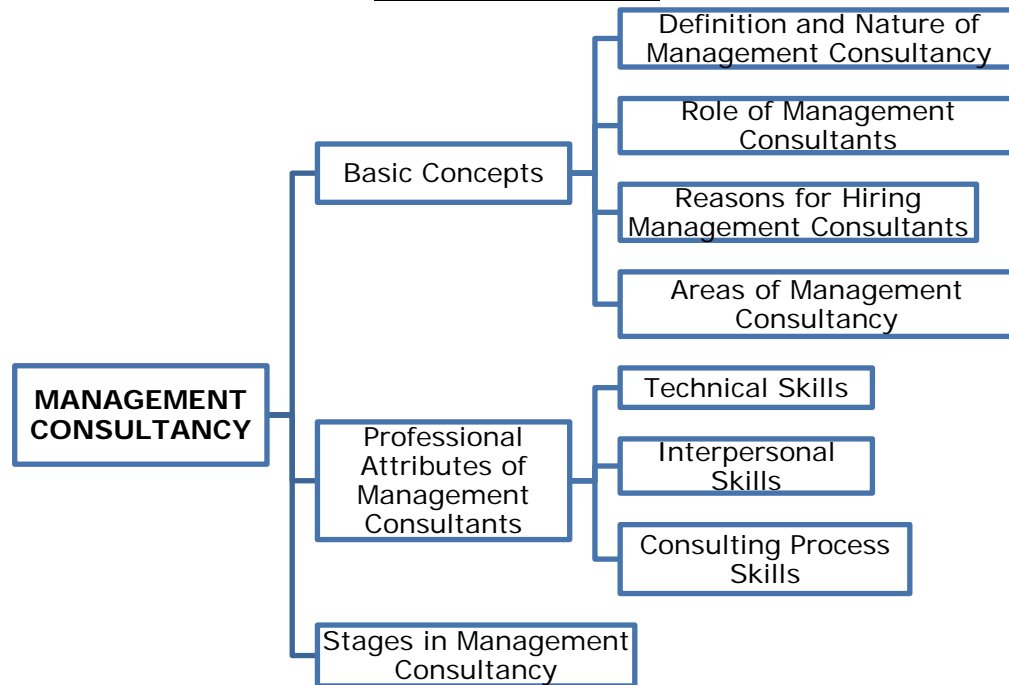


# MS01 – MANAGEMENT CONSULTANCY

## TOPIC OUTLINE



## LECTURE NOTES

### BASIC CONCEPTS

#### *Definition and Nature*

Management Consultancy can be described as an independent and objective advisory services provided by qualified persons to clients in order to help them identify and analyze management problems and opportunities.

Activities of management consultants can involve two types:

- Consultations – consists of providing advice during a short time frame. The advice is provided orally and will be definitive when the consultant is fully aware of the situation to require more intensive study or investigation.
- Engagements – consists of that form of management advisory or consultancy in which analytical approach and process is applied in the study or investigation.

#### *Role of Management Consultants*

MANAGEMENT CONSULTANT is a person who is qualified by education, experience, technical ability, and temperament to advise or assist businessmen on a professional basis in identifying, defining, and solving specific management problems involving the organization, planning, direction, control, and operation of the firm.

The client in MAS practice is the management. Managers are entrusted with the entity's resources to safe keep and use it to increase entity's wealth. The role of consultants is to provide technical advice and assistance to its clients on areas which needed development, solution or improvements.

It involves the ability to find facts and define basic problems (not the symptoms), identify alternative solutions and recommend solutions under the circumstances.

NOTE: Consultants are INDEPENDENT PERSON, AN OUTSOURCED PROVIDER and NOT AN INTERNAL EMPLOYEE of the organization. Thus, the advice provided by the consultant are mere guide only in decision making, the FINAL DECISION still rests with the MANAGEMENT.

*Reasons for hiring Management Consultants*(1) Independent point of view

A consultant is considered to be independent and objective to the dilemma faced by the organization. Since the consultant is not part in the establishment of internal policies of the organization, his or her suggestion is considered to be unbiased.

(2) Professional advisor and counselor

An experienced management consultant possesses special knowledge, skills and a variety of personal attributes that make him the most desirable candidate to undertake the engagement involving his area of expertise.

NOTE: Although law DOES NOT RESTRICTS the practice of management consultancy to CPAs, business firms generally prefer CPAs as their consultants.

(3) Temporary professional service

The use of consultants is less expensive to the company than hiring new managers and employees to provide professional advisory services

(4) Agent of change

A management consultant is a catalyst of change specifically in providing solutions to clients' problems. These solutions tend to help management in the administration and improvement of the organization.

*Areas of MAS Work*BROAD AREAS OF MAS

## A. Areas Normally Related to the Accounting and Finance Functions:

1. Financial Accounting Systems Design and Development
2. Management Accounting Systems Design and Development
3. Development and Establishment of Budgetary Controls

The field covers the following:

1. Cost Accounting
  - a. Development of standard cost system
  - b. Cost analysis and control
  - c. Variance analysis
2. Financial Management
  - a. Establishment of capital budgeting procedures
  - b. Study of the cost of capital and cost of debt
  - c. Financial analysis for project studies
  - d. Establishment of operating and cash budgets
  - e. Valuation of common stocks for purposes of mergers and sale.
- B. Areas Not Normally Related to the Accounting and Finance Functions:
  1. General Management Consultation
    - a. Management or Operations Audit
    - b. Measurement of Operating Performance
    - c. Mergers and Acquisitions Studies
    - d. Development of Compensation Programs
    - e. Pension Plan Review
    - f. Special Studies on Industry Potential
    - g. Long-Range Planning
  2. Project Feasibility Studies
    - involves financial, technical, and marketing evaluation of proposed projects.
  3. Organization and Personnel
    - a. Review of Existing Organization Structure
    - b. Organization and Administrative Manual Preparation
    - c. Job Evaluation and Salary Administration
    - d. Development of Personnel Rating Programs
    - e. Retirement Plan Studies
    - f. Studies of Office Cost Reduction Systems
    - g. Determining Cost of Alternatives in Collective Bargaining Agreements
  4. Industrial Engineering
    - a. Production, Planning, Scheduling, and Control
    - b. Plant Layout Studies
    - c. Inventory Management Studies
    - d. Materials Control System Design and Development
    - e. Preventive Maintenance System Design and Development
    - f. Development of Work Standards
    - g. Purchasing Management, including Value Analysis

5. Marketing
  - a. Product Profitability Analysis
  - b. Pricing Policy Determination
  - c. Market Forecasting
  - d. Distribution Cost Analysis. Salesmen's Incentive Compensation Evaluation
  - e. Salesmen's Incentive Compensation Evaluation
6. Operations Research
  - involves the use of mathematical techniques, such as linear programming, PERT/CPM, queuing theory, simulation, etc. to solve operational problems.

The services listed above are not necessarily exhaustive nor complete. The practitioner may offer other services not mentioned above depending on the practitioner's competence, experience, technical ability, and professional integrity to meet or deliver such other services he offers.

#### MAS CLASSIFICATIONS BASED ON REQUIRED EXPERTISE

1. Usual Services:
  - a. Evaluation of form of business organization
  - b. Analysis of financial and operating statements
  - c. Design and installation of accounting systems
  - d. Design of filing systems for storing accounting records
  - e. Suggestions for improvements in internal control
  - f. Establishment of control to assist management and expedite the audit process
  - g. Preparation of insurance claims in case of business interruption
  - h. Research and evaluation of alternative methods of handling a transaction for its effect on finance and tax consequences
  - i. Assistance in the preparation of forecasts and budgets
  - j. Presentation and explanation of statements
  - k. Assisting clients in purchase or sale of business
  - l. Testifying on client's behalf
  - m. Determination of the effect of various employee compensation plans on net income
  - n. Aid in labor union negotiations
2. Somewhat Specialized Services:
  - a. Assisting in the installation of a mechanized accounting system
  - b. Making a cost analysis of operations
  - c. Finding sources of capital and figuring the approximate cost of small business loans, bond issue, and stock issuance
  - d. Giving advice on dividend policy and plans for expansion
  - e. Calculations on government contracts and allocating costs in compliance with reporting requirements
  - f. Advising on accounting and tax matters relative to estate planning
  - g. Surveying credit losses
  - h. Assisting in bankruptcy and receivership proceedings
  - i. Recruiting accounting and bookkeeping personnel for the client
  - j. Preparing an analysis of paper flow
  - k. Presenting and analyzing the pros and cons of various retirement and profit-sharing plans
  - l. Advising on various wage incentive plans
3. Highly Specialized Services:
  - a. Reviewing the organization structure
  - b. Auditing management policies
  - c. Conducting motion studies
  - d. Surveying an industry of trade for current trends
  - e. Evaluating the desirability of a particular area for plant location
  - f. Preparing market analysis
  - g. Reviewing an insurance program
  - h. Advising on data processing allocation

#### **PROFESSIONAL ATTRIBUTES OF MANAGEMENT CONSULTANTS**

Management consultants must possess the following professional attributes or skills:

- (1) Technical Skills
  - include understanding and experience in technical discipline such as information technology, marketing, engineering, accounting and organizational behavior.
- (2) Interpersonal Skills
  - include personal attributes that make an individual amiable among people and effective in accomplishing desirable objectives through people.
- (3) Consulting Process Skills
  - include ability to define problems, identify alternative solutions and recommend solutions under the circumstances.

**STAGES OF MANAGEMENT CONSULTANCY****STAGE 1: NEGOTIATING THE ENGAGEMENT**

This stage involves preliminary discussion with the client, client background investigation, preparation of proposal letter and engagement contract and establishing fees and billing arrangement.

**PROPOSAL LETTER:** is a written communication between the CPA and the client setting forth the terms and conditions of a proposed consultancy work.

**ENGAGEMENT CONTRACT:** is the legal contract binding both parties to the engagement.

**CONSULTANCY FEES:**

The cost of consultancy shall consist the following and shall be presented in the agreement in the like manner:

- (1) Salaries or billing rates
- (2) Reimbursable costs or out-of-pocket costs
- (3) Contingency costs

**METHODS OF BILLING CLIENTS:**

- (1) Actual time basis / per diem basis – billing is done on the basis of actual time spent multiplied by the hourly rates agreed upon.
- (2) Flat or fixed basis – client is billed flat but all inclusive pre-arranged amount for the entire engagement.
- (3) Maximum fee basis – client is charged on a per diem basis with the arrangement that the total charges will not exceed a certain agreed amount.
- (4) Retainer basis – consultant is paid a fixed predetermined fee for all services rendered during a designated period of time, say on a monthly or semi-annual basis.

**STAGE 2: PREPARING FOR AND STARTING THE ENGAGEMENT**

This stage is all about engagement planning.

*Engagement Planning* involves preparing a work plan (A.K.A. Engagement Program), selection of personnel, scheduling of tasks, determining project cost and professional fees.

**STAGE 3: CONDUCTING THE ENGAGEMENT**

Under this stage, four (4) necessary activities are done:

- (1) **Problem Identification** – It is the first phase of the problem-solving process and its position in the process is well established.  
NOTE: A problem is said to exist when the observed behavior of a system or process violates the bounds of reasonable expectations.
- (2) **Data Gathering** – It deals with fact sources and identifies places where the consultant can look to find facts associated with the operation of the client. Sources of the consultant could be internal or external.  
DATA GATHERING TECHNIQUES: (a) Interviews; (b) Questionnaire; (c) Observation; (d) Document Gathering; (e) Charting
- (3) **Data Analysis and Diagnosis**
  - (a) **Decision-level Analysis** – has the purpose of depicting the varied interrelationships among the decisions made throughout the segments and levels of organization.
  - (b) **Input / Output Analysis** – analysis of the problem in terms of input or output.
  - (c) **Structured Analysis** – the key assumption underlying this approach is that any organization is comprised of a number of well-defined functions, which in turn are made up of group of activities.
- (4) **Solution Development** – It involves generation and evaluation of solution alternatives, making a choice of solution alternative and detailed development of selected solution.

**STAGE 4: PREPARING AND PRESENTING THE REPORT AND RECOMMENDATION**

Presentation of the report and recommendation could be in the following form: (a) oral; (b) written; (c) visual NOTE: The recommended solution should be presented in a persuasive manner of the consultant expects to obtain client's acceptance of the recommendation.

**STAGE 5: IMPLEMENTING THE RECOMMENDATION**

This stage is considered to be the important lengthy phase that follows solution development phase.  
NOTE: It must be understood that the CPA or the CONSULTANT SHOULD NOT TAKE RESPONSIBILITY for making management and policy decisions.

**STAGE 6: EVALUATING THE ENGAGEMENT**

Evaluation is necessary for CONSTANT IMPROVEMENT AND REFINEMENT in the QUALITY of future advisory services of the consultant.

**STAGE 7: POST-ENGAGEMENT FOLLOW-UP**

**DISCUSSION EXERCISES****MULTIPLE CHOICE:****BASIC CONCEPTS**

1. Which of the following characterizes MAS?
 

I. Broad and diversity in scope.	III. Management is the main beneficiary of the service
II. Limited to CPAs.	
A. I and II	D. I, II and III
B. II and III	E. Answer not given
C. I and III	
2. In Advisory Services, the practitioner's function is to
  - A. provide counsel in a short time frame, based mostly, if not entirely, on existing personal knowledge about the client, the circumstances, the technical matters involved, client representations, and mutual intent of the parties.
  - B. develop findings, conclusions, and recommendations for the practitioner's consideration and decision making.
  - C. put an action plan into effect.
  - D. provide services related to specific client transaction generally with a third party.
3. Which of the following statements is false?
  - A. CPAs have historically been business consultants to their clients.
  - B. Management consultants are licensed and regulated by laws.
  - C. The primary purpose of management consultancy is to improve the firm's use of its capabilities and resources to achieve its objectives.
  - D. Management consultancy services are provided not only to big business enterprises but also to medium-size and small companies.
4. Which of the following is not an analytical approach in MAS engagement?
  - A. Ascertaining the pertinent facts and circumstances
  - B. Defining the problem or opportunity for improvement
  - C. Presenting findings and recommendations
  - D. Counseling management in planning, operating and controlling functions.
5. Reasons for hiring management consultant:
  - I. A consultant is considered as an additional employee of the company in solving problems faced by it.
  - II. A management consultant is considered to be a catalyst change.

A. I only	C. Both I and II
B. II only	D. Neither I nor II
6. Following are possible end-products of an MAS engagement, except
  - A. an organization plan with statements of duties and responsibilities.
  - B. blue print of a construction project.
  - C. an electronic data processing system.
  - D. sales reporting system.
7. MAS areas which are not normally related to the accounting and finance functions may include
  - A. preparation of accounting systems and procedure manuals.
  - B. development of management oriented accounting and reporting systems.
  - C. cost reduction studies.
  - D. operations research.
8. Management advisory services classified as usual services include
  - A. giving advice on dividend policy and plans for expansion.
  - B. analysis of financial and operating statements for management, stockholders, banks, and others.
  - C. advising on accounting and tax matters relative to estate planning in cooperation with legal and insurance counsel.
  - D. calculations on government contracts and allocating costs in compliance with reporting requirement.

**PROFESSIONAL ATTRIBUTES OF MANAGEMENT CONSULTANTS**

9. All of the following are manifestations of consultant's interpersonal skills except
  - A. ability to work effectively as a team member
  - B. ability to grasp and represent facts unbiased by prejudice or objectivity
  - C. ability and reasoning power to arrive at a wise decision or judgment
  - D. ability to absorb and relate facts in a logical and orderly fashion and to reason inductively and deductively or intelligently
10. Ability to define objectives and outcomes is an example of a consultants
 

A. Rapport-building skills	C. Analysis skills
B. Project management skills	D. Interpersonal skills

**STAGES OF MANAGEMENT CONSULTANCY**

11. A CPA should reject an MAS engagement if
  - A. It would require him to make management decisions for an audit client.
  - B. His recommendations are to be subject to review by the client.
  - C. He audits the financial statements of a subsidiary of the prospective client.
  - D. The proposed engagement is not accounting-related.