

# *Financial and operational control*

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## *The operating budget*

The operating budget is the basic management tool for controlling the financial side of your consulting organisation's operation. The budget should include all expenses your organisation expects to incur during the budget period, and the projected income fixed at a level required for recovering expenses and ensuring an adequate profit. If budget preparation reveals that the budget cannot be balanced, you must review the work plan and the planned expenditure to keep them within realistic limits, and to re-examine the costing, pricing and other assumptions underlying the two sides of the budget.

There are various methods for reducing costs and increasing profits (see Figure 20).

**Figure 20** Methods of achieving efficiency and higher profits

1	Sell more
	<ul style="list-style-type: none"><li>• provide new types of service</li><li>• recruit more consulting staff</li><li>• use staff time better</li><li>• enhance marketing efforts</li></ul>
2	Charge more
	<ul style="list-style-type: none"><li>• increase fees</li><li>• charge for services provided free hitherto</li></ul>
3	Spend less
	<ul style="list-style-type: none"><li>• reduce overheads (general and expenses)</li><li>• execute assignments more effectively</li></ul>

**Performance monitoring**

The monitoring of the financial performance is an essential management function in consulting organisations. Operational controls have to be established and examined on a relatively short-term basis to enable prompt action. In practice, this will be on a monthly basis in most consulting firms. In Figure 21, we suggest, as a guide, some key controls that could be used in establishing a list that would suit your particular organisation.

An annual performance review/audit is also essential as not all ratios lend themselves to short-term analysis and action. A fall in the backlog of work requires immediate action, whereas the staff structure cannot be changed by short-term measures.

**Figure 21** Key monthly controls

- **Forward workload (backlog)**  
Most important; ideally it should be around 3 months and should not drop below 1.5 months; if it is too high, clients are kept waiting for too long.
- **Number of client visits (meetings, surveys) to number of assignments negotiated**  
Indicative of the effectiveness of promotional work; an alternative ratio is volume of new business negotiated per client visit (meeting, survey) which is more precise if assignments vary greatly in extent.
- **Actual and budgeted utilisation of total time**  
Can be computed for all consulting staff or by categories, for example, operating consultants, supervisors; shows not only whether the firm has enough to do, but also whether work is properly scheduled and organised for smooth delivery.
- **Cumulative actual fee-earning days against planned fee-earning days**  
Similar use as previous ratio.
- **Actual and budgeted fee rate**  
Can be computed for all consulting staff or by categories of consultant; helps to assess whether the firm is in a position to apply optimum fees and gives guidance in using the staff in accordance with its technical and income-generating ability.
- **Fees earned against fees budgeted (monthly and cumulative)**  
Indicator of actual programme delivery rate in financial terms.
- **Fees earned against expenses (monthly and cumulative)**  
Indicator of short-term performance in financial terms; can provide early warning of excessive expenses and cash-shortages.
- **Expenses incurred against expenses budgeted (in total and by expense budget lines: monthly and cumulative)**  
Permits detailed control by expense lines, providing suggestions for specific expense-cutting measures and for adjustments of budgets owing to price and other changes outside the consultant's control.
- **Monthly billing against monthly fees earned**  
Shows whether the firm is properly organised to process work records and bill the clients as soon as records become available.
- **Number of months of outstanding fees**  
Shows whether fees are collected within normal time limits (4–6 weeks); an alternative ratio is outstanding fees as percentage of total (annual) income.

Source: M. Kubr *Management Consulting: A guide to the profession*, 2nd revised edn., International Labour Office, 1986