

## What banks should expect from an external consultant?



*ESBG has delivered international consultancy to banks and banking sectors around the globe since the early 1990's.*

*Over this period, ESGB Consultancy has developed a wealth of experience concerning the factors that make a consultancy project successful, as well as developed a keen understanding of potential pitfalls that might result in disappointment for the beneficiary. News & Views asked Ian Radcliffe, Director of Consultancy Services what factors are critical to a successful consultancy.*

**Ian, why does one need consultancy services at all? Can financial institutions not cope on their own?**

All banks, whether from advanced economies or in emerging markets, need to call upon external consultants from time to time. This allows for a dedicated, independent and unbiased view in designing systems, and transferring knowledge and best practices as quickly and effectively as possible. In less developed or transition economies, it is common for consultants to perform projects in favour of banks that are financed by an external funding agency, sometimes via a government ministry.

**What is the main condition for success?**

Successful projects should always reach previously defined and agreed targets. And they should provide measurable benefit to pre-determined bank stakeholders. This could have been the consequence of, for example, the design and introduction of improved governance structures, definition and/or implementation of successful business strategies, introduction of streamlined yet effective organisational structures and business processes, or development of management and personnel skills to meet a new need. Most importantly, any consultancy project should contribute to the achievement of a bank's mission and goals.

**So, how does a consultancy project work in practice?**

A consultant acts as a change agent on behalf of the beneficiary. In order to implement the client bank's requirements effectively, some simple rules should be followed.

The most important underlying document that defines the consultant's task is the project Terms of Reference. It is critical that this document comprehensively defines the background to the project, the objectives, the scope of work to be performed and the expected outcome and deliverables. An international agency usually would either prepare the Terms of Reference itself or employ an external expert for this purpose. It is imperative that the beneficiary bank actively influences the shape of the project that is defined during this stage. In the case of a tender process - as opposed to a direct negotiated procedure - there also needs to be some indication of the size of the project, whether by defining the budget available or the expected inputs, normally in terms of person days of work.

It might seem like stating the obvious, but the size of the budget available should be sufficient to meet the scope of work to be performed by the consultant. In the case of a commercial project, this would be agreed between the bank and the consultant during contract negotiations. It is then up to the consultant to deliver what he has agreed at the price negotiated. With externally funded contracts, the budget is usually defined by the donor agency as part of a larger programme. We sometimes hear that donors may be under their own political pressures to force a downward trend on project budgets. And all too often the consultant that responds to a tender is unaware of all the facts on the ground as a consequence of restrictions on fact-finding as part of the rules of the tender procedure. The result can be that consultants submit their proposals based on project objectives that are over-ambitious for the budget available, leading to consultancy resources being spread too thinly to achieve the expected outcomes.

The moral of the story is for the beneficiary bank to do everything possible to ensure that the

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consultant's input (in other words, person days) defined in the Terms of Reference fits the scope of work expected and is realistic. Rome was not built in a day!

**The beneficiary institution should also respect certain things, I suppose?**

Certainly! A beneficiary bank should expect to have to commit time and resource to the project. The commitment of management to the project combined with a willingness to change is an essential ingredient to the process. There are five main tools available to management to implement change: leadership, goal setting, organisational structure, communication and incentives. Consultants will help banks to optimise the use of these tools, as well as how to overcome the obstacles to change.

A consultant will propose a project structure to meet the objectives, and will usually define the counterpart project structure that the bank should expect to provide. Beneficiary banks should take good notice of this, as a successful consultancy project also demands considerable commitment on the part of the bank. Failing this, the bank will simply be left with manuals that gather dust on a shelf. Usually, the beneficiary bank should expect to provide a project implementation team that is led by a 'champion', who should be sufficiently senior within the organisation, possibly even the CEO himself, to be able to resolve any issues that might arise. The implementation team would normally also comprise individual leaders in the different functions being addressed that are technically skilled in their functional areas. And there may be other staff and/or administrative personnel involved as well.

We would always recommend that a project commences with a thorough Inception Phase, to permit the consultant to verify the Terms of Reference with the facts on the ground and to propose any changes necessary to his offer. This is particularly important if there has been a delay between when the Terms of Reference was drafted and the date of contract award, which is frequently the case with externally funded contracts. This is also the time when the beneficiary bank can put forward any change requests of their own but these should usually remain within the general framework of the

original Terms of Reference and within the budget agreed in the contract.

**What distinguishes ESG consultancy from other consultants?**

An element often overlooked when consultancy contracts are awarded is whether or not the consultancy firm understands the philosophy of the beneficiary bank. All tender evaluations rightly take into consideration the skills and experience of the project teams proposed and the consultant's methodology. But understanding the culture of the beneficiary is not so easily measured. This is one of the key factors that ESG brings to a consultancy project in favour of a savings or retail bank. Or, as it happens, to any other bank sector related project. We are ourselves bankers, not generalist management consultants. We think that this is one of the main factors that has contributed to our success over the past 15 years.

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