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The CPA MANAGEMENT ADVISOR

NEWSLETTER OF THE AICPA DIVISION FOR MANAGEMENT ADVISORY SERVICES

BULLETIN BOARD

DIVISION MEETING HELD

On October 28 in Las Vegas, Nev., the AICPA's Division for Management Advisory Services held its second, and possibly last, annual membership meeting. Our survey and attendance have indicated minimal interest in a division meeting, and a possible restructuring of the Institute's annual meeting may affect MAS committee members, who have met immediately preceding the annual MAS Division meeting. Therefore, the MAS Executive Committee has agreed not to schedule a membership division meeting in 1989. We invite members' comments on this decision.

In lieu of the annual division meeting, we have expanded the program of inviting division members to breakfast or luncheon sessions with the Institute's MAS committees as they meet at various sites around the country. Beginning with this issue, we will use this newsletter to inform members when and where such meetings will take place. By attending these meetings, you can provide direct input into division plans and programs and MAS issues.

REFERRAL PROGRAM IN OPERATION

Since we announced the referral program in the summer issue of this newsletter, we have received approximately 100 requests for referrals to other division members. Unfortunately, we had to return a number of requests because some members misunderstood the instructions and used a single form to in-

Continued on page 5

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ASSOCIATE EDITOR: Libby F. Bruch

R—OUTSIDE ADVISORY BOARDS

Small businesses often achieve success because of their owners' ideas, drive and determination. But then a problem develops. Businesses "get to a certain point where they can stagnate, and that's when it could be important to bring in an advisory board, preferably before that phase," Howard Neiman recommends.

Neiman, the partner in charge of MAS for Hirsch, Babush, Neiman & Kornman in Atlanta, Ga., is providing a new kind of management advisory service engagement—helping clients establish and use an outside advisory board to offer management a fresh perspective. He explains that the board can give advice on business policies and future plans, act as a confidential ally and serve as a sounding board for strategic planning.

Neiman speaks from experience. Inspired at a seminar on outside advisory boards conducted by Dr. John Ward, a professor at Loyola University in Chicago, he urged his CPA firm to establish such a board for itself. Now in its second year of operation, the board "has been extremely worthwhile and we have learned immensely from it," he said, citing growth in the practice and an ability to retain good people as two benefits.

"Like any new idea, it takes time to convince businesses to change," Neiman points out. Even within his own firm, he admits, "it took a while to plant the seed." One persuasive technique may be to describe what a board offers in addition to advice. Individual members may have special expertise, and they can expand the business's network of contacts. An advisory board may even increase owners' self-discipline by creating a compelling reason to prepare reports punctually.

Which businesses could benefit from an engagement to establish an outside advisory board? Typically they are small companies with sales exceeding \$2 million, employing 10 or more

people and closely held by one or two owners or a family.

In helping a business choose an outside advisory board, the practitioner first has the company's principals brainstorm about what kind of compatible business, with similar goals, could provide good candidates. Compatible doesn't mean competitive. For example, a business offering computer repair services might look for an outside advisor from a business providing on-line data. Both companies have a service, rather than a manufacturing, orientation.

Suitable outside board members include company founders, owners and CEOs. They should not be family, friends or such "standard" advisors as the business's attorney, accountant or banker. However, the company can ask these consultants to recommend specific candidates and then perhaps help with setting up meetings.

Neiman suggests an advisory board of three outside members and two to four representatives from the company. They should meet four times a year, for about three hours each time. Outside board members should each be paid from \$500 to \$1,000 at the end of every meeting. And it's important for the company to consult its lawyer about the liability of outside board members.

The initial engagement to establish an outside advisory board for a company may not be large, but "it has the potential for business development and generating goodwill with clients," Neiman advises. The engagement may

Continued on page 6

CONSULTING IN THE LOCAL CPA PRACTICE

Reconciling general business advice and specialized, technical services in your practice.

MARK C. SMITT

Although consulting management advisory services (MAS) have been identified as the fastest growing segment of the CPA profession, most local CPA practices have struggled with expanding their consulting practices. In part, this is because each firm has a unique perspective. Some firms define MAS narrowly, such as computer consulting, whereas others define MAS as a wide variety of specialized consulting services. This article provides a model for defining MAS and determining how consulting fits in a local CPA firm. The model can be used to clarify recent trends in MAS and to identify opportunities for CPAs to expand client services.

TRENDS

Several recent trends in consulting can be summarized as follows:

- Most local CPA firms have not been successful at building an in-house MAS staff or hiring an outside MAS partner.
- Many firms have zealously pursued new client services (such as micro-computer consulting and personal financial planning), but these services have not generated significant profits.
- Partners have not understood the developmental process for building an MAS practice and thus have become impatient with the results.
- Audit and tax partners have not been effective at identifying MAS opportunities.
- Partners in most firms support MAS only as a defensive tactic when compliance work is down.
- Consulting work has generally not produced additional tax and audit business from either existing or prospective clients.
- Consulting does not provide the staff leverage that compliance services provide, which affects the skill level and organization of an MAS staff.
- Continuing professional education (CPE) has not usually prepared partners and staff to be highly effective business consultants.

Although these trends reflect negatively on consulting, most firms still feel

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their clients want and need a broader set of services from their CPA.

DEVELOPING A MODEL

As the trends indicate, many firms have struggled with their consulting objectives and strategies. However (as with any other business), achieving clarity on the CPA firm's business objectives, services, "packaging" and marketing is crucial to success. Once the firm defines its consulting objectives, it can develop a plan of action for accomplishing them. The model described here (see exhibit 1) serves as a tool to understand where consulting fits in each practice and how to clarify objectives. The model has the following two major components:

1. CPAs serving as general business advisors for their clients
2. CPAs conducting specific, technical consulting projects for their clients

GENERAL BUSINESS ADVISORS

The model demonstrates the dual nature of consulting (general business advisor versus technical specialist) and provides a frame of reference for each firm to define and accomplish its own approach. Some firms will see general business consulting as their major emphasis; others will expand and offer more technical consulting services. In a developmental sense, of course, being a general business advisor is a prerequisite to offering technical consulting services.

As exhibit 1 shows, a CPA firm should have breadth in at least six areas to act

as a general business advisor:

- Financial analysis
- Industry-specific knowledge
- Business planning
- Information systems
- Organization and management
- Marketing and sales

A general business advisor knows enough about each area to assist the client in diagnosing problems and developing solutions—but not enough to actually solve all the problems. The CPA therefore helps the client bring in qualified experts to solve special problems. In this role, the CPA acts as a facilitator and confidant to the client.

TECHNICAL SPECIALISTS

A CPA firm (through its consulting practice) may also offer additional *depth* in the form of technical consulting assistance. Depending on a firm's objective and capabilities, each firm chooses the areas in which to expand. CPA firms have adopted a wide variety of technical specialties to serve their unique client base. Examples include specializing in local government consulting or in real estate. The firm may also decide to build an in-house staff to assist with computer selection or wage and salary plans. These engagements require technical expertise beyond a general business advisor's capability.

Another perspective of the model is to characterize the differences between a general business advisor and a technical consultant:

General Business Advisor

- Oriented toward the client relationship; works *with* clients rather than for them
- Work performed by partner; directed toward CEO/owner
- Sold as an extension of continuing compliance services
- Can be actively marketed to existing clients
- Focuses on higher-level business issues
- Open-ended fees due to recurring nature
- Can leverage with staff by identifying added services
- Grounded in audit, tax and traditional accounting services

EXHIBIT 1. CONSULTING IN THE LOCAL CPA FIRM: GENERAL BUSINESS ADVICE AND SPECIALIZED CONSULTING ENGAGEMENTS

General Business Advice:	Financial Analysis	Industry-specific Knowledge	Business Planning	Information Systems	Organization and Management	Marketing and Sales
Technical Consulting Engagements	Financial and profit planning	Construction	New business start-up assistance	Systems planning	Organization planning studies	Market research
	Forecasting methods	Education		Systems development		Marketing controls and procedures
	Responsibility accounting systems	Finance	Economic feasibility studies	Equipment evaluation and selection	Personnel evaluation and appraisal	Product profitability analysis
	Industry cost programs	Insurance	Development of long-range plans	EDP operations and controls	Wage and salary administration	Distribution profitability analysis
	Overhead expenditure budgeting systems	Real estate	Evaluation of long-range plans	EDP operational problem solving	Wage incentive plans	Product-line planning
	Cost determination	Federal government	Establishment of a formal planning function	Records retention and management	Executive compensation	Packaging
	Working capital budgeting	State and local government	Diversification studies	Systems utilization and improvement	Executive recruitment	Salesperson compensation
	Return-on-investment analyses	Health care	Business evaluation for mergers	Evaluation of EDP organization	Operational reviews	Annual sales planning
	Profit-planning programs	Not-for-profit organizations	Merger and acquisition programs	Network design and connectivity	Building middle management	
	Cash flow and cash management	High technology	Succession planning for founders and owners of businesses	Data connections		
		Heavy manufacturing				
		Light manufacturing				
		Retail trade				
	Wholesale trade					
	Service firms					

Technical/Specialist Consultant

- Requires technical expertise and experience
- Work performed by staff; directed to controller or other client specialists
- A special one-time project with finite budget
- Frequently offered in a reactive mode to client needs
- Narrow in scope and approach
- High risk; low staff leverage
- A different business from compliance work

Most firms do not define being a general business advisor as consulting work, yet the genuine roots of the CPA are the advisory relationships developed with clients in the process of providing audit, tax and accounting services. The model clearly includes general business advice in the definition of consulting. Moreover, CPAs have always been advisors to their clients, but often they do not get full realization for their advice because it is not properly packaged and communicated to the client. The challenge is to provide consulting advice to the client *and* get paid for it.

DEVELOPING GENERAL BUSINESS ADVISORS

The model points out that becoming a general business advisor is required

to develop a formal consulting capability within a firm. Once the firm takes an active advisory approach, more focused and technical services can be offered. Since the firm must first develop business advisors, it can do so by paying attention to four elements.

1. Adopt an advisory attitude. Partners should see themselves as advisors rather than technicians and perpetuate this attitude throughout the firm.
2. Hire people with the desire to learn and a broad knowledge of business (not just accounting majors).
3. Provide formal training and education to acquire both general consulting skills and specific technical knowledge.
4. Take the initiative with clients—actively promote and sell this relationship.

Nurturing general business advisors helps with staff development and ensures that future partners will have the proper perspective and skills. Technical skills *and* people skills are required to become an effective consultant.

DEVELOPING SPECIFIC CONSULTING SERVICES

Once an advisory relationship is obtained with clients, more specific con-

sulting services can be expanded, thus leading to a formal in-house consulting capability. For example, a firm that learns to assist clients with business planning can ultimately identify a number of additional services (such as computer consulting or industry-specific services). As the model shows, these other services become specialized projects that require more technical knowledge than what is generally possessed by a general business advisor.

In this informal way, most firms begin to develop a consulting capability. At first, there is no formal marketing of MAS engagements and no written procedures or methodologies, which are developed as a practice matures. Typically, one or two partners or senior staff members show an interest in consulting engagements and develop more as they gain experience. If properly nurtured, this process can lead to a full-fledged consulting capability.

MANAGING A CONSULTING PRACTICE

Once a firm develops an in-house MAS department, another set of challenges arises. A major challenge is integrating consulting staff specialists with the accounting and tax staff. As pointed out earlier, MAS and the traditional accounting services are two different

businesses, yet they both must be managed under one roof within a CPA firm. Cooperation between the two staffs is not automatic and requires constant management attention. Even in national CPA firms, the cross-referrals and synergy that might be expected have rarely materialized.

Before a firm sets out to formalize its MAS department, it should consider the following issues:

- Defining the desired scope of services to be offered
- Finding the right people to staff the MAS function
- Selecting a career path for consultants
- Defining the role of the MAS partner-in-charge
- Managing and controlling the work of technical consulting staff
- Evaluating the risk of applying the wrong technical solution to a client's business problem

Each firm must pick and choose among a variety of specific consulting services to offer. Firms must invest in the necessary resources and then actively manage each engagement.

MAKING IT WORK

Although consulting provides an attractive way to serve clients better, CPAs should use traditional accounting services as a foundation for developing strong client advisory relationships. The firm can then take up the challenge of offering more technical consulting specialties. Without the advisory relationship, strong partner commitment and active management, the firm will be disappointed. Success in consulting involves an ongoing learning process for the firm and cannot be expected to yield short-term returns.

The model described here explicitly includes general business advice in the definition of MAS. Many firms think of MAS as only special technical engagements. If the broader definition is used, however, most firms do more consulting than they realize. Many firms may decide not to build a consulting capability beyond giving business advice. With this model in mind, however, firms can crystallize their consulting objectives and develop an action plan to implement them.



Mark C. Smitt is an owner and vice president of Management Design Associates, Inc., (MDA), which provides a shared management advisory services staff for local and regional CPA firms.

VOLUNTEER AUTHORS NEEDED

The MAS division is seeking experienced MAS practitioners to contribute their expertise as authors or coauthors of MAS practice aids in the technical series or the upcoming industry series. The technical practice aids contain pertinent information to help readers plan, conduct and report the results of MAS engagements. The industry practice aids present key industry information and describe common MAS engagement opportunities.

Volunteers will form two- or three-person groups, and will work closely with the MAS Technical and Industry Consulting Practices Subcommittee and the division staff throughout the development process. If you are interested in participating in the program or would like to suggest other subjects, please write or call Monte Kaplan, technical manager at (212) 575-7057.

The division is planning practice aids for the following engagement-oriented and industry subjects:

Engagement-oriented Topics

- Assisting Businesses With Government Contracts
- Assisting With Government Grant Reimbursement
- Assisting Local Government With Cost Containment
- Quality Improvement Consulting

Industry-oriented Topics

- Agriculture
- Automobile Dealerships
- Chemical Manufacturers
- Credit Unions
- Dental Practice
- Food Processors
- General Contractors
- Grocery Stores
- Entertainment/Booking Agencies
- Law Practice
- Local Freight Forwarders (LCL)
- Machine Product Manufacturers
- Medical Laboratories
- Medical Practice
- Property Management
- Publishers
- Real Estate Agencies
- Retail Clothing
- Retailers
- Software Developers
- Wholesalers



SUGGESTIONS FROM THE CPA MANAGEMENT ADVISOR

Management's view of what is causing a problem may not be accurate. To properly focus an MAS engagement, a practitioner needs to talk to not only a business's management, but also to those who perform the day-to-day work. For example, a supervisor who works in shipping and receiving may have more hands-on knowledge about inventory problems than executives, or the practitioner, can learn from reports or charts. Such knowledge can help the practitioner formulate a more realistic and lasting solution to a business's problem(s).

Interviewing and listening skills are important. Try to put people at ease. Nervous employees will not provide useful information that will help management make the right decisions.

Evaluate the information you obtain through employee interviews. Make sure that workers who are eager to talk about problems do not have an ax to grind. Encourage employees who are reticent; they may prove to be your best sources.



MEMBERS WELCOME

Division members may attend the following luncheon (L) or breakfast (B) meetings to discuss division and MAS issues with Institute MAS committees. If you plan to attend, please notify division staff at least three weeks in advance of a meeting date. Call (212) 575-6290.

Phoenix, Ariz., Jan. 27: MAS Small Business Consulting Practices Subcommittee (B)

Ft. Lauderdale, Fla., Jan. 30: MAS Executive Committee (L)

Los Angeles, Calif., Feb. 7: MAS Practice Standards and Administration Subcommittee (B)



BUSINESS PLANNING—THE PROACTIVE WAY

The *proactive* business planning process is a novel technique that promotes a positive and active approach to business planning. Unlike strategic, long-range planning, the proactive process covers a period of six months to two years to fine tune basic and complex business activity.

Fine tuning is most effective with a framework of several short, half-day sessions, in contrast to the two- to three-day *retreats* common in strategic planning. The limited duration helps prevent fatigue, and if sessions take place in the morning, alertness increases. Separating each session by a week or two allows participants to digest and improve their thoughts. It also gives them time to perform tasks required by the planning process.

For successful planning sessions, and, more important, successful implementation of the plan, all management-level personnel and owners need to participate in a cooperative atmosphere. Establish ground rules: Everyone is equal in the planning process and all participants must take an active role, especially in their areas of responsibility.

Can owners and managers alone formulate an effective business plan? Yes, but the practitioner, acting as an objective, outside facilitator, will enhance the process by providing discussion leadership. The practitioner's objectivity will also help in obtaining volunteers for projects and tasks in every stage of the planning process.

To facilitate the process, the practitioner hangs flip charts around the room during each session to record important points, including assignments, and transcribes the charts afterward, providing each participant with a copy. The group members update the charts when they meet again. At the end of the planning process, the practitioner prepares a final, complete transcript in subject form and a matrix of projects and tasks in chronological form. The information serves as a timetable, specifying who will do what and when to implement the plan.

The practitioner begins work even before the planning sessions take place, by gathering preliminary data to understand the business. The methods used include interviewing owners to learn about problems and goals, collecting historical information and assembling financial and tax records. Using this in-

formation, the practitioner develops an agenda that addresses the issues, and distributes it to all participants in advance of the first meeting.

A *SWOT analysis* (for strengths, weaknesses, opportunities and threats) tops the agenda. This analysis allows each participant to give an individual impression of how the business is doing. At the first meeting, all participants discuss their completed SWOT analyses. The discussion highlights what is done well and what needs improvement.

A mission statement, to define the main activity of the business, is critical to the planning process. The practitioner helps the participants establish goals based on the mission statement, along with the projects and tasks needed to achieve them.

Next, the group either creates an organizational chart or reviews an existing one. Job descriptions, which encompass *every* position in the firm, augment the organizational chart. Department heads, managers and officers, working with their subordinates, usually draft the job descriptions. With this task completed, the group focuses its attention on the organization's functions, including marketing, industry competition and the economy.

The group should assess the effect of the organization's human resources policies and procedures on jobs and responsibilities. Does an operation manual or personnel guide exist? Does the firm comply with government regulations?

Management information also requires evaluation. To operate effectively,

For more information about business planning, see these Small Business Consulting Practice Aids: No. 2, *Identifying Client Problems: A Diagnostic Review Technique*; No. 3, *Assisting Clients in Maximizing Profits: A Diagnostic Approach*; and No. 6, *Business Planning*.

the firm needs productivity reports, aging analyses of receivables and payables, financial statements (with historical and budgeted comparisons) and daily or weekly cash management reports. The quality and delivery of this information can almost always be improved.

The practitioner will often find that helping with the planning process will lead to other, related MAS assignments. And in six months to two years, a new round of fine tuning sessions will be appropriate.

Carl Alongi, CPA
Albuquerque, New Mexico

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BULLETIN BOARD

Continued from page 1

dicating more than one selection in each category (technical experience, industry experience, location, employment category and firm size). Please follow the instructions and check only one selection in each category on a single inquiry form.

To remind members about the database referral program, we will include an inquiry form with each new division publication mailed to members. (We have clarified the instructions on the form.) In addition, you can now fax your inquiry to the AICPA office and request a response by fax when time is an important factor.

1989 NATIONAL MAS TRAINING PROGRAM

The AICPA and Ohio State University will again cosponsor the National MAS Training Program at Ohio State in Columbus on the following dates:

June 12–16, *Development of MAS*
1989: *Skills*, for persons new to
MAS

June 19–23, *Advanced MAS Skills*,
1989: *for experienced MAS*
practitioners

In early 1989 you'll receive a brochure with a detailed description of the program. If you or others from your firm plan to attend one or both sessions, mark your calendar and include the cost of the program(s) in your firm's CPE budget.

Continued from page 5

CASH MANAGEMENT PRACTICE AID PUBLISHED

In November all division members received the 11th in the MAS Small Business Consulting Practice Aid series, *Cash Management*, as another membership benefit. Developed by the AICPA's Small Business Consulting Practices Subcommittee, the aid provides readers in practice and industry with up-to-date information on improving cash management policies and practices within an organization. The practice aid includes samples of a cash management questionnaire, engagement letter and final report.

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ADVISORY BOARDS

Continued from page 1

be expanded when the board begins meeting and wants to plan an agenda or needs background information, such as an organizational chart, job descriptions, current financial data, budgets and forecasts. Follow-up engagements may also grow out of board suggestions: If the advice is to develop a business plan, the practitioner can help do it.

Clients may have misgivings about forming an outside advisory board. Outside board members are, after all, third parties, and business owners hesitate to share financial and personal information with them. The practitioner needs to reassure clients about confidentiality and gain their trust to try something new. An outside advisory board could be the wonder drug for their business doldrums.

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PUBLICATIONS REVIEW

Presentation Plus: David Peoples' Proven Techniques by David A. Peoples, John Wiley & Sons, 605 Third Avenue, New York, NY 10158, 1988, 239 pages (paperback), \$12.95

"The ability to communicate effectively to clients and other individuals is of paramount importance to CPA MAS practitioners. Too often, the client may ignore important advice because of the practitioner's inability to express thoughts forcefully." These words, in the brochure for the 1986 Annual MAS Conference, encouraged practitioners to attend David Peoples' session on presentation techniques. The session received one of the highest ratings ever given at any national MAS conference.

Like the conference session, the book, *Presentation Plus: David Peoples' Proven Techniques*, describes useful techniques and gives practical tips on how to communicate in an organized and convincing manner and how to gain acceptance. It provides a step-by-step road map of what to do and how to do it, and includes dozens of real-life examples.

Peoples approaches the task of making a presentation in a manner appropriate for consultants. For example, in the first chapter each step in the presentation development process is part of a flow chart alongside the narrative copy. This use of illustrations to illuminate concepts makes them easy to understand.

Chapter 3 is devoted entirely to designing the close of a presentation.

Peoples recommends developing the close first and then having the rest of the presentation support the close. He describes 10 different closes, explaining the value of each and how it can be used. For MAS engagement presentations, the two most likely ending devices would be the *happy-ending* close and the *I'm-here-to-help-you* close. By using such descriptive titles rather than numbers or letters, Peoples makes his book highly readable. And once again, the diagrams for each type of close are simple, direct and easy to understand.

The book deals with presentation mechanics as well as style and content. A chapter entitled "Flips, Foils or Slides" describes how and when to use a variety of visual aids. Another chapter talks about the very important element of time control. Peoples even discusses seating arrangements.

Highlights of the book include 60 presentation tips in less than 20 pages, a presentation checklist, and a section on how to deal with questions. A special feature presents the seven sins that will guarantee a dull, dry and boring presentation. Readers will recognize and agree with every one, but too often will still be committing them!

All in all, Peoples has put together an excellent primer on the art of making presentations. It not only informs and educates readers, it often entertains them as well.

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