



# Result-based Consulting: an Alternative to Payment by the Hour

by Hal Williams

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Consultants are people from whom we buy time. In a surprising number of cases (such as that of law firms billing corporations) little cost-control is exercised, and every hour spent by every associate is revenue to the consulting firm. While recently much more attention has been given to controlling the costs of consultants, rarely is the step taken that relates cost to gain. From a results perspective, the real question is not about what the consultant charges per hour. It is about what they achieve in an hour!

In the business arena, some consultants have led the search for performance-based compensation out of a desire to share in the upside of what their advice may yield. Some work out with their clients a success fee contingent upon results that is in addition to hourly charge rates — which in turn may be reduced below standard billing rates.

In our work with non-profit organizations and their consultants, we find a similar interest in becoming result based. On the one hand, organizations are growing chary of paying consultants for each hour spent. On the other, many consultants with whom we speak note that they are not used effectively by many non-profit clients because the client does not clearly specify the intended result. A surprising number of consultants are as interested in an outcome-based relationship as are the groups that engage them.

We acknowledge with gratitude two invaluable resources in our explanations of result-based consulting. One is the Organizational Development Institute of LISC--the Local Initiative Support Corporation. This client has helped us to see possibilities for outcome-based consulting with the Community Development Corporations it serves. The second resource is the Edna McConnell Clark Foundation whose grant to us has enabled a broader look at effective consulting relationships with non-profit organizations.

Here is a case in point for how a non-profit organization — in this case a community development corporation — might negotiate a consulting relationship on an outcome basis.

## The Context

The East Valley CDC is told by its funder that it needs a strategic plan and that the funder is willing to pay for it. The funder provides a \$10,000 grant to East Valley and indicates it does not wish to play a role in the selection or management of the consultant.

In a traditional mode, East Valley would interview consultants and choose one. The consultant would take on the task of developing the plan. They might well interview staff, hold a board retreat, develop a draft, gain input, and revise the draft. The original time frame probably slips and by the time the plan is completed, some of its findings and assumptions are outdated.

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More importantly, the consultant, not the organization, owns the plan. It sits on the shelf.

Still...the

funder and organization would presumably be satisfied. If the outcome is the document called the strategic plan, they have one! Further, the consultant has proven a good investment. He or she has put in the time and developed the desired product.

East Valley knows of this scenario because that is precisely what has happened with previous plans. East Valley thus decides to use an outcome approach and begins with the following outcome-based assumptions:

1. The real point of the strategic plan is change, not a document. If we are not doing things differently and achieving higher results, what's the point?
2. We must find a way to connect the consultant to plan use, not plan production.
3. The right plan has clear performance targets to which we are individually as well as jointly committed. They are specific, verifiable, and "doable with a stretch." It also offers real strategy, defined as comparative advantage over what other organizations do and what we now do ourselves.
4. We take steps to try some new things and test key assumptions during the planning process, not just after it. We want to build overall design on what works in practice, not just in concept, and we want to connect planning and doing.
5. Everyone engaged in writing the plan should be able to start with themselves. Each person must know and be committed to what they personally need to do and do differently to make the plan work.

### **The "Call for Consultants"...**

...goes out. East Valley sent this announcement to a list of all known consultants in their city. Its premise is that for consultants as well as for staff, a "Result Description" is much more powerful than a "Job Description."

#### *Consultant Wanted.*

*East Valley Community Development Corporation has annual revenues of \$1.5 million and has been growing by about 5% per year. We build houses for lower income residents of East Valley neighborhood. Some are sold and some we own and manage as rental properties. Please see the attached program and financial profile. If you are seriously interested in this opportunity, please write for a full financial statement and more detailed program descriptions.*

*Our outcome is to move from an average of 10 homes built for owners to 30 per year and to shift from production of 15 rental units to 25 per year within three years. We project that this will mean an increase in gross revenues to about \$3 million per year. Also, in three years we want to move from our current break even performance to a net income of at least \$50,000 or 5% of gross revenue, whichever is higher. We presume that increasing the proportion of earned income is key to this.*

*We seek a consultant who can guide us in preparing and implementing a plan that will achieve these outcomes and who is willing to have part of their compensation based on our success. We presume the consultant should have substantive knowledge and skills to offer us new thinking, not just the ability to facilitate a process by which we put to paper what we already know.*

*The consultant selected will have significant compensation tied to our ability to use the plan and a strong financial incentive to reach and exceed plan targets. We fully expect the consultant to state in a contract what they expect us to do to insure success.*

### **The Selection Process...**

...begins much more slowly than with the traditional approach, in which numerous consultants deluge the commissioning group with glossy brochures and proforma proposals reflecting their planning process and its template. East Valley found that many consultants decided not to submit a proposal, having learned that the CDC was serious about tying consultant compensation to effective implementation of the plan to hit targets. A few, however, came forward and with two consultants, a good conversation emerged. East Valley learned that for each consultant, the base amount needed to interest them was not \$10,000 but \$25,000 — to allow the time needed to ensure effective implementation. The funder was presented with this change in scope and decided that a successfully implemented plan for \$25,000 offered a far greater return relative to investment than a non-implemented \$10,000 plan. With approval in hand, East Valley confirmed their comfort with the higher cost, as long as they and the consultant could together specify the milestones to be met at the end of one year (by which time the plan will have been drafted) that would forecast successful implementation.

In each case, the consultant came back with suggested milestones, but noted that for each milestone, they were dependent on East Valley staff doing their part as well. Fine, said East Valley. You have the right to do some due diligence on us and specify in the contract what we must commit to do and achieve. If we don't do it, you get the full amount regardless of results.

By the end of this process, one consultant came through with positive and specific responses, and a contract was then developed not as the first step *after* selection but as the final step *of* selection.

### **The Consultant Contract...**

...reads as follows:

Consultant agrees to provide consulting services to achieve the following scope of results for East Valley Community Development Corporation to be achieved by December 31, 2002.

- 30 homeowner and 25 rental units added annually
- \$50,000 or 5% of gross revenues (higher figure) achieved as net income annually
- 90% of all persons occupying a new home state high customer satisfaction with us and 75% reflect tangible household gains (e.g., increased income, health, educational attainment of kids) which have directly resulted from the home and other services we offer.

The following milestones will be used for 6-month payments and checkpoints on progress. These milestones do not require or specify a particular set of activities and the consultant has the right to suggest alternative activities that they believe will best achieve them. It is also agreed that either party has the right to suggest changes in milestones based on what is determined to be realistic and fair. The contract intends to set forth a spirit of partnership and interdependence rather than adversarial interests. Both parties agree that what they share and must achieve are the results from implementing a plan.

#### **Six month milestones:**

1. Targets for the organization and its major existing products (rental and home ownership) are clearly established within a context of stated outcomes for neighborhood revitalization.
2. Organizational development targets are similarly specified to reflect needed capacity to achieve and sustain the significantly larger scale intended.
3. Key organizational staff (not just the director) and the full board reflect ownership of these targets and a commitment (personal as well as shared) to hit them.
4. At least two small prototype projects will be designed for early implementation to test key assumptions in the development strategies — whether about market, available funds, or other matters.

#### **Twelve month milestones:**

1. The full strategic plan is completed, although the emphasis is on content, not publication in any formal sense. Completion means that everyone in the organization knows of plan targets and strategies and at least 75% report increased energy from the plan in terms of future accomplishment. Also, all staff and board members know what they, individually, are to do differently as a result of the plan.
2. The prototypes are on-going, and early learnings have informed the plan such that it is considered reasonable to achieve the targets within the desired timeframe based on early experience and assumption-testing.
3. All individuals who must make commitments to implement the plan have done so or report that they are seriously considering their role. This includes funders, customers, and stakeholders as well as staff and board members.
4. The project pipeline is emerging such that a 50% rise in production looks reasonable for 2000.

*(Continue to articulate 18 month, 24 month, and 36 month milestones.)*

#### **Commitments:**

Consultant commits to providing planning and development services such that the milestones and targets in this plan are hit. Consultant agrees that John Smith, personally, will be the lead person and remain personally committed to attaining the goal.

East Valley, through a board vote as well as management certification, commits to:

1. Development and implementation of the plan, including attendance at all needed points by the Executive Director and staff. All implementation steps agreed upon.
2. Specify actions and changes in behavior needed by all staff and insure that these actions are taken and changes in behavior made — including but not limited to fully using data from customers, funders, and other relevant sources to make needed product improvements and to take any corrective steps agreed upon, including changes in personnel.
3. Make decisions about strategy and all other parts of the plan in a timely way. This starts with minutes or notes from each session distributed within 24 hours and effective concentration and compression of time needed at all steps.

### **Payment**

Consultant will be paid a \$2,000 advance on this contract upon execution. They will then be paid \$3,000 for successful completion of the six month milestones, and an additional \$5,000 for the twelve month milestones, which complete the drafting of the plan. At this point, it is agreed that either party has the right to terminate the contract upon submission of a written statement that states why they believe the plan implementation will not proceed or will not lead to results specified.

During plan implementation, an additional \$5,000 will be paid at 18 months and again at 24 months on successful milestone completion. For the two successive years following completion of this contract the consultant will also be paid a success fee of 50% of all net revenue above \$50,000 up to a limit of \$25,000.

East Valley agrees to consider renegotiating these amounts based on costs that must reasonably be incurred. East Valley also agrees to pay the consultant even if the effort does not fully achieve its intended targets yet no conceivable action on the part of the consultant could have prompted better results. Again, the spirit of partnership and interdependence is advanced as the guideline for compensation as well as it is in all other aspects of this outcome-based contract.

### **The Difference in a Nutshell...**

...is that there is no mention of hours worked or of the cost per hour of consultant time. The point is to move away from paying for time to paying for results. This means the CDC must determine, in advance, the value of the results the consultant can bring in order to know how much they can afford to pay for them.

Also note that the consultant can earn double their fee for very high results. However, the consultant cannot win until and unless the CDC wins as well.