seven best practices for hiring contracted help.

(Available from DEPARTMENT OF FUNNY T-SHIRTS)

In this blog I overview seven proven practices for contracting successful assignments. The rigor of applying these best practices is commensurate with the nature of the role. Hiring a CIO for a 3-year contract requires more diligence than a contract C++ coder working on well-defined specs with a small team for a few months. These practices are based on more than three decades working as either a vendor or a client, and summarize some of the information found in the reference text, *Commercial Project Management*.

1. Assess the local marketplace

There are four broad sourcing categories: 1) Individuals, 2) Agencies, 3) Consultancies, 4) Project Firms.

1. Individuals: Senior and incorporated individuals usually contract directly. Direct contracting is only a low risk option if the individual is known. Performance feedback and problem resolution using direct contracts may get complicated and expensive.
2. Agencies: Resource placement firms help with performance and problems, but have little concern for solution development. Their resource pool is an often-shifting slate of subcontractors who are screened by the agency before placement. With agency contracting, the client is buying a resource, not a solution. Agency reputation is crucial in taking this route; a good agency will focus on understanding the assignment requirements.
3. Consultancies: Usually offer project-based services, but also provide solution delivery using individuals who may be employees or closely-held subcontractors, depending on the business model. Consultancy contracting comes with a price jump, but at the same time they accept more accountability and aim more directly for client satisfaction. Specialized skills may be a hallmark of some consultancies.
4. Project Firms: Large systems integrators, product vendors, application specialists, and smaller boutique firms occupy this niche. They prefer to package their services as projects staffed by their own employees, and offer most resource depth. Clients wishing to get a product built will turn to a project firm. These firms can also source individuals for client-managed roles such as support, or sustaining engineering.

2. Carefully specify assignment requirements

Specifying the need for professional services is, unfortunately, not the same as commodity acquisition. "I need 100 widgets by the end of the month" is insufficient.

The very first step is to determine whether the proposed assignment requires a Statement of Work (SOW), or a Statement of Role (SOR).

SOW: A SOW is deliverable oriented. For example; a feasibility study for a website, or design and build of a new production accounting system. In common with most of the contracting process, collaboration is a productive approach. A preliminary SOW might be issued with the RFP, with the final version completed in conjunction with the successful vendor.

SOR: A SOR is role oriented. It sounds simpler - something like "Business analyst required for large project team for 6 months to work on requirements and benefits specifications for a replacement point-of-sale system". But more is needed.

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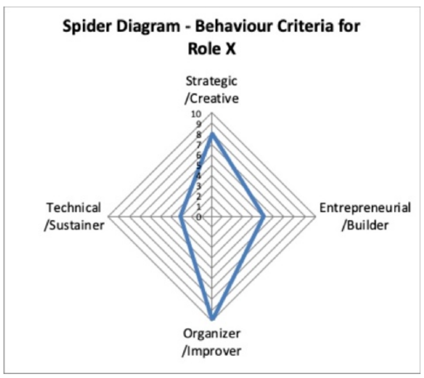
Researchers into human resource productivity and high performance find a correlation with a complex range of indicators: past experience and achievements, professional or peer standing, competencies, occupational knowledge, technical skills, behavioral traits, and personality. Phew! This could turn the SOR into a major work. Fortunately, for most contract hiring it is reasonable to treat this as a reference list and only select out the indicators we know to be important for the role. To get this right, it might even be worthwhile buying a few hours of advice or ad hoc services from a trusted consultant!

3. Set the evaluation criteria

A well-stated set of assignment requirements will lead naturally to the evaluation criteria. As guidance, keep the criteria focused on the important stuff already identified in the SOR, no more than ten. They should be objective or at least observable, and it should be clear how each criterion is to be measured. The benefit of a reputable agency is that they can help with this step.



Think carefully before making criteria mandatory. A gradable item such as Experience should not be mandatory (e.g. "Must have 5 years experience"), but highly weighted and then graded. On the other hand, stating "Must have RCMP clearance" would be an evident mandatory in the context of the project.

Two criteria which may stray from being objective are chemistry and behavior. Chemistry can only be assessed by the group(s) requiring the staff. Behavior can be assessed by many commercial models (e.g. Social Style Profile) based on Myers-Briggs. Use a spider diagram to profile both the required traits for the role, and to illustrate the assessed traits of each candidate in practice 4.

4. Apply a consistent selection process but with tailored techniques

The selection process may be informal and speedy, or formal and laborious. This depends on the significance of the decision, and the bureaucratic tendencies of the buyer. Regardless, be consistent on the following:

- Use a screening process to establish a short list (the agency will do this).
- Select techniques that will enable all of the selection criteria to be scored. For example: interviews, presentations, on-site visits, work product inspections, aptitude tests, problem solving scenarios, and references.
- Pre-plan interviews using a question list relevant to the SOR.
- Interview following proven guidelines:
    - ◊ Keep 100% control of the interview by preparing and tabling an agenda, including the questions
    - ◊ Remember that past performance is the best predictor of future performance
    - ◊ Ask open questions and do not ask leading questions
    - ◊ Listen more than talk. The maximum ratio of interviewer to candidate talk is 1:4
    - ◊ Interview by more than one person; if possible, use an interview panel.
- Evaluate the criteria scores as a team.
- For the more subjective attributes also ask the candidate. A good candidate will possess self-knowledge.

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5. Apply a value matrix to avoid buying solely on price

The most significant criterion is value, not price. Buying purely on price very often costs more money than saved, especially when factoring in the client's management time spent on issue handling or rectification. That said, the cost of any assignment is always important, and contracts should be competitive. But for project management or senior business analysis roles, nickel and diming on rates is usually counterproductive. On the other hand, when staffing a large coding team where the required skills are narrow and more easily evaluated, perhaps a commodity pricing approach is feasible.

ROLE X			
Value Matrix for Candidate A			
Criteriia	Weight Out of 10	Rating 1 to 5	Score
Business knowledge	5	4	20
POS knowledge	9	3	27
Delivery of results	10	2	20
Communication skills	7	5	35
Relevant experience	8	2	16
Analysis techniques	4	5	20
Professional skills	6	4	24
Chemistry fit	5	3	15
TOTAL POINTS			177
Hourly rate			$195.00
VALUE = POINTS PER $			**0.91**
MAX POSSIBLE VALUE			1.38

So, if value is the criterion, how can that be measured? There are really only two ways to assess value - intuitive and methodical. Intuitive can often be the best as, truthfully, most methodical processes involve some judgment, and judgment usually comes with a large dose of intuition anyway. Spread the risk by preparing the evaluation using teamwork methods.

The best methodical approach is to set up the established criteria in a decision table. Then assign a weight and score to each criterion and total points calculated for each option. Cost is not rated, but is used to determine the points gained per unit of cost.

So Value is = Points/Cost, or points per $ as illustrated. This is called the Value Matrix.

6. Understand desired standards of performance

Performance standards remind us that regardless of a catalogue of skills, a weighty résumé, clarity of communication, and charismatic charm, what really matters is delivery of results.

There are many choices for performance standards. For project assignments with deliverables, conformance to cost, schedule, SOW and quality requirements are essential. For operational roles, service level agreement (SLA) adherence should be discussed. For consultative assignments, the measure should be client satisfaction and ultimately the corporate harvesting of benefits.

The hiring process must assess measurements from the candidate's previous accomplishments and use these to determine how aggressive they might be in committing to delivery targets in the proposed role. During this discussion, ask the candidate how they respond to review of performance feedback during execution. Fair and reasonable performance standards may make their way into the contract, and the candidate's suggestions should be solicited. Much can be learned from the candidate's own declared measures of performance, and how they expect to achieve them.

7. Take a collaborative approach to contracting but be demanding

Do not take a cumbersome universal contract template and apply it to professional services contracts. It won't work, and will take forever to negotiate. Start with a basic 'essentials' contract. The key to success is to include constructive terms that promote the desired outcome, identify the standards of performance, and are flexible and open to innovation on type of contract and compensation arrangements.

Some illustrative do's and don'ts:

- Don't force unlimited liability or similar 'risk transference' terms into a contract with a boutique consultancy with limited financial resilience.

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- Be flexible on Intellectual Property demands - this could be the lifeblood of the services firm, and there are other good ways of protecting the client's interests.
- Match fixed price, time and material, or cost-plus contract types intelligently with the work to be done. Use incentives and penalties (if really needed) while thinking of the accountabilities of both parties, not just the contractor.
- Develop realistic standards of performance with incentives and stretch targets that fit the situation. Take account of mutual client/vendor dependencies.
- Use creative contract variations to solve pricing disagreements. If a fixed price is needed, but not available, consider fixed upper limit with disclosed contingency. If a time and material contract goes beyond the disputed estimate, consider negotiated rate reduction when the estimate is reached.
- Regardless of contract type, always get an estimate.
- Take a collaborative approach. Successful assignments are founded on client/contractor collaboration principles.

And please, don't let the contracting process take longer than the planned assignment!

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1660 wds

Robin's new book Commercial Project Management – A Guide for Selling and Delivering Professional Services published by Routledge is a complete exposé for the commercial environment. The complementary 2-day seminar, delivered in Robin's enthusiastic style, is packed with insider tips, techniques, and (mainly) true cautionary tales. Contact Robin at tmi@telus.net. A pdf download of this article can be found at www.tmipm.com

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