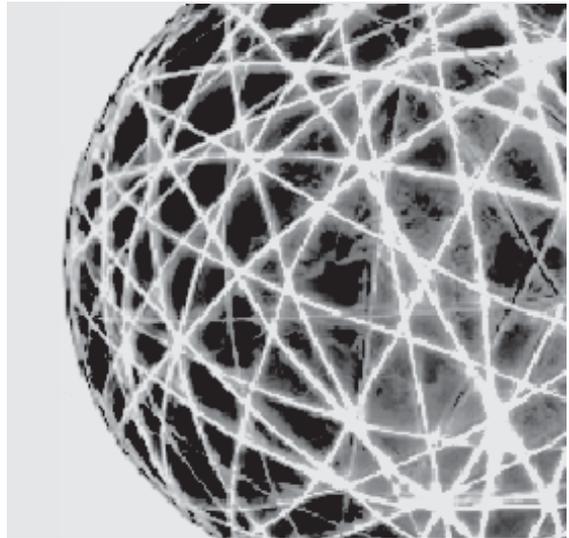


NETWORKING

Key to live up to increasing expectations from CAs



ND GUPTA

The users of services of profession have become more conscious of the series rendered by the members and they expect increasing amounts of value addition in services rendered on several fronts. This challenge, which is gradually becoming bigger and bigger, can be met with a path breaking response called 'networking' and it's our time to make best of the growing opportunities from it.

There has been a sea change in the accountants' outlook and their approach towards their profession -- thanks to the fast-paced developments in social as well as economic spheres of life over the years.

World over they are transcending their traditional roles as the paradigm shift in accountancy is forcing a shift in the focus. As quoted by YH. Malegam, "The changes, which are taking place in the economic and social environment and particularly the spectacular advances in technology are posing a similar challenge to the accounting profession. Because of globalisation, these challenges are no longer localised and require a global response. These challenges are so fundamental and required response so vigorous that, I believe,

we are truly witnessing the birth of a new civilization in the accounting profession".

The present day economy is opening up and its prime characteristics are Liberalization, Privatization and Globalization. In this background, expectations of users of the services, regulators and every one concerned stand changed. They are no more interested in certification work, tax practice and traditional audit services. Moreover, global competition in corporate world in the knowledge-based economy contin-

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uously raising demand for consultation in terms of merger, demerger, acquisition, e-business, international movements, cross border transactions, etc.

Hence, the role of Chartered Accountant has become very critical. He must take advantage of the winds of change and must not shy away from them.

The users of services of profession have become more conscious of the services rendered by the members and they expect increasing amounts of value addition in services rendered. They demand value addition in several fronts: They demand advisory services backed by huge updated knowledge base;

They demand services in large scales; They demand services which require skills of other disciplines; They demand services of international phenomenon having validity and application across the globe. Being the clients in the present day world, where 'Customer is the King', they can afford to have so many demands. To meet all these, we need huge updated multifarious knowledge base with international flavour. To ensure our existence, we have to compete with professionals from other disciplines. But, do we have enough in store to offer solutions for all these dynamics?

Honestly, at the moment, the answer is 'NO'. But, will it be so forever? Absolutely not! The lessons which history provides us is that the period when the greatest challenges emerge is also the period when a vigorous and sustained response will capture the best opportunities. Even the above posed challenge left us with a path breaking response called 'Networking' and it's our time

The Revolution of Networking



The idea of networking was identified as early as 2000 by ICAI. IFAC Code of Ethics defined it, and our Institute adopted it with an explanation suitable to Indian context.

IFAC Code of Ethics has defined the term Network firm as follows:

"An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally".

In the same lines of definition of IFAC Code of Ethics, with required Explanation/elaboration suitable to Indian context, the following definition of Network firm has been formulated for India:

Explanation - 1. An affiliation shall also include: -

"An entity under common control, ownership or management with the firm or having affiliation with an accounting entity or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.

- (i) having an association with an accounting entity within or outside India such that it results directly or indirectly in a common professional economic or beneficial interest.
 - (ii) 1 or more of firms holding out that it's so affiliated or networked.
2. An entity shall not be treated as an affiliate of an other merely for the reason that they:
- (a) share professional knowledge and data base
 - (b) refer certain professional assignments or authorize the other to represent certain specific matters.
3. ***If different Indian firms are networked with a common Multinational Accounting Firm (MAF) then irrespective of the presence/absence of any 'affiliate' relationship between the Indian firms inter-se, they shall be considered as part of the same network."***

to make best of opportunities from it.

However, we have not been able to take full advantage of the favourable waves blowing towards us. To reason out why, some background and characteristics of Indian Chartered Accountancy provide the ground realities:

Chartered Accountancy firms in India mainly suffer from two inherent limitations (the reasons for which may be regulatory framework within which they operate or the typical mental set-up of Indian members)

Firms of small size

These are proprietary firms or firms having 2 to 3 partners) because of which losing number of opportunities which big firms, say, firms having more than 10 members, can enjoy.

Lack of "Brand Name"

Because of it we are losing a cutting edge which IFIA (Indian Firms having International Affiliations) enjoy as they have "Brand Recognition" came along with their international affiliates, which they got for a single reason of the continuity and recognizability internationally.

If we go into some more related reasons in this regard, we can note down many interesting observations:

I. Limitation of small size

The Institute has 1,12,038 members and 46,732 numbers of firms. The firms may be classified into following classes (just for

Sl. No.	NATURE	NUMBERS	%AGE
I.	Proprietary firms	34524	73.9
II.	Partnership firms having 2 to 3 members	9647	20.6
III.	Partnership firms having 4 to 10 members	2466	5.3
IV.	Partnership firms having more than 10 partners	95	0.2
Total		46732	1

bringing out the relevance of the point): -

If we observe the *table*, almost 74% of the firms are still proprietary concerns, which continue to be the most popular form of organization for practicing Chartered

under control, independent and entirely free to take our own decisions. We are entirely in charge of planning, organizing, directing, staffing, control and communications of our professional practice. We are also sure of all that is happening in our practice and are thus more in control when the firm size is small.



Accountants even today.

If we make an attempt to go into the reasons why almost 95% of the firms have not more than 3 partners, we can observe that reasons are not only of historical and regulatory nature but also of typical mental set-up. Professionals like us, prefer small firms because we feel more

'Small is beautiful', accepted, but 'Big is beneficial'. In the commercial environment earlier prevalent in India, there was no external economic impetus or regulatory encouragement for networking. But, the present day industry/commercial trends are reflected in:

- ◆ Increasing size of business operations - Increasing standards
- ◆ Mergers, acquisitions and aggregation - resulting effects on capital markets
- ◆ Demand for 'single-window' concept in professional services - Necessity of providing 'Integrated services'
- ◆ Globalization of national economy - Increasing level of international trade and commerce
- ◆ Increasing complexity of laws and consequent need for compliance - knowledge obsolescence at an alarming pace
- ◆ Dynamic environment characterized by Continuous change

leading to growing complexity of business environment

What the trends want is not the brilliance of the few but the competence of many. All of these factors indicate that users of professional services will look to larger firms to meet their requirements. Progressively, there is a growing realization of the need, importance and relevance of large sized firms.

The time has come for proprietorship concerns, both small and big to need to network, come together and form strategic alliances and partnerships.

II. Limitation of lack of "Brand Recognition"

Along with this, the continuity and recognizability of certain firm names internationally has given such names certain characteristics of "brand recognition". A similar situation does not prevail even for well-established Indian firms. There was no concept of "brand name" amongst Chartered Accountancy firms in India. It is this particular identity that is creating a perceived inequality between Indian firms with international affiliations (IFIA) and other Indian firms. Otherwise, the background training and educational qualifications of all the persons practicing in India are more or less similar.

The approach of ICAI has consistently been that the quality of services rendered should be the sole criteria to judge the professional firm. Given the regulatory and commercial environment prevalent in India, the expertise, value addi-

tion and cost effectiveness of services rendered should remain the distinctive characteristics of a professional firm, which would contribute to its widespread recognition.

But changing times and circumstances suggests that along with the 'quality of services', there is very much relevance of the brand image to compete with big and reputed IFIAs.

Three golden mantras, slowly but surely, are going to leave their strong footprints on the profession soon, which can change the face of the profession totally in the near future:

- a) Consolidation of firms**
- b) Multidisciplinary firms**
- c) Globalization of firms**



Due to these inherent limitations, it is becoming almost impossible to meet this challenge with the existing:

- ◆ *Set-up of mind*
- ◆ *Infrastructure*
- ◆ *Style of Functioning*

So, there is the need for "Capacity Building". Networking, which is the tool for Capacity Building, may be of National Level or International Level. As part of this, restructuring of firms through merger or demerger is the essential need of the hour.

Although we are known for Excellence, Independence and Integrity, we will have to acquire:

- ◆ *Technical Excellence;*
 - ◆ *Ethical Compliance; and*
 - ◆ *Organizational Engineering;*
- to raise our standards, which will be ensured by 'Networking'.

In fact, these are the three components of the major need of 'Networking'.

a) Consolidation of the firms, especially for non-audit services:

Naresh Chandra Committee on Corporate Audit and Governance, made the following recommendation (No. 5.7):

"ICAI should propose to the Government a regime and a regulatory framework that encourages the consolidation and growth of Indian firms, in view of the international competition they face, especially with regard to non-audit services".

There is an imperative need of the consolidation of partnerships through merger / reconstruction in this competitive era. Every profes-

sion operates in a dynamic environment, characterized by change. Recent years have seen a significant expansion in the body of knowledge required by the professional accountant.

The glory of traditional audit services is, at a quick pace, getting darkened. So, it is can't but stage to find new non-audit services to ensure the existence.

These non-audit services can be justified if the size of the firm is large and if it is blessed with multi-functional edge.

b) Multi-disciplinary firms

In the days where we are preferring shopping malls like Shopper's Stop, Pantaloons etc. to have shopping of various items at one place, the same is the case with the general public who look for professional services:

"They want all services under one roof." To meet these client's expectations, there is inevitable need for having partnership with non-financial professionals, i.e., necessity of forming multi-disciplinary firms.

However, there are regulations in the present regulatory framework such as Chartered Accountants Act and Professional Ethics.

But, with a broader perspective of providing 'Integrated Service' to the society (i.e., All services under one roof), the council is working out the modalities for bringing the suitable amendments to the existing framework so that the wider purpose will be effectively served.

The ICAI Initiatives



To have successful Networking among firms, there shall be careful updating and nurturing of technical knowledge for which our Institute is taking many initiatives.

(a) The establishment of "Virtual Institute Project", supported by knowledge portal enables the constant updating of knowledge base so that fast pace knowledge obsolescence can be effectively guarded against.

(b.) "Nodal competence development center"

(c.) "Accounting Research Foundation"

(d.) "Continuous Professional Education" etc.

(e.) The ongoing programs like conferences, seminars & training programs have been undertaken on a large scale by the Institute in the recent past to achieve the desired competence levels of the members.

2. In order to enable and to have smooth transition in the process of networking, our Institute is working out modalities in bringing out suitable amendments in provisions of Chartered Accountants Act, 1949 and the Professional Ethics so that the members can enter into partnerships for limited purpose with professionals in other disciplines enabling to establish "Multi-disciplinary Firms".

3. Similarly, to address the problems faced by our members in entering into partnerships with professionals of other countries, Institute is bringing out suitable amendments in the existing regulatory framework to enable "Globalisation of firms". The recent notification of ICAI permitting students to have their articles training even abroad is a step towards this direction.

There is now a new networking of like-minded institutions in accountancy the world over. This new bonding has happened through the realization that the benefits of information technology need to be enjoyed by all - and that, to make that happen, it is also necessary to invest in research, the fruits of which can be shared by all those involved. The network is called the international innovation network and our Institute has already become an integral part of it. Through our participation, we shall not only get to share the results of the research work done by others (such as the work on the Extensible Business Reporting Language (or XBRL) but we shall also carry to research on our own and share it with others. Truly, a new global brotherhood of accountancy is beginning and we are proud to be part of it. The Council in its 237th meeting held in Oct 2003 had accepted the networking in principle. The modalities for the same are being worked out by the Working Group.



c)Globalization of firms:

It is well observed and accepted fact that world has become global village. The style in the life has changed amazingly, thanks to new inventions of modern era like Internet, communication facilities, etc., which are making possible once impossible-branded tasks. The distances have reduced because of excellent transport facilities and information can be transmitted across the globe at a split second. So, the users of financial services need not stick to the financial service providers at their own region and can get them from any part of the world. So, there is inevitable need for having networks with International firms to ensure our existence in this ever dynamic economy.



Even ten-thousand-mile journey starts with the first step. So, if this networking concept has to be successful, every member has to take self-initiative in achieving this long and complex phenomenon.

Networking vis-à-vis BPO

The glory of traditional audit services is, at a quick pace, getting darkened. So, it is can't but stage to find new non-audit services to ensure the existence. So, the professional members have to look out for other non-audit services including areas of MCS. Here came the Business Process Opportunity (BPO) Opportunity as a boon! It is high time for them to tap the BPO opportunity. Though there is huge buzz regarding this issue as a new and modern concept, in fact, it is not new concept for we professionals as we are used to it for years. Take example of representing the clients before Income Tax authorities; is it not Business Process Outsourcing? We have been doing it at least for last 50 plus years, if not more. So,

BPO dynamics are not at all new for us. So, we have to grab this known and well-versed opportunity with both hands.

As stated by Mr. Senapathy, CFO, Wipro Ltd., BPO industry can be segmented into five areas: Accounting and Finance, CRM, HR, Administration, and SCM. Out of these, the relevance of area of "Accounting and Finance" is so high that the opportunity in this area alone is USD 23 Billion (in Indian Rupees, it is working out to 1,00,050 Crores @ 43.5 per dollar! I think it is too big to ignore) covering receivables, payables, general accounting, tax management, treasury and management accounting. I believe any of these functions are not new to we Chartered Accountants! Take it. It's your time.

But, undertaking BPO may require involvement of large operations and services of non - financial professionals as well as awareness

of dynamics of foreign countries. This calls for "Networking", as earlier said, through Consolidation of firms (to handle large sized operations), multi-disciplinary functional firms (to get the services of non - financial professions), and global firms (to understand the global dynamics and to gain confidence of global clients). So, to have firm foot into the field of BPO, it can be said with almost precision that "Networking" is inevitable.

Conclusion

It is not impossible for us to meet these standards (infact, even the word 'Impossible' says I'm possible). It just requires some mental make up.

Start believing that a new concept is not a threat but an opportunity. Change is inevitable in life; understand that change can be from worse to better. It is true that Change is painful even from worse to better. But, the point is if you are not the part of solution, then you are the problem. Opportunities knock only once.

"One light lights another & its light does not grow less", so we need not worry with outdated unnecessary feelings, which we have for years to join hands with others.