

## Networking in Accountancy Sector in India and ICAI's Role

### Challenges for Small and Medium Practices in India

- ❖ Change management – the need to commit resources required to manage change at ownership, structural and operational level.
- ❖ Traditional services – the need to specialise and collaborate to grow out of the static growth levels in traditional markets.
- ❖ Competition – the need to compete against non-accounting firms in traditional markets.
- ❖ Information technology – the need to resource and develop IT knowledge and specialise in applications.
- ❖ Professional development – need to acquire increasing knowledge and developing relevant skills
- ❖ Succession planning – the need to realise the practice's goodwill and ensure retirement options will be available
- ❖ Client base - With most business enterprises planning to increase their revenues by expansion activities rather than by cost cutting, the need to respond to growth of clients, match their needs and retain a growing client base for future success
- ❖ Staff – the need to compete for staff with other

large firms in terms of ongoing training, opportunities, etc. for high quality staff

- ❖ Specialisation – the need to obtain competitive advantage via specialisation in an industry, functional area or in a niche market.
- ❖ Resources – the need to have access to capital for IT and infrastructure and to acquire and retain human resources for devel-

vides the benefit of combining various skill sets and practices. It brings together the experience and expertise resulting in increased efficiency and cost effectiveness in the rendering of services. Some of the advantages of Networking include:

- Pooling and retaining the best talent to achieve core competencies.
- Pooling of infrastructure, combined strength and locational reach.

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The prevailing economic developments together with the increasing use and requirement of information technology offer both opportunities and challenges for the members of the accountancy profession. Having been successfully adopted by many firms in the developed nations, 'networking' is an increasingly important option for growth of small and medium sized firms in India in the current scenario.

- ❖ Scale of operation for BPO, etc. – the need to have scale of operation of 20-30 people for effective functioning.
  - ❖ Brand equity – the need to maximise brand equity by formation of multi-disciplinary alliances.
  - ❖ Off-shore auditing – the need to participate in this growing area of service, whether of information systems or financial statements.
- Networking essentially pro-

- Specialised knowledge and effective role of industry specialists.
- Attracting best talent and best practices to be perceived.
- Single window services or one-stop shop for clients.
- Growth of inter-dependent and self-reliant profession.
- Provides a base for the firms to understand each other, which can ultimately lead to merges resulting in bigger firms.
- Networking is best suited for special assignments such as BPO, Govern-

ment Reforms, etc.

- Networking helps in a brand-building exercise
- Comparative Economics - By appropriate mix of staff leverage, ratio of senior vis-à-vis juniors, per partner revenue, etc. are matched.
- Referrals - Member firm from abroad or other locations can refer to clients.
- Increased volumes - Economy of scale is achieved.
- Access to Knowledge Databases and Tools
- Generates confidence from the perspective of clients.

ICAI is introducing various initiatives on capacity building measures including networking and mergers. While the rules relating to networking

have already been announced, there is a need for the ICAI also to facilitate and assist in the development of networking to have full benefits of the existing expertise of Chartered Accountants for the advantage of the profession.

### Networking – The Context

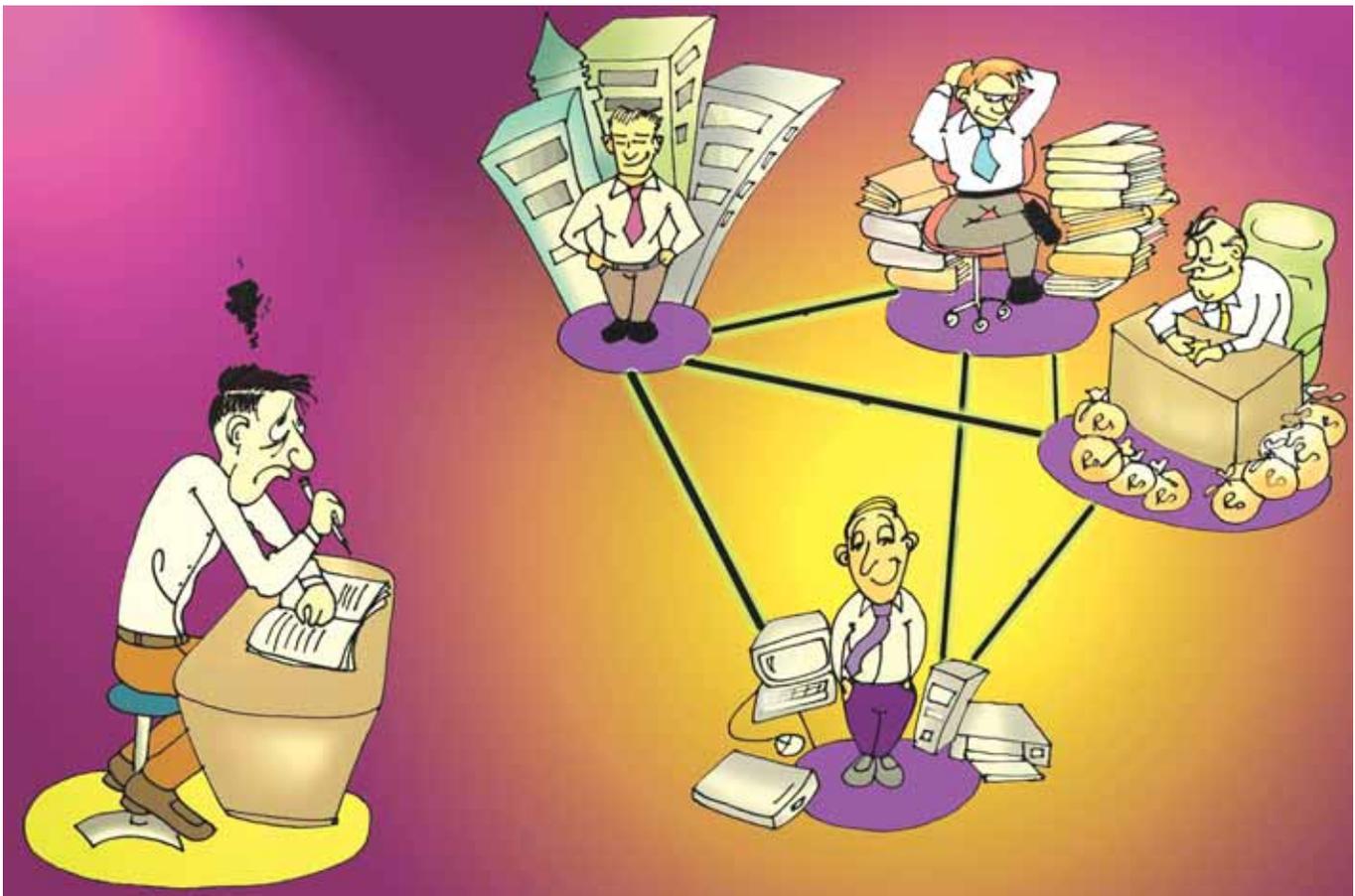
Networking to a large extent is necessitated by factors such as growth of the firm, diversification of expertise, economies of scale, globalisation and more recently to cope with changing regulations. It is also important to recognise the two major factors that raise unique issues for the accountancy profession - the partnership organisational structure and the nature and manner in which services are provided which contribute to the need to network. The regulatory framework of the

accountancy profession plays a significant role in India in this regard.

This is evident from the fact that major audit firms across the world today have evolved over years of mergers or acquisitions and networking, both domestic and international. Also there are indications that this will continue in the near future.

### Factors for Networking *Growth and the need for it*

Networking activity of audit firms is in response to the requirements of clients. As clients expand their operations, it is also necessary for audit firms to expand their offices in new locations. Instead of incurring the major capital expenditure necessary to establish a new office, it is quicker and economically advantageous to



network with a firm already established in the area. Further, large corporations expanding their operations beyond their national borders and the resulting complexities involved in auditing these companies have led many firms to establish working relationships with firms in other countries. These relationships are formalised through mergers and/or networking.

### **Diversification of Expertise**

There have been significant changes in accounting services over the past century. From small firms, providing mainly accounting/auditing/taxation services to local clients, firms have grown providing multiple services to domestic as well as multinational companies.

### **Economies of Scale**

The ever rapid and large-scale changes in the Information Technology sector have an enormous impact on firms to invest to meet their own information systems needs besides the client's requirements on expanding operations. These necessitate firms to increase their size of operations to achieve economies of scale so that such costs can be absorbed. Generating volumes cannot be achieved by mere internal growth. It is becoming increasingly necessary to resort to networking to sustain in this competitive era.

### **International Developments in the Accountancy Sector**

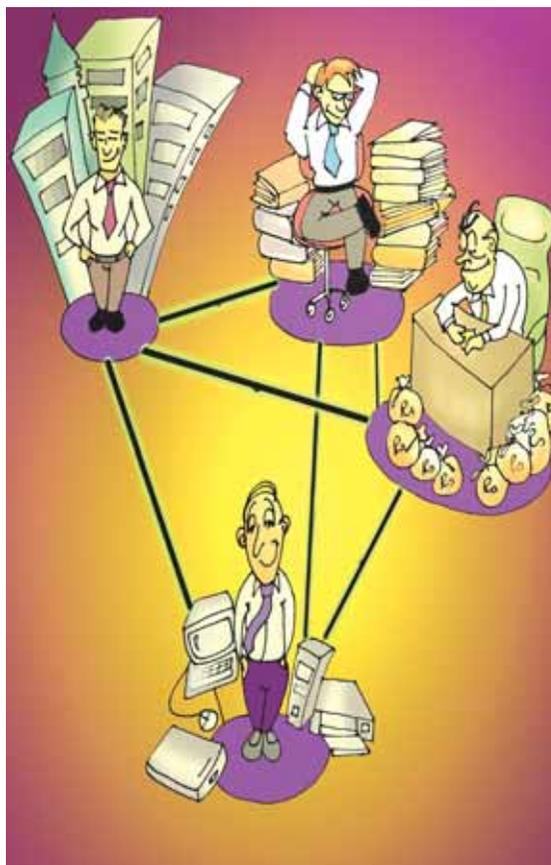
The prevailing scenario in the accounting sector is characterised by challenges. It is necessary to get a feel of these to understand their scope in the need for networking.

- International large firms are witnessing lower popularity ratings and are faced with increasing competition from similar sized firms. Mounting capital costs and an increasing exposure to lawsuits are the other challenges.
- Demographical studies in developed countries indicate an ageing population thereby creating an increasing demand for contemporary accounting professionals.
- Locally, the traditional bread-and-butter lines of auditing and tax work are no longer remunerative due to aggressive wooing of clients by competition.
- Sometimes the practitioners reduce their fees to avoid losing their customers either to competitors or to off-the-shelf accounting software packages. Pressure on prices still continues throughout the industry.

These changes have major implications for the profession and careers. Members in practice need to upgrade their skills due to competitive pressures, and most importantly, change their approach to client services. Many of the large firms have gone global. For small and medium sized firms with limited resources or manpower to have access to international developments, networking is an increasingly popular option.

### **Effects of Globalisation**

There is a need for firms in India to look outside their domestic markets and to venture



further. In times where the world is going global, it is time that firms position themselves to increase their interaction in this global environment.

Capital market regulators, both elsewhere and within India, increasingly expect auditors to assume greater responsibility for assurance and reliability of the financial statements. Developments in the offshore sector create increasing opportunities for co-operation on a global scale and networking. Every enterprise in the new economic scenario faces new forms of competition and economic frameworks. The intensity of competition has increased even locally for most domestic industries. Members and firms need to factor in these challenges for supporting local industries and assist

in maintaining their competitiveness. It is for this reason that networking is very important as it establishes opportunities and provides platforms for future growth.

Increased demands of global financial services and markets, floating of subsidiaries by publicly quoted companies of developed countries in India and global expansion of operations by Indian companies present immense opportunities for accountancy professionals. For example, need to adhere to and comply with the requirements of Sarbanes Oxley or similar legislation or reporting under an international GAAP for example, US GAAP or IFRS. These opportunities require the need to not only strengthen the profession locally but also to adopt globally recognised best practices by networking.

### Need for Branding

Globalisation has started a long time ago and now the boundaries between economies are becoming blurred, as markets and products penetrate into new domains. Services have now become a powerful source of income in many countries including ours. There is an increasing requirement for branding in the current market as branding assists in national/international recognition and acceptance. Affiliation to a recognised network results in leveraging the existing client base and loyalty.

### Information and Communication

The revolution and developments in information and communication space have

and will contribute significantly to the continued growth of services sector, including accountancy services. This has led to the concept of a virtual global village, making physical movement of persons to render services redundant. The accountancy field has the unique advantage of a universal language of “numbers” unlike other service sectors.

### Accountancy Profession in India

Available statistics indicate that 72.68% of Chartered Accountants’ practice is dominated by sole proprietorship firms. Only 118 firms are having 10 or more partners representing only 0.24% of the total.

### The Way Forward

With increasing domestic competition and increasing requirement to comply with various regulations, the lack of resources inhibits growth of expertise and self-develop-

**Networking essentially provides the benefit of combining various skill sets and practices. It brings together the experience and expertise resulting in increased efficiency and cost effectiveness in the rendering of services**

ment. Networking is increasingly a necessary option to create and access a cache of knowledge. Undoubtedly, limited capital resources and unfamiliarity with dealing with alliances are deterring factors but these should not restrain members and firms from progressively resorting to networking.

In the context of small and medium CA firms in India, the profession has to also face the challenge of being constrained by domination of a single family or individual and/or lack of succession planning in the SME firms. In the current environment, such attitudes may be detrimental to the profession in the long run. It is important to recognise that such perceptions affect the growth of the firms/profession.

To sum up, networking not only assists in leveraging on core competencies to the benefit of all but also leads to accessing specialised skills and expertise in areas that would otherwise be costly to maintain for a small clientele. Hence, it is imperative that firms channelise resources in a proactive manner towards networking to succeed, not only locally but also internationally. If you do not knock, the doors of opportunities will not open.

### Different Kinds of Networking

Networking can be undertaken in any of the following forms:

- Referral Network
- Association of domestic firms
- Affiliation to an international network
- Special Purpose Vehicles



- Informal Associations
- Consolidations and ultimate Merger of Firms

### The Problem Areas

Unique problems of networking involving professional services arise from perceived conflicts of interest; the possible loss of clients; and uncertainty regarding whether the resultant networking advantages will be realised fully.

It cannot be assumed that af-

- Examine how the network affiliation helps clients with tax, strategic management or accounting issues that are anticipated in the areas in which they plan to expand and how the network will help in areas that are crucial to the client's growth plans.

### Associated Challenges

Some of the perceived risks in a network and how these can be managed are discussed below:

The Perceived Risk	How To Manage
Loss of Control	Contract for smooth long-term relationship
Loss of Skilled staff	Contract should provide to retrieve key staff
Loss of Intellectual property	Contract to protect License, Usage and Rights.
Loss of Security	Develop Standard Operating Procedures
Service Quality Drops	Contract to specify on minimum service levels, incentives, etc
Increase in costs	Target Cost-setting, Process re-engineering, and Sharing Risks & Rewards.
HR Issues	Define HR Policies and Procedures
Change management	Contract covering Formal Change Procedures
Transition and cultural issues	Joint Risk Management, Streamlining methodologies
Exit Policy	Contract to drive Exit Strategy

filiation to a network will assist in handling all the clients' requirements. To ensure this, it is necessary that attention, before affiliating to a network, is given to the following:

- The network should add to the areas of core competencies of one's practice and the areas in which one will be dealing through the network should be supplementary to these;
- Detailed study of the qualifications of the members who are affiliated to an existing network, if any; and

### Path to Successful

#### Networking

#### New Age Accountants

Most business owners do not like accountants who are either too big to pay enough attention to them or too small to serve all their needs. A network that will provide expertise and technology can offer clients everything from advising on a complex integrated accounting system, strategic business planning, outsourcing of accounts function, other financial services to intricate taxation matters and much more. Accountancy, today, is more than mere number crunching!

### Networking – Thinking wisely

Think big! The size of the firm or the practice does not make a difference - what matters is the skill and expertise - this works by adopting another direction - networking. A multitude of accountancy firms have used locally acquired skills to create national and international niches that are professionally healthy and personally satisfying.

### Building Blocks for Successful Network

- Highlight education or an achievement or some service, or expertise. There is a need to focus on something that sets one apart. It is all about creating a niche.
- Create a position - Positioning is the place a product or service occupies in the minds of prospects.
- Be consistent and persistent in the quality of services. Business is about personalised services.
- Strategise - Spend time with the existing clients, get to know the company's specific goals and how they plan to achieve those, as well as the firm's competitors and how they fail to meet the needs.
- Publish - Write articles, write a book or create a website.
- View the big firms not as competition, but partners. Developing such association and relationships, is mutually beneficial.
- Appreciate the marketing power of teaching. Speak at seminars, invite important persons to lectures,



which will more frequently than not lead to a variety of engagements.

- Follow Governmental Reforms at national, state and local level and do not overlook their accounting needs.

#### Golden rules for Developing Networks

- Co-operation - Remember that groups do not co-operate, people do.
- Right Beginning - Start small and network for early success.
- Patience - Networks get built by a link at a time.
- Strategies - Adopt the right tactics for achieving network benefits by cross-staffing, rotation of staff, generating integrated client work.
- Like Mindsets - Organise around like-minded people.
- Functioning, Management and Governance - Achieve centralisation of selected network decisions; Seek firm-level funding of collaborative activities (to free resources); Develop a system of cross-boundary “client relationship partners”;

Appoint practice co-ordinators; Rewards and compensation systems; Conduct joint training programmes.

- Collective sharing - Establish methodologies on information sharing and maintenance of databases.
- Network Strengths - Have complete knowledge on the networked resources.

#### ICAI Initiatives Networking Rules

One of the recent initiatives of the ICAI has been the announcement of the “Rules for Networking and Merger/Demerger of CA Firms” based on the report of the study group constituted for Capacity Building Measures of Chartered Accountancy Firms in 2004. The Rules define the concept of networking and affiliates. A network needs to evaluate for itself whether or not it is a formal network requiring registration with ICAI, and only a formal network is required to be registered with the ICAI. Some of the pertinent rules relating to networking as specified by the ICAI:

**Globalisation started a long time ago and now the boundaries between economies are getting blurred as markets and products penetrate into new domains**

- Name: The network may have a distinct name, which should be approved by the ICAI. To distinguish a “Network” from a “firm” of Chartered Accountants, the words “& Associates” should be used after the name of the network and the words “& Co.” / “& Associates” should not be used. Regulation 190 of the Chartered Accountants Regulations, 1988 shall be applicable to the name of the Network. A Network may work without a name also.
- Advertising and Logo: The network should neither be permitted to advertise nor use a logo.
- Client Consent: The network shall obtain consent of the client to engage an affiliate in discharging professional assignments.

#### Other initiatives Initiatives of ICAI Committees

Various committees such as those on Professional Development, Continuing Professional Education, Information Technology, Insurance have been actively involved in conducting seminars and workshops on professional opportunities and developments, introducing post-qualification courses in specialised areas such as Information Systems Audit, WTO and Trade Laws, Insurance Risk Management, etc. These are steps in the right direction towards providing specialised knowledge levels to develop expertise and provide opportunities for mem-



bers in niche areas, thereby fostering the development of networking.

#### **Database of Firms**

ICAI has recently launched the Multipurpose Empanelment Form, which can significantly assist in promoting networking amongst members by identifying expertise and talent from the database created.

#### **Ethical Standards and other Rules**

It is important to have clarity on this while drafting the networking agreement and that each member of the network should understand the importance of the ethical standards and rules of ICAI. It should be noted that whether the network is registered or not, formal or informal, it should comply with all applicable ethical requirements prescribed by the ICAI from time to time. It is worthwhile to note that some of the requirements such as conflict of Service line, non-audit fees applicable to a network, rotation of firms, that networking is permitted for individuals and firms only and corporates cannot become members of a network, etc.

It is also important to note that only firms/members forming Network are eligible to sign or attest any certificate/report/professional document/assignment and not the Network.

The proprietary/partnership firms/individual member constituting the network will be answerable for alleged violation of the provisions of the Chartered Accountants Act, 1949 together with the Regulations, guidelines/directives as specified by the Council from time to time and Code of Conduct by the network firm.

#### **Role of ICAI for Successful Networking**

Though the rules for registration are liberal and give flexibility to both registration and non-registration yet the forms of having formal or informal networks are still restrictive.

In the prevailing economic scenario, it is now becoming increasingly important for the ICAI to play a proactive role in the development of networking.

ICAI's initiatives, keeping the requirement of developing accounting professionals in India to meet the increasing demand of our accounting expertise, should be directed to:

- Facilitating the development of networking by identifying individual members/firms with expertise in specific identified areas such as forensic audit, valuation, systems audit, accounting in specific industry such as power, infrastructure, etc. by encouraging communication with and

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amongst such members to develop a network.

- Creating a database of such networked members that is accessible to the public at large.
- Providing legal support and standard agreements for the benefit of network members.
- Removing the fetters on names of networks.
- Regulating proactively.
- Exploring for successful practices that have been adopted by a regulatory body of accountancy professionals elsewhere.

#### **Conclusion**

To achieve the success that is necessary and intended, it is important that ICAI must act as a facilitator by playing a positive rather than a restrictive role. Capacity building involves equipping members by enabling them to grow and foster in an unrestricted environment so that they can compete with non-members who operate in an unrestricted environment. In this aspect of networking, ICAI's role should be similar to that of NASSCOM that has achieved much success in the IT Sector.

With the development of networking with the right perspectives, it will be sooner than later that India will capitalise on the superior native intelligence, expertise and skill sets that Chartered Accountants in India possess today.

*If you want to succeed, you should strike out on new paths rather than travel the worn paths of accepted success.*

- John D. Rockefeller □