



NETWORKING FOR CA FIRMS - PRACTICAL CASE STUDIES

AMEET N. PATEL

19TH AUGUST 2022



**CAN AN
ASSORTMENT OF
PEOPLE
SUCCEED IN
CREATING A
ROBUST FIRM?**

NETWORKING AMONGST CA FIRMS – PAST EXAMPLES

OFFICIAL NETWORK

- Formed with main objective of getting bank / PSU audits
- Several firms with no common agenda/vision/ goals got together on paper
- Many times, there were mal practices (sleeping partners / false addresses etc)
- Most such networks have failed and have even given a bad name to the profession

LOOSE ASSOCIATION

- Firms from different locations got together to form a loose informal association
- No formal MOU
- Case to case basis referral of work
- Mainly driven by absence of own presence in the other's location
- Several such examples where the association has ultimately resulted in a robust partnership



CAN SUCH LOOSE ASSOCIATIONS SURVIVE?

WHAT IS THE SCENARIO TODAY?

- **Massive shortage of manpower**
 - Very few new entrants wanting to join practice
 - Attractive packages offered by Big 4 and Start ups
- **Difficulty in retaining talent**
 - Lack of patience amongst young professionals and increasing need to get promotions and increments quickly
 - Drastic reduction in organisational loyalty and frequent job hopping
- **Spiralling costs (real estate as well as staff)**
- **Mismatch in increased costs and stagnant fees due to perceived absence of value addition by CA firms**

WHAT IS THE SCENARIO TODAY?

- Extremely demanding regulators
- Huge compliance burden with multiple due dates almost every month
- Exponential increase in risk in assurance practice as well as tax compliances
- **Compliance to Consulting:** Compliance based practices are facing severe competition whereas consulting opportunities have blossomed in a disrupted world
- **Monopolies are threatened:** The regulators have gone into overdrive to create safety for stakeholders; ICAI has lost ground in self-governance and professional standing qua regulators. Raising of tax audit limits, eliminating GST audits have led to loss of business for the SMPs. Monopolies hitherto enjoyed by CAs have been toppled.
- **Soaring Management Expectations:** Boards and independent directors demand much more – ability to meet management expectations has created a distinct edge for some firms.

WHAT IS THE SCENARIO TODAY?

- **Power Shift to the Tech Savvy:** The generation that operated through dictations, files, paper, administrative red tape, personal meetings over coffee or more is finding it difficult to type their own emails, leave aside draft opinions or edit reports – the generational shift of power and leadership has got accelerated.
- **Caught in the Middle:** The pains of being medium sized have surfaced – too large to be nimble, too small to make serious investments in technology and people – **consolidation and re-structuring is no longer a leisurely discussion topic, but has become a dire need.**
- **Lifestyle changes due to Covid:** Covid has changed the way people live, eat, sleep, work, behave, travel, think. With more and more youngsters wanting to WFH, CA firms also need to change their style of functioning.

Therefore, there is a clear need for change in mindset of Chartered Accountants

Larger firms are finding it easier to survive and thrive.

How will you cope with this new normal?

Will you go for a:

■ **Alliance**

Or

■ **Network**

Or

■ **Lead Firm**

Or

■ **Merger**

REQUISITES OF A STRONG AND LONG LASTING MERGER / NETWORK

- **Mission & Vision Statement:** It is most important that the firms coming together have a common minimum program. The perspective of different firms could be varying. Goal congruence between a Sole Proprietor and a Partner would be difficult.
- **Organisational Philosophy & Goals:** What is the underlying philosophy of the merged firm? What are the goals and aspirations? What is the growth strategy? All these must be clearly captured in an MOU if not in the reconstituted partnership deed.
- **Who is the boss?:** In any team, there can be only one captain or leader. This issue of deciding who heads the firm is also a stumbling block due to clashing egos. The most deserving person must be selected as the managing partner.
- **Acceptance of change in decision making authority:** When different people / firms get together, there is a perceived loss of authority which now gets vested in the Managing Partner or to a Committee of Partners. This needs to be accepted willingly and happily by all the persons coming together.

REQUISITES OF A STRONG AND LONG LASTING MERGER / NETWORK

- **Sharing of fees:** Money has always been the root cause of most breakups. So, how to share the fees amongst the different firms of a network/merger would have to be based on some rational and logical considerations.
- **Profit Sharing:** How to share profits amongst partners is a major issue. How to determine the profit sharing ratios?
- **Control on expenses:** Prior to a merger, it is possible that various types of expenses have been incurred by different constituents including certain expenses of partners. Post merger, control on the expenses has to be exercised so that each assignment results in highest surplus for the firm.
- **Valuing functional areas:** Common functions like accounts, finance, HR, IT, admin etc in any firm also drain the time and energy of the person in charge. Putting a value to such services and compensating the partner in charge is of utmost importance.

REQUISITES OF A STRONG AND LONG LASTING MERGER / NETWORK

- **Partner & Staff Loyalty** : The partners in a network or a merged firm have to be loyal to the network/firm and need to have a long term outlook. Frequent change of partners can cause loss of client confidence. If partners themselves do not show their loyalty, the staff will certainly not.
- **Job Security**: Loyalty to the firm will depend on the perceived job security – both for partners as well as staff. As the network / firm grows, there could be insecurity amongst the partners as to their duration as partners.
- **Retirement & Succession Planning**: This is probably the most neglected matter in most CA firms. Generally there is no retirement age in family firms and small firms. However, if a firm has to grow, it is imperative that senior partners make way for younger ones for the leadership roles. Clearly laid down retirement and succession rules must be laid down. Similarly, the rules for induction of family members of partners also needs to be tactfully handled and well documented.

REQUISITES OF A STRONG AND LONG LASTING MERGER / NETWORK

- **Immovable Properties:** When a firm is small, the issue of owning an immovable property in the name of the firm does not throw up major concerns. However, as the firm grows and as the number of offices increases, especially in high cost cities, owning immovable properties in the firm's name is bound to raise a large number of disputes. How to deal with existing premises and what to do in future when a new office is needed are thorny issues.
- **Name of the merged firm:** This is another contentious issue and comes in the way for a smooth merger / network. Most CAs are very attached to their own firm names and are extremely hesitant to give up the same.
- **List of holidays/office timings:** While these may seem to be petty issues, very often they assume a significant importance and could become unnecessary hurdles in smooth integration

REQUISITES OF A STRONG AND LONG LASTING MERGER / NETWORK

- **Pay scales:** Different firms would have different pay scales. Integrating them into a commonly acceptable uniform scale across all the member firms is also a time consuming and difficult matter.
- **Usage of technology:** Here too, there would be differences amongst the firms. Bringing in uniformity and making all firms use the same technology is another costly and time consuming exercise
- **Uniform stationary, office infrastructure:** Bringing in uniformity in format of different items of stationary as well as in the office design and layout is another important factor that needs to be looked into while integrating.

CONSOLIDATION IS THE NEED OF THE HOUR

1st step – do a SWOT analysis

2nd step – list down people with whom you are already comfortable and reach out to them

3rd step – start collaborating with like minded professionals by sharing work

4th step – work more closely with them

5th step – start thinking in terms of merger

DIFFERENT MODELS THAT HAVE WORKED IN THE PAST

- Merger of few similar sized firms (after a reasonably long courtship)
- Merger of proprietary firms into an existing mid sized firm
- Informal network of like minded firms having offices in different locations
- Informal network of like minded firms having different practice areas

POSSIBLE REASONS FOR SUCCESS OF SOME EXPERIMENTS IN THE PAST

- Meeting of minds of people coming together
- Leaving aside of egos and obsession with one's name
- Complete trust in each other
- Undisputed honesty & integrity of the leaders
- Fairness in profit sharing ratios
- Ruthless implementation of Common Minimum Program

POSSIBLE REASONS FOR SUCCESS OF SOME EXPERIMENTS IN THE PAST

- Patient integration of various practice management policies
- Pursuit of growth which enables expansion
- Investment by partners in infrastructure
- Specialisation by partners leading to excellence & recognition in the market place
- Due recognition given to functional areas such as HR, Admin, IT etc

GROWTH WILL COME TO
FIRMS WHO ARE **WILLING**
TO **DISRUPT** THEMSELVES
.....CONTINUOUSLY!



Thank you!

I am

**Ameet
Patel**

You can write to me on patelameet@hotmail.com

&

You can find me at  @patelameet