

# **CAPACITY BUILDING MEASURES, 2004**



**REPORT OF  
THE STUDY GROUP ON CAPACITY BUILDING MEASURES OF C.A. FIRMS  
AS APPROVED BY THE COUNCIL.**

**The Institute of Chartered Accountants of India,  
I.P. Marg, New Delhi-110 002**

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## **FOREWARD**

A brave new world is waiting for us. In this new world order, the excellence against tough competition is the crucial word. The Indian Chartered Accountants because of their world-class education, training, skill and competency to ensure excellence have the potency to be a major player in the world service sector. But a number of barriers and short-comings plague the growth of small CA firms into medium and large sized firms. One can appreciate various historical, regulatory, corporate as well as socio-legal reasons for the same. We have no other option. We will overcome this barriers by developing capacity, core competencies & promoting strategic alliances amongst the CA firms. Visualizing the changing scenario, I had the pleasure to constitute a Study Group to evaluate the ground realities and make recommendations on merger, demerger, networking, multi-disciplinary firms, corporate form of practice and brand image to face confidently emerging challenges of national and trans-national corporate sector. In the interest of the long term growth of the profession, this capacity building measures is a dynamic concept and the Institute is conscious and duty-bound to carry forward this solemn mission. As trade and business has been gloablised, we have to make ourselves well equipped to provide globally acceptable solutions. I feel proud that the Members of the Study Group in spite of time constraints and their many other compulsive responsibilities as Council Members, have deliberated minutely on all the possible aspects. The Council, with its own wisdom, has considered each and every aspect of all the recommendations of the Reports to address the imperative need of the profession in the larger interest of the society. I am confident that the report will create a comfortable environment amongst the members towards various measures recommended by the Study Group and approved by the Council. The detailed rules and the modalities of implementation of these recommendations are being examined and the members will be informed of the same shortly along with the date of effect of various measures.

I congratulate and deeply appreciate the contributions and dedications of Shri Manoj Fadnis, Convenor, Shri Abhijit Bandhyopadhyay, Shri J.N. Shah, Members of the Study Group, and Dr. Alok Ray, Secretary of the Study Group for this excellent task towards a new horizon of the profession.

**New Delhi**  
**Dated: 12.12.2004**

**(SUNIL GOYAL)**  
**PRESIDENT**

## **PREFACE**

The accountancy profession of the globalised world is synonymous with the creeds to provide single window one-stop services at the multi locational reach with the cost and time effective aspects. To achieve this objective, merger, demerger, networking, multi disciplinary firms, corporatisation of management consultancy services and brand building are measures to strengthen the capacity of the Indian CA firms. I sincerely believe that this report along with its various recommendations as approved by the Council and consequent follow up actions will give a competitive edge to the profession and will equip the CA firms to face the challenges and opportunities of the globalised world in this I.T. age. I may also reiterate that networking will ensure a strategic alliances amongst the CA firms to utilize expertise, experience and efficiency at clients doorstep and successful networking will lead the firms to merge and prosper. On the other hand, the multi disciplinary firms and corporate form of practice will change the face of the profession. We consider ourselves privileged if the message of this exercise is disseminated to the general members and empowered them to compete with the best and ultimately to be the best of the world.

I wish to convey my deep gratitude to the President, Shri Sunil Goyal, Vice-President, Shri K.S.Vikamsey to entrust with the responsibility of this Study Group.

Needless to mention that this exercise could not be possible without the contribution and tireless efforts of two other members, Shri Abhijit Bandhopadhyay and Shri J.N. Shah & my other Council colleagues.

I wish to place on record my deep appreciation for the contribution and cooperation of Dr. Ashok Haldia, Secretary of the Institute for this historical task to strengthen the profession.

I sincerely compliment and appreciate Dr. Alok Ray, Secretary of this Study Group for his contribution and dedication in this task.

**New Delhi**

**Dated: 12.12.2004**

**(Shri Manoj Fadnis)**

**Convenor,  
Study Group on Capacity Building  
Measures of C.A. Firm.**

## CHAPTER 1

### INTRODUCTION

*"The Indian Chartered Accountancy Profession will be the valued Trustees of World Class Financial competencies, Good Governance and Competitiveness."*

- Mission Statement of ICAI

#### 1.1.0 Accountancy Profession – Indian Scenario

- 1.1.1 The Chartered Accountants Act, 1949 has been enacted by the Parliament for the regulation of the profession of Chartered Accountants. For the purpose of carrying out the objects of the Act, Chartered Accountants Regulations, 1988 have been enacted.
- 1.1.2 The Institute has issued Code of Ethics, which is mandatory for the members. The Code recognizes that the objectives of the accountancy profession are to work to the highest Standard of professionalism, to attain the highest level of performance and generally to meet the public interest requirements.
- 1.1.3 The Indian chartered accountants, because of his world-class education, training, skill, competency to ensure excellence and good command in English-language can play a major role in world development process. The imperative need of the profession is the capacity building of the C. A. firms through merger, demerger, acquisition, networking and corporatization of multidisciplinary services. A time has come to promote the brand image of the profession in the world service market.

The accountancy profession of globalized world is synonymous with the following creeds: -

- To acquire core competency through Merger, Demerger & Networking.
  - Networking of professional firms to strengthen the capability and widen the locational reach.
  - Corporatization of the service to ensure 'single window' service to the clients.
  - Multi disciplinary service.
  - Limited liability professional entity to minimize the risk of adventure in world service market.
- 1.1.4 Every profession operates in a dynamic environment, characterized by economic compulsions. In India, the sole proprietary firms/small firms have been the most common form of organization of C. A. firms. The Study Group is conscious about the historical, regulatory, corporate as well as socio-psychological reasons. To appreciate the scenario of the profession in India, the following data is self-explanatory:-

(As consolidated by EDP Section on 16.6.2004 on the basis of available data).

No. of Total Members - 117080  
 No. of FCAs - 53435  
 No. of ACAs - 63645

Sr. No.	Particulars	Numbers	%age
I	Proprietary firms	34505	72.68
II	Partnership firms having 2 to 3 members	10114	21.30
III	Partnership firms having 4 to 10 members	2742	5.78
IV	Partnership firms having more than 10 members	118	0.24
		47479	100.00

1.1.5 There is no uniform definition of small, medium and large firms. But it can be safely said, on the basis of the above statistics, that the predominant composition of the Indian CA firms is small in size. The medium firms are also few in number. The large firms constitute a very miniscule percentage of the total number of firms. This traditional model may not be viable and ideal to meet the demand of national and trans-national corporate sector.

1.1.6 A number of barriers and shortcomings plague the growth of small firms into medium and large sized firms. These barriers need to be overcome by developing capacity, core competencies, promoting strategic and networking alliances. If the expertise is not available within the firm, a merger, acquisition or networking is a method of acquiring the capacity to meet the emerging challenges. To optimize the synergy and to make the merger, acquisition or networking feasible, the capacity building plan has to consider these ground realities. The growth of C. A. firms should be sustainable and compatible with the concept of socio-economic-legal norms and practices

**1.2.0 Globalization & The Profession: Emerging opportunities vis-a-vis challenges**

1.2.1 In any professional service, there are three key benefits that clients seek – expertise, experience and efficiency. However, even within the same practice area, the relative priority that a given client places on these elements can vary dramatically. To ensure that enterprises access the best global services while maintaining appropriate ethical and professional standard, the Institute as a regulatory body, has a decisive role to play.

1.2.2 Excellent opportunities are coming up for professionals with the specialized knowledge and skills sought by global organizations. These

will increase the areas of national and international taxation, finance and corporate law. Consultancy and advisory services will continue to grow in importance, expanding from traditional financial and business planning into wider issues of business effectiveness and other leading edge areas such as engineering and corporate transformation.

- 1.2.3 Globalization is resulting into cross border investment and operations. Increasing globalization has an impact on the working of different professionals including accountancy profession. Complexity in laws demands specialization. On the other hand, the emerging demand for 'single window' concept in professional services is imperative. Mergers, acquisitions, networking and sometimes demerger are the natural corollary of the process of globalization.
- 1.2.4 In the globalized world, the demand of the services users includes multi-locational and integrated "one stop-shop" service sector. The user is well justified in demanding the presence of the service provider at multi-locational points. This enables the reduction in the cost and the time required to deliver the services. Most of the Indian firms are small firms & it is not possible for such firms to have multi-locational presence. Nor it is feasible for a small firm to render a wide range of services.
- 1.2.5 The object of this report is to build the capacities of small and medium firms to meet such global challenges.

### **1.3.0 Vision of ICAI: Globalization of the Profession**

- 1.3.1 The Vision Statement of the Institute states as under: -
- ◆ Recognize the changes in Economy/Business Environment such as focus on value, dynamic business and organization structures, developments in Information Technology and Telecommunication, new Government policies, globalization of business and competitive pressures.
  - ◆ Recognize the path to success by adapting to the changes, knowledge management and acquiring skills to work with future environment influenced by technological and other changes.
  - ◆ Recognize the opportunities for Chartered Accountants in the emerging areas such as new audit and assurance needs, performance measurement services, change management services, strategy management, general practice specialization and servicing global organizations.
  - ◆ Recognize the Institute's role as a proactive, innovative and flexible organization, in equipping Chartered Accountants with top quality education and values.
  - ◆ Recognize the need to be known as World Class Advisor.

- 1.3.2 Institute in its Vision Document welcomed the 'merger/consolidation of professional firms to create large 'FIRMS' by introducing processes and guidelines'. To ensure such merger/consolidation the vision document prescribes 'Network between practices which create an effective forum to communicate home country or international contacts that would facilitate the forming of strategic alliances'.
- 1.3.3 Network will create an atmosphere to understand the capabilities of each other and to promote an interdependent self-reliant profession. Successful Networks may lead the firms to merge and become bigger to make the Indian firms irrevocably strengthened and capable to meet the challenges with confidence.

#### **1.4.0 Capacity Building Measures : The Need of the Hour**

- 1.4.1 Needless to emphasize that the transformation means the cessation of the existing mind set up which feels secure in proprietary and small firm concept. Challenges have to be met by assessing competition, prospective clients need, demographics and market trends.
- 1.4.2 As trade & business globalized, chartered accountants firms in India will be expected to not only provide quicker solutions to the problems of corporate sector but also solutions that will be globally acceptable. The C.A. firms have to acquire more resources, Intellectual property and expertise to meet the requirements of corporate sector across the globe; Strategic alliance is the need of the hour in the corporate as well as in service sector.
- 1.4.3 To avail the emerging opportunities in the globalized world, the following are the Capacity Building Measures for the Indian CA firms, discussed in this report: -
- a) Networking
  - b) Mergers & Demergers
  - c) Multi-Disciplinary Firms & Other Measures

#### **1.5.0 Empanelment**

- 1.5.1 The present empanelment norms for the allotment of audits of Nationalized Banks and Public Sector Undertakings have been considered while framing the recommendations for Capacity Building Measures. These empanelments are done by the Reserve Bank of India (RBI) and Comptroller and Auditor General of India (C&AG). Panels are also maintained by Insurance Regulatory Development Authority (IRDA) and various other national and state level government bodies. The spirit of these norms has been incorporated in the Capacity Building Measures.
- 1.5.2 But it is essential to distinguish that the Capacity Building Measures are not confined to the empanelment norms. If mergers are undertaken by the CA firms merely to gain additional weightage or points from the empanelment point of view, then it will not result in creation of genuine big firms capable of delivering services as envisaged in the globalized



scenario. If mergers were to lead to additional points for the purpose of empanelment of C.A. firms then it is feared that a number of mergers would be triggered resulting in creation of entities, which may have a short life. This could deteriorate the quality of the service provided by these entities. Members should not come together just for a head count. Mergers should result in greater capabilities to render better value-based services.

- 1.5.3 In the interest of the long term growth of the profession, it has been felt that the Capacity Building Measures should be independent of the present empanelment norms. Therefore, it has been consciously built in that networking, mergers and other measures will not lead to any direct benefit so far as the empanelment norms are concerned. The objective is that a firm should grow so strong that the empanelment norms should become secondary for it in the long term.

#### **1.6.0 Terms of Reference, Composition & Functioning of the Group on Capacity Building Measures.**

- 1.6.1 The President of the Institute vide his direction dated 3<sup>rd</sup> March, 2004 constituted this Study Group (hereinafter referred as Study Group) to study the following in relation to Chartered Accountants Firms:

- i. Mergers
- ii. De-mergers
- iii. Networking
- iv. Capacity Building
- v. Strengthening of firms in general
- vi. Any other relating issues such as logo, brand name, etc.”

- 1.6.2 The composition of the Study Group was as follows:

Shri Manoj Fadnis, FCA, Indore – Convenor  
Shri Abhijit Bandyopadhyay, FCA, Kolkata – Member  
Shri Jaydeep Narendra Shah, FCA, Nagpur – Member

Dr. Alok Ray, Dy. Secretary acted as the Secretary to the Study Group.

#### **1.7.0 Capacity Building Measures – An ongoing process**

- 1.7.1 The initiative of the ICAI to formulate the Capacity Building Measures has to be an ongoing process. The ICAI has formulated Vision for the 21<sup>st</sup> Century. The Vision represents the overall path, which the profession has to follow in the long term. Keeping this Vision in mind, the ICAI has to prescribe the Capacity Building Measures from time to time. The present report has to be considered in this context.

- 1.7.2 In the present day dynamic environment, the laws and the commercial policies are not static and keep on changing from time to time. While the directions of the Capacity Building Measures cannot be changed from time to time but these need to be aligned in accordance with the prevailing environment. It is not possible to lay down the period or the

frequency with which these measures should be next revised. It can only be said that the initiatives of the Institute have to be timely.

1.7.3 In this background the present report is titled as "Capacity Building Measures, 2004".

## CHAPTER 2

### NETWORKING

#### 2.1.0 Concept

- 2.1.1 Networking has become buzz word for the rapid growth and development. In the modern world where technology is becoming obsolete everyday, the way and manner in which the business is being done is changing at a very fast speed. The concept of one stop shop and the realization that the customer i.e. the client is the king has changed the way the accounting profession is being carried out.
- 2.1.2 Given the fact that the Indian CA profession is dominated by the small firms, the networking will be an important method for these firms to meet the emerging challenges and opportunities. It will enable the firms to deliver services at multi-locational points without having their physical presence. Networking of firms can also be encouraged between different firms situated at the same place. This type of networking will enable each affiliate of the network to develop expertise in a specialized branch of the profession. The firms should be encouraged to work in a focused area of professional services. This will mean that the firm will have to decide in which particular area to practice and more important to decide in which area not to practice. It can then network with another firm which has opposite preference of professional practice.

#### 2.2.0 Definition

- 2.2.1 In this Report, Networking means as under:-

“Networking amongst two or more firms means 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.

[Explanation –

1. An affiliation as referred to above shall also include: -
  - (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) one or more of the entities holding out that it is so affiliated or networked.
2. An entity shall not be treated as an affiliate of another 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 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.]

### 2.3.0 Registration of networking

- 2.3.1 Registration of networking amongst firms registered with ICAI is required where the intention is to use the collective strength and resources of the network for undertaking any professional assignment. Such type of networks are hereinafter referred to as Formal Network. The requirement for registration will arise only in case of Formal network as mentioned hereunder.

Formal network.

- This essentially refers to a network between firms registered with the ICAI, where the object of network is to use the collective resources of the affiliates for execution of professional services of one or more types at multi-locational points. The resources would include financial, technical and other logistic support required to execute the professional assignments. In such type of network the common resources are being pooled together and are being exhibited before the service user as those belonging to one particular set of professionals. It therefore becomes necessary that such a network should comply with more stringent set of ICAI regulations.
- Provisions of Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 reads as under:  
  
"A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he –  
  
**Clause (1):** discloses information acquired in the course of his professional engagement to any person other than his client, without the consent of his client or otherwise than as required by any law for the time being in force."
- The Government shall be advised to make suitable changes in the C.A. (Amendment) Bill, 2003 to delegate the powers to the Council to permit disclosure of information in certain cases.
- The network is well advised to obtain consent of the client to engage an affiliate in discharging the professional assignments.

Referral Practice.

- The referral practice is existing in the profession since a long time. Here a firm refers one of its associate/ affiliate either situated at a different place or rendering professional services

not provided by it, to the user of the services. The predominant objective of such a network is not to pool in their collective resources and exhibit them as those belonging to one particular set of professionals. In this background, the Study Group is of the opinion that such Informal network does not come within the definition of Network as adopted by the Council as mentioned in para 2.2.1 as above. Needless to say that firms constituting such network are always required to comply with the relevant provisions of the Code of Ethics.

- 2.3.2 As per the Explanation 2(b) of the definition mentioned above, mere reference of certain professional assignments or authorizing the other to represent certain specific matters does not result in formation of a network.
- 2.3.3 It is for each firm to decide whether its affairs and relations with another firm results in creation of a network as defined above. Registration of a Network with the Institute, is mandatory, only if it is a Formal network. Each network shall evaluate itself whether or not it is a formal network requiring registration with the Institute.
- 2.3.4 As per clause-3 of the Explanation to the definition of networking, as mentioned above, 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. As such, for these firms the registration with the Institute is not ipso facto mandatory. It is only if these Indian firms decide to exhibit to the outside world their collective strength and resources, then the registration with the Institute is required.
- 2.3.5 In the matter relating to networking of firms registered with ICAI with entities outside India is concerned, it is felt desirable that the existing status quo may be maintained as the matter has already been decided by the Council, while considering the Report of the Study Group in relation to Section 25 of the CA Act and other related issues under the Convenorship of Shri Jayant Gokhale, FCA.
- 2.3.6 The rules for a Formal Network amongst firms registered with ICAI are as follows: -
- (1) Proprietary/partnership firms as well as individual Members are permitted to form a Network.
  - (2) A proprietary/partnership firm as well as individual Member should be allowed to join only one Formal network.
  - (3) The network would be used for showing the combined strength of proprietary/partnership firms constituting the network. Meaning thereby, they shall pool the resources and declare combined turnover, expertise, manpower & location.

- (4) Formal Network means a Network with a Name where the constituents firms will work as an entity at different locations and with its combined strength.
- (5) The network only can respond to tenders/enquiries in Network capacity. Only one firm can apply on behalf of the network showing the collective strength of all the constituent firms of the network.
- (6) Only the firms forming Network are eligible to issue/sign/attest any certificate/Report/professional document/assignment. However, the rules of the network shall prescribe the detailed modalities in this regard.
- (7) In case of alleged violation of the provisions of the Chartered Accountants Act, Regulations framed thereunder, guidelines/directions laid down by the Council from time to time and Code of Ethics by the Network firm, the proprietary/partnership firms/individual Member constituting the Network would be answerable.
- (8) The form of declaration to be submitted by a Network is at **Appendix I**.
- (9) The Network may have distinct name which should be approved by ICAI in accordance with the guidelines to be issued. To distinguish a "Network" from a "firm" of Chartered Accountants, the words "& Affiliates" should be used after the name of the network and the words "& Co." / "& Associates" should not be used.
- (10) The network should neither be permitted to advertise nor to use logo and status quo as regards solicitation and advertisement shall be maintained. The firms constituting the network is permitted to use the words "Affiliates/Members of ....." (a formal network of Indian CA firms) on their professional stationery.
- (11) A particular firm may dis-associate with network by sending the declaration and the concurrence/acceptance of the same by other firms forming part of the network firm shall not be required.

#### **2.4.0. Ethical compliances by Network**

- 2.4.1 Once the relationship of network arises, whether registered or not with the Institute, it will be necessary for such a network to comply with all applicable ethical requirements prescribed by the Institute from time to time. Compliance with such ethical requirement will only enhance the reputation of the profession and thereby of the member firms. In addition to the requirements of Code of Ethics, the following ethical norms will also have to be complied with by all the networks, whether registered or not with the Institute;

- (i) If one firm of the network is the statutory auditor of an entity then the associate (including the networked firm) or the said firm directly/indirectly should not accept the internal audit or book-keeping or such other professional assignments which are prohibited for the statutory auditor firm.
- (ii) The ceiling on fees in respect of Management Consultancy Services in terms of Notification No. 1-CA(7)/60/2002 dated 8<sup>th</sup> March, 2002, would apply to all the networked entities considered as a group. However, considering that the Network is a larger entity and to facilitate networking, the Council at its discretion may raise the ceiling in case of Networking.
- (iii) In those cases where rotation of firms is prescribed by any regulatory authority, no member firm of the network can accept appointment as an auditor in place of any member firm of the network which is retiring. However, this restriction will not apply in case of appointment as Statutory Central Auditor of Government agencies/Undertakings such as PSUs, Public Sector Banks and Financial Institutions etc.

2.4.2 In addition to that, if the Council proposes any further restriction from time to time, the same would also apply. However, network firms would not be bound by the disabilities of a particular firm like if any disciplinary proceeding is pending against any particular firm/Member forming part of network, it would not affect the network.

## **CHAPTER 3 MERGERS & DEMERGERS OF C.A. FIRMS**

### **3.1.0 Background**

3.1.1 Naresh Chandra Committee Report on Corporate Audit and Governance observed as follows:

- ◆ "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.
- ◆ The Government should consider amending the Partnership Act to provide for partnership with limited liability, especially for professions which do not allow their members to provide services as a corporate body."

3.1.2 The Partnership Act has not prescribed merger & demerger of partnerships. In the corporate world, merger and demerger have become universal practices for securing survival, growth, expansion and globalization of enterprise and achieving multitude of objectives. Merger is the fusion of two or more existing companies. On the other hand, demerger signifies a movement in the company just opposite to merger. 'Demerger' is also used to describe spinning off of an "undertaking" of a Corporate entity. 'Acquisition' in general sense is acquiring ownership in the property. The concept of 'Merger', 'Demerger' & 'Acquisition' are arising out of the 'Arrangement' under Sections 391-394 of the Companies Act, 1956.

3.1.3 To incorporate the spirit of Corporate World and to imbibe the consolidation creed, probably the Council used the term 'merger' and 'amalgamation' of CA firms. The Council in its 198<sup>th</sup> Meeting held from 25<sup>th</sup> to 27<sup>th</sup> February, 1999 and in 223<sup>rd</sup> Meeting held from 2<sup>nd</sup> to 5<sup>th</sup> February, 2002 considered the Seniority and Mergers of the firm and implications of the decisions, are placed at **Appendix-II**.

### **3.2.0 Merger – Tool for consolidation.**

3.2.1 In order to have an orderly and sustainable growth of the CA firms, it is desirable that the coming together of the firms begins with networking and then matures to mergers. Networking will enable the firms to develop working relationships with each other. This is like the pre-marriage courtship period. Once the firms have developed sufficient confidence in each other then they can venture into a marriage which is in the form of mergers. However, it is not to suggest that there cannot be mergers without networking.

3.2.2 The mergers should be effected to develop core competencies and to render professional services of a larger range spread over bigger geographical area. A merged big entity will always be superior to a network arrangement. A network of such bigger entities will lead to formation of bigger firms in near future.



- 3.2.3 The mergers cannot be prescribed keeping the prevalent empanelment norms in mind. As mentioned in detail in the first chapter itself, the mergers cannot be effective if the sole objective is to get higher points in the empanelment process. Such mergers will be only paper mergers meant for headcount in the empanelment process. The ability of firms coming together in this manner to deliver qualitative services to the users is doubtful. The Institute as a regulatory body has to effectively curb all kinds of malpractices.
- 3.2.4 The present suggestions on mergers will therefore not benefit the firms in the short run from the point of view of the empanelment norms. But in the long run, it will always prove beneficial both to the merged entity as well as to the user of the services. The Capacity Building exercise is to enable the growth of the firms in such a manner and to such an extent so that the empanelment with the regulatory bodies does not remain the prime objective.
- 3.2.5 The present decisions of the Council regarding seniority and merger of the firms as compiled in **Appendix-II** shall continue to apply.

### **3.3.0 Merger – the modalities.**

- 3.3.1 To effectuate merger, a merger agreement in the prescribed format is to be filed with the Institute within 30 days from the date of the agreement. The re-constitution agreement/ partnership deed will be required to be filed with the Registrar of Firms. The proposed merger agreement is placed at **Appendix III**.
- 3.3.2 Under the Indian Partnership Act, 1932, there are no provisions regarding merger of firms. Therefore, the merger has to be effectuated by entering into a new partnership deed/reconstitution deed. Such a deed will have to be filed with the Registrar of Firms as required under the law. To be treated as a merger for the limited purpose of the administrative matters of the Institute, the merger agreement has to be executed and filed with the Institute.

### **3.4.0 Demerger.**

- 3.4.1 The advantage of a formal merger is the ability to demerge which will be formally recognized by the Institute. One of the impediments for the growth of the firms is that once a merger takes place there is no exit route. The merged entity loses its trade name and also its seniority forever. There is always a lurking fear that the pre-merger cordial relations may not continue after the merger. In the event of such fear coming true then the merging firm will be in a situation of having lost everything that it had before merger. It is this fear that acts as a barrier in the process of merger of firms.
- 3.4.2 The following proposals regarding demergers are with the object of removing the abovementioned impediments: -

- a) It will be entitled to practice in its old trade name, which existed at the time of merger. Upon the merger of the firms, the Institute will freeze the names of the merging firms and shall not allot the same names to any other firm. In the event of demerger, the same name will then be given to the demerging firm.
  - b) The Constitution Certificate issued by the Institute to the demerged firm shall state the original date of establishment, the date of its merger and the date of the demerger. For the purpose of computing the seniority of the firm, the total period will be reckoned from the original date of establishment. The Institute will recommend to other regulatory bodies to consider the seniority of the demerged firm in the same manner. The recognition of the demerger for the empanelment purposes should be after one year of the demerger. This is to prevent any possible misuse of the facility of merger and demerger by any firm to circumvent the requirement of cooling period in the empanelment process.
- 3.4.3 The merger has to precede the demerger. The merger agreement itself will contain the terms and conditions for demerger. Therefore no concurrence/acceptance will be required from the continuing partners. The merger agreement shall stipulate that in case of 75% or more of the continuing partners of one of the erstwhile firm(s) are willing to demerge then they can do so after giving due notice to the other partners.
- 3.4.4 The condition of 75% or more of the continuing partners is just to safeguard from the whims and fancies of one or few of the partners who may otherwise be in complete minority. Also this requirement is similar to the requirement under the Companies Act, 1956 where a special resolution is required for certain important matters. Thus, effectively it means that the continuing partners of the erstwhile merged firm will have to pass the resolution of demerger by a  $\frac{3}{4}$ th majority.
- 3.4.5 It is necessary to lay down a time period within which the demerger can be demanded by the erstwhile merged firm. Demerger cannot be used as a hanging sword on the merged entity. Therefore to balance out between the two opposite issues i.e. (a) the need to demerge and (b) the probable misuse of this right to demerge, it is prescribed that the demerger in the manner hereinbefore mentioned can be demanded only within a period of 5 years from the date of merger.
- 3.4.6 The clear rules of demerger will facilitate the merger. It is like having clear rules of divorce in case the marriage is not successful.

## CHAPTER 4

### MULTI DISCIPLINARY FIRMS & OTHER MEASURES

#### 4.1.0 Multi-Disciplinary Firms.

4.1.1 Limited Liability Partnership (LLP) is being considered across the globe as a most suitable vehicle for partnership amongst the professionals such as lawyers and accountants. An LLP enters into contract in its own name in the same way as Limited company and its members have the advantage of limited liability similar to the shareholders of a company. The Study Group also noted that in U.K., the Limited Liability Partnership Act, 2000 has been enacted.

4.1.2 The Council had recommended to the Government to include the following proviso to Clause (4) of Part I of the First Schedule to the Chartered Accountants Act, 1949: -

“Provided that nothing herein contained shall be construed as prohibiting a member from entering into partnership with other professionals for rendering professional services as permitted by the Council from time to time, provided a separate firm is formed for this purpose”.

4.1.3 In the Chartered Accountants (Amendment) Bill 2003, it is observed that the above recommendation has not been given effect to. However, the Council now decided that to build capacity of the C.A. firms the phrase ‘provided a separate firm is formed for this purpose’ at the end of proposed proviso be deleted and the Institute should take up the matter vigorously with all concerned and after the amendment, the Council, at its discretion, may decide whether or not a separate firm was required for this purpose.

#### 4.2.0 Practice in Corporate form.

4.2.1 Section 25 of the Chartered Accountants Act, 1949 prohibits practice of the profession of Chartered Accountants by Corporate bodies. The services rendered by Chartered Accountants can be broadly classified into two categories - (a) Attest services and pleadings before Taxation and other Government authorities (b) Management Consultancy Services (MCS).

4.2.2 It will always be desirable that both the above mentioned categories of services are rendered by members in the professional firms as Chartered Accountants. Be that as may, it is also true that many of the members are desirous of forming companies for rendering the MCS. But by becoming working directors in such companies they are compelled to surrender their certificate of practice. Alternatively, they convert their Certificate of Practice into part time practice. Consequently they are debarred from training the CA students. With effect from 1.4.2005, they will not be able to undertake the attest function. Also they cannot hold more than 20% equity along with their relatives in such companies.

4.2.3 To remove the impediments faced by members, who are engaged in MCS in corporate form, it is recommended as under: -

- A) Conditions to be complied by the members desirous of becoming Managing Director/ Whole time Working Directors in companies rendering MCS.
  - i) The company to give an undertaking that it shall render only those Management Consultancy Services which are prescribed by the Council pursuant to powers under section 2 (2)(iv) of the Chartered Accountants Act, 1949.
  - ii) The company to give an undertaking that it shall comply with clause (6) & (7) of Part-I of the First Schedule to the Chartered Accountants Act, 1949 and such other directives as may be issued by the Institute from time to time.
  - iii) The name of the company shall be such as may be approved by the Institute in accordance with the rules to be framed in this regard.
  
- B) Benefits available to members if the conditions mentioned in "A" above are complied with.
  - i) The member can retain full time Certificate of Practice besides being the Managing Director or Whole time Director of such a company.
  - ii) The member will be entitled to train articled/audit students.
  - iii) There will be no restrictions on the quantum of the equity holding of the member, either individually or along with his relatives, in such a company.
  - iv) The members will be entitled to do attest functions.

#### **4.3.0 Brand Image and Logo.**

4.3.1 The Institute should prescribe a common logo for all the firms to promote brand image of India CA profession in general. This can be in the form of a sign such as "Opposite tick" or "Ya Esh Saptashu Jagarti" that will represent the Indian CA profession on a global basis.

4.3.2 The individual firms should not be allowed to have a separate logo for themselves.

4.3.3 The individual firms should be encouraged to get certifications from bodies to be prescribed by the Institute, to the effect that they have achieved a certain degree of standardization and/ or quality in the process of delivering their services. The Peer Review system introduced by the Institute is one such method of achieving qualitative standards. This will encourage the members to attain higher degree of qualitative standards which in turn will improve the brand image of such a firm in particular and of the profession in general. However, the firms are not permitted to state such achievement/certification on their professional stationary which includes letter heads, visiting cards, website etc.

## **Practice Development Strategies.**

4.4.1 The Study Group has noted that the Vision document adopted by the Institute contains Practice Development Strategies at Appendix 6.1 of the said document. The Study Group recommends that the member firms should adopt these strategies based on their perceptions, area and place of practice. The said Practice Development Strategies are placed at "**Appendix IV**".

### **4.5.0 Common Partners in Multiple Firms**

4.5.1 The Study Group noted that at present there is no system of awarding credit for a common partner for the purpose of empanelment with the C&AG. A member can be a partner in more than one firm. It is desirable that due credit of such a partner should be given in one of the firms in which he is a partner.

4.5.2 The option once exercised by the member should not be allowed to be changed for the next three years. This will prevent any misuse of right of option by the member.

## **ACKNOWLEDGEMENT**

The Study Group is extremely grateful for the advice and guidance of the President, Sunil Goyal, FCA and Vice-President, Shri Kamlesh Vikamsey, FCA. It is their inspiration and support that made this task possible within a prescribed time frame.

The Study Group was immensely benefited by the representation and deliberations delivered by Shri S. Gopalakrishnan, FCA on Networking before the Study Group. The Study Group deeply appreciates his contribution. The Study Group is also grateful to all the Council members who have given their valuable inputs in the course of discussion during the Council meeting and also in the special meeting of the group convened on 10<sup>th</sup> August, 2004 at New Delhi.

The Study Group, while addressing the issues, sincerely endeavored to interact with the Past Presidents of the Institute, Central & Regional Council Members, Members of the last Central Council, Chairmen of the Branches and Heads of the Decentralized offices and the responses received have enriched and equipped the Study Group to frame its Recommendations. The Study Group deeply appreciates and gratefully acknowledges their contribution for the cause of the profession.

While addressing the issues on Seniority, Empanelment, Networking and Multi-disciplinary service, the Study Group was enlightened by interacting with Dr. Ashok Haldia, Secretary of the Institute. His vision, views and clarity in analysis enriched the perspectives of the Study Group. The Study Group gratefully acknowledges his contribution.

The Study Group acknowledges the co-operation rendered by Dr. B. Chakraborty, Director, CPE and Shri G.D. Khurana, Director, Legal and other officials of the Institute.

The Study Group wishes to record its deep appreciation for the contribution and dedication of Dr. Alok Ray, Secretary of the Study Group. He and his team did an excellent job.

New Delhi

**Date: 1.12.2004**

**MANOJ FADNIS  
CONVENOR**

**ABHIJIT BANDYOPADHYAY  
MEMBER**

**JAYDEEP NARENDRA SHAH  
MEMBER**

**DECLARATION FOR FORMAL NETWORKING AMONGST FIRMS REGISTERED  
WITH ICAI**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**  
**PARTICULARS OF NETWORK HAVING INDIAN AFFILIATION**

1. Name of Network
2. Address of the Network
3. Names and addresses of firms constituting the Network

Names and addresses of Firms

Firm Registration Numbers

4. (a) Date of formation of Network
- (b) Date on which present network arrangement was entered into

We undertake to comply with the guidelines/directions laid down by the Council regarding Networking from time to time.

Place : .....

Date : .....

Name(s) with Membership No(s).  
and signature(s) of duly authorized  
Partner(s)/Proprietor(s) of the firms  
constituting Network

**Council Decision on Change in Firm name/Seniority of firms**

**Prepared by the Study Group on the basis of Council Decisions of 198<sup>th</sup> Meeting held from 25-27<sup>th</sup> February, 1999 & 223<sup>rd</sup> Meeting held from 2 - 5<sup>th</sup> February, 2002.**

<b>PARTICULARS OF CASES:</b>	<b>SENIORITY</b>	<b>DATE OF EFFECT</b>
<p><b><u>I Proprietor of firm:</u></b></p> <p>A member practicing as a sole proprietor in a trade name, admits one or more members as partners thereby constituting a firm, and</p> <p>i. the firm name is the same trade name</p> <p>ii. the firm name is different from the trade name</p>	<p>The date of establishment of practice in the trade name</p> <p>The date of approval of the firm name or the date of establishment of the firm in the firm name, whichever is later</p>	<p>27.2.1999</p> <p>27.2.1999</p>
<p><b><u>II Death of the individual member</u></b></p> <p>If the member practicing in a trade name dies and if the trade name is sold/assigned to another member and if the other member practices (either as sole proprietor or in partnership with others) immediately after such sale/assignment</p> <p>(i) In the same trade name</p> <p>(ii) In the new trade/firm name</p>	<p>Date of establishment as recognized by the Institute in the case of the deceased member if the sale/assignment is made (within one year from the date of death of the member)</p> <p>The date of approval of the new trade/firm name or the establishment of practice under new trade/firm name by other member/members, whichever is later</p>	<p>27.2.1999</p> <p>27.2.1999</p>



<b>III Partnership firms</b>		
(a) Firm consisting of two partners – If one of the partners retires/dies and if the remaining partner continues either as sole proprietor or in partnership with others		27.2.1999
(i) in the same firm name	There is no change in the date of the establishment of the firm	
(ii) in a new firm name	Date of approval of new firm name or the date of establishment of the firm under the new firm name, whichever is later	
(b) Firm consisting of more than two partners – If one or more of the partners dies/retires and the remaining partners continue to practice in the same firm name with or without dissolution.	There is no change in the date of establishment of the firm.	27.2.1999
<b>IV. Merger or amalgamation of two or more firms</b>		
If two or more firms merge/amalgamate, the new firm after merger/amalgamation practices.		
(i) in the firm name of one of the merged firms.	Date of establishment of the firm, which firm name is continued to be used after merger.	27.2.1999
(ii) in a new firm name, in cases where the existing firm is seeking change of firm name and approval thereof.	(i) Change of name from the date of approval.  (ii) There is no change in the date of establishment. The old trade/firm name will be frozen in the Institute's records for three years from the date of approval of the new trade/firm name. In the constitution certificate issued by the Institute during that period of three years, the name will be mentioned as "M/s.....(formerly known as M/s.....)"	4.2.2002

	During that period of three years, the firm will be given the option to have its original name at the choice of all the partners only if all those partners so apply to the Institute in the prescribed manner.	
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Example:

Name of firm	Name of firm	Name of new firm	Seniority	Date of Effect
A & Co., 1966	B & Co., 1980	A & Co.	Date of establishment will be 1966	27.2.1999
A & Co., 1966	B & Co., 1980	B & Co.	Date of establishment will be 1980	27.2.1999
A & Co., 1966	B & Co., 1980	Y & Co.	Date of establishment will be date of approval of Y & Co. by the Institute or constitution of the Partnership firm, whichever is later.	27.2.1999
4. A & Co., 1966	B & Co., 1980	Either AB & Co. or BA & Co.	Date of establishment will be 1966	4.2.2002

<p><b><u>V. Change in trade/firm name</u></b></p> <p>The member/firm continues the practice (with or without change in constitution) with the change in trade/firm name.</p>	<p>(i) Change of name from the date of approval.</p> <p>(ii) There is no change in the date of establishment. The old trade/firm name will be frozen in the Institute's records for three years from the date of approval of the new trade/firm name. In the constitution certificate issued by the Institute during that period of three years, the name will be mentioned as "M/s.....(formerly known as M/s.....)"</p> <p>During that period of three years, the firm will be given the option to have its original name at the choice of all the partners only if all those partners so apply to the Institute in the prescribed manner.</p>	<p>27.2.1999</p>
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Note:

1. Trade name: The name in which the member practices as a sole proprietor.
2. Firm name: The name in which the firm practices.
3. `Trade name' and `Firm name' are the names as approved by ICAI.
4. Merger/amalgamation is a term not applicable to firms under the Partnership Act. It is reconstitution of firm by addition/deletion of partners. The principles applicable to any reconstitution will, therefore, apply in these cases.

**FORMAT OF MERGER AGREEMENT**

We, (1)..... (2) ..... (3).....partners of M/s  
..... & (1) ..... (2) ..... (3) .....  
partners of M/s. ....execute this Merger Agreement on this \_\_\_\_ day of  
\_\_\_\_\_, 2004 at \_\_\_\_\_:

1. M/s A & Co., a Partnership/Proprietorship firm of Chartered Accountants having its registered Head Office at \_\_\_\_\_, duly registered with the Institute of Chartered Accountants of India vide Firm No. \_\_\_\_\_ in \_\_\_\_\_ region which expression shall include its successors, heirs and assigns. The date of establishment, name of the partners, their membership nos, are as follows :-

- (i) Date of establishment
- (ii) Name of the Partners Membership No.

2. M/s B & Co., a Partnership/Proprietorship firm of Chartered Accountants having its registered Head Office at \_\_\_\_\_, duly registered with the Institute of Chartered Accountants of India vide Firm No. \_\_\_\_\_ in \_\_\_\_\_ region which expression shall include its successors, heirs and assigns. The date of establishment, name of the partners, their membership nos, are as follows :-

- (i) Date of establishment
- (ii) Name of the Partners Membership No.

Now, therefore, in consideration of mutual promise herein made and the consideration hereunder expressed, the parties hereto mutually covenant and agree as follows :-

1. That the name of the merged firm will be \_\_\_\_\_ and the date of establishment of the merged firm is the date of establishment of the oldest/older firm i.e. \_\_\_\_\_.
2. That this merger will come into force w.e.f. \_\_\_\_\_ 20XX, whereafter, the merging firm i.e. M/s A & Co, M/s B & Co. cease to exist and a separate partnership deed has been executed on \_\_\_\_\_ amongst the partners of the merged firm.
3. That the following persons are the partners of the merged firm :-
  1. Mr. \_\_\_\_\_ Membership No. \_\_\_\_\_
  2. Mr. \_\_\_\_\_ Membership No. \_\_\_\_\_
  3. Mr. \_\_\_\_\_ Membership No. \_\_\_\_\_
  4. Mr. \_\_\_\_\_ Membership No. \_\_\_\_\_
  5. Mr. \_\_\_\_\_ Membership No. \_\_\_\_\_
  6. Mr. \_\_\_\_\_ Membership No. \_\_\_\_\_
  7. Mr. \_\_\_\_\_ Membership No. \_\_\_\_\_
  8. Mr. \_\_\_\_\_ Membership No. \_\_\_\_\_

We, all the partners of the merged firm ..... understand that this merger has the following consequences in pursuance to the decision of the Council of the Institute: -

1. That the name of the erstwhile merging firms will be frozen by the Institute.
2. And in case 75% or more of the continuing partners of one or more erstwhile merging firm(s) are willing to demerge, they can demerge after giving due notice and will be entitled to the following benefits :
  - (i) They will be entitled to the total seniority acquired i.e. their earlier pre-merger seniority and the years during which they were in merged firm.
  - (ii) They are entitled to their old firm's name.

Provided in case, 75% is a fraction, then the same will be rounded off to the next number.

3. That the date of establishment of the new demerged firm will be the date of demerger.
4. That the demerged firm is entitled to seniority of pre-merger and merger period for the empanelment and other professional purpose.
5. That to effectuate such demerger, no concurrence/acceptance is required from the other continuing partners of the merged firm. The partners of such demerged firm will execute a partnership deed. The merged firm as well as the demerged firm will submit fresh Form 18 as prescribed under the Chartered Accountants Regulations, 1988 to the Institute within the prescribed period.
6. That the demerger in the manner hereinbefore mentioned can be demanded only within a period of 5 years from the date of merger.

IN WITNESS WHEREOF, the Partners of the Merged firm M/s..... hereto set their hands on this agreement in the presence of the witnesses.

WITNESSES :

- |    |                       |
|----|-----------------------|
| 1. | (i) -----             |
|    | (ii) -----            |
|    | (iii) -----           |
|    | (iv) -----            |
|    | (v) .....             |
| 2. | (vi) .....            |
|    | Partners of M/s. .... |

## **PRACTICE DEVELOPMENT STRATEGIES**

### **6.1 Practice Development Strategies**

Generally two aspects of professional work create special management challenges to the professional service firm. First, professional services involve a high degree of customization in their work. Professional firms must manage customized activities where nothing can be reliably made routine.

Second, most professional services have a strong component of face-to-face interaction with the client. This implies that definitions of quality and service take on special meanings and must be managed carefully, and that very special skills are required of top performers.

Both of these characteristics (customization and client contact) demand that the firm attract (and retain) highly skilled individuals.

#### **The Mission of most professional firms is :**

To deliver outstanding client service, to provide fulfilling careers and professional satisfaction for our people and to achieve financial success so that we can reward ourselves and grow.

Simply put every professional firm must satisfy these three goals of "service, satisfaction, and success" if it is to survive. Management of a professional firm requires a delicate balancing act between the demands of the client marketplace, the realities of the people marketplace (the market for staff) and the firm's economic ambitions.

#### **Leverage and the Client Marketplace**

The required shape of the organization (the relative mix of juniors, managers and seniors) is primarily determined by the skill requirements of client work, the mix of senior-level middle-level and junior-level tasks involved in the projects that the firm undertakes.

## **Segmentation of Service**

Consider where the client's problem is at the forefront of professional or technical knowledge, or of extreme complexity. Then the key elements of this type of professional service are creativity, innovation and pioneering of new approaches, concepts or techniques.

This usually involves highly skilled and highly paid professionals. Few procedures are routine in nature. The opportunities for leveraging the top professionals with juniors are relatively limited. Consequently, the ration of junior time to middle-level and senior time tends to be low.

Consider where projects may require a highly customized output in meeting the clients' needs involve a lesser degree of innovation and creativity in the actual performance of the work. General nature of the problem to be addressed is not unfamiliar and the activities necessary to complete the project may be similar to those performed on other projects. Clients seek out firms with experience in their particular type of problem. The firm sells its knowledge, its experience and its judgement.

Since the problem to be addressed are somewhat more familiar, at least some of the tasks to be performed (particularly the early ones) are known in advance and can be specified and delegated. The opportunity is thus provided to employ more juniors to accomplish these tasks.

Apart from above a third type of project, the Procedure Project usually involves a well-recognized and familiar type of problem. While there is still a need to customize to some degree, the steps necessary to accomplish this are somewhat programmatic. The client may have the ability and resources to perform the work itself, but turns to the professional firms because the firm can perform the service more efficiently, because the firm is an outsider or because the client's own staff capabilities to perform the activity are somewhat constrained and are better used elsewhere. In essence the professional firm is selling its procedure, its efficiency and its availability. Procedures projects usually involve the highest proportion of junior time relative to senior time.

## **Leverage and the People Marketplace**

The connection between a firm's leverage structure (its ration of junior to senior professional staff) and the people marketplace can be captured in a single sentence – "People do not join professional firms for jobs, but for careers". They have strong expectations of progressing through the organization at same pace agreed to (explicitly or implicitly) in advance.

While the pace of progress may not be a rigid one (‘up or out in five Years’), both the individual and the organization usually share strong norms about what constitutes a reasonable period of time for each stage of the career path. Individuals who are not promoted within this period will seek greener pastures elsewhere, either by their own choice or career ambitions or at the strong suggestion of the firm.

## **Leverage and Profitability**

The professional service firm's leverage is also central to its economics. The "rewards of partnership" (the high levels of compensation attained by senior partners) come only in part from the high hourly (or daily) rates that the top professionals can charge for their own time. Profits also come, in large part, from the firm's ability, through its project team structure, to leverage the professional skills of the seniors with the efforts of juniors.

The successful leveraging of top professionals is at the heart of the success of the professional firm. By leveraging its high-cost seniors with low-cost juniors, the professional firm can lower its effective hourly rate and thus reduce its cost to clients while simultaneously generating additional profit for the partners.

## **Profitability and Growth**

It is interesting to note that, in the formula for profitability, growth and size do not appear. It is essential that professional firms grow in order to motivate and retain the firm's best staff. Without growth, much of the dynamism of the practice will be lost and morale will suffer.



For example, a firm successfully grew the practice by 25 per cent in a given year, but grew it in such a way that (a) the mix of business (and hence the realized fee rates) remained the same and (b) the firm’s method of serving that additional volume of business used the same staff-to-partner ratio currently existing. In this scenario, the firm would need 25 per cent more partners to handle that volume, and if the realization rates were the same as the firm’s existing business, the net profit per partner would remain the same.

Growing by 25 per cent and adding 25 per cent more partners is not a bad result but it does not further the goal of improving profit per partner. To do that, we must break one of the two conditions imposed; either bring in work that has higher fee levels than the firm’s current average, or find ways to service the firm’s work with higher leverage. This is the same conclusion as that reached before. Only increased fee levels or leverage move the firm forward. It is the nature of the work brought in, not just its volume, that contributes to profit health.

This is not how most firms control their practice development efforts. Many firms are revenue driven or top-line oriented, taking the view that any new business is good business.

In large part, the lack of a good profitability reporting system that allows them to know which work is truly profitable and which is not. Never measure profitability at the engagement level (or do so with misleading indicators such as margin or realization alone). It is hard to guide and reward partners practice development activities properly. If profits are to improve, this will only be done by improving how profitably engagements are run proper staffing, proper delegation and efficient use of people’s time. Project leaders should be held accountable for engagement success considering revenues and the cost of resources consumed (including the costs of partner time).

<b>Level</b>	<b>No.</b>	<b>Target Utilization</b>	<b>Target Billable hours</b>	<b>Billing Rate</b>	<b>Fees</b>	<b>Salary per Individual</b>	<b>Total Salaries</b>
Senior	4	60%	4,800	750	3,600,000		
Middle	8	60%	9,600	400	3,840,000	180,000	1,440,000
Junior	20	80%	32,000	250	8,000,000	36,000	720,000
<b>Total</b>	<b>32</b>				<b>15,440,000</b>		<b>2,160,000</b>

Fees	15,440,000
Salaries	2,160,000
	-----
Contributions	13,280,000
Overhead	4,632,000
	-----
Partner Profits	8,648,000
Per Partner	2,162,000

## 2. Professional Firm Life Cycle

In any professional service there are three key benefits that clients seek – expertise, experience, and efficiency. However, even within the same practice area, the relative priority that a given client places on these elements can vary dramatically. A client with a large, complex, high-risk, and unusual problem will appropriately seek out the most creative, talented or innovative individual or firm he can find at almost any cost. Prior experience in the clients’ industry or past exposure to problems of a similar type, may be useful but are secondary to the client’s need for skilled expertise.

While many professionals would like to believe that all client needs fall into this category, such clients represent only a small proportion of the aggregate fees spent in any given practice area. A much larger client base exists for which different approaches to practice is required. These types of client recognize their problems have probably been faced and dealt with by other companies, require less complete customization and are probably not crisis issues. Accordingly, they will be shopping less for the sheer brainpower of critical individuals and more for an organization that can bring past experience to bear in solving these problems. A high level of expertise is still required, and efficiency is not irrelevant, but extensive experience with similar problems is worth more to the client than an extra degree of intellect or extra savings.

There will also exist within the same practice area third group of clients, who have problems that they know can be handled competently by a broad range of firms. Rather than looking for the highest possible expertise or the most prior experience, these clients will be seeking out a professional firm that can meet their needs for a prompt start, quick disposition and low cost. They will seek the efficient firm.

Since clients of each of these types exist within every practice area, it would be tempting for a practice group to try and respond to all of these various needs, particularly in these competitive days when professional firms are hungry for increased revenues. However, accommodating the varying needs of these different types of clients within a single practice group is an almost impossible task. A group that wishes to attract the “high expertise” engagements must organize its affairs and methods of doing business in such a way that will make it an unlikely candidate to be chosen by a client who places most emphasis on efficiency and, of course, vice versa.

Rather than distinct categories, the expertise, experience and efficiency labels are obviously meant to describe only points along a spectrum of practice. Every aspect of a practice group’s affairs, from practice development to hiring, from economic structure to governance, will be affected by its relative positioning on its spectrum. Increasingly, firms will have to decide which type of client need they are attempting to serve and organize their affairs appropriately.

### **3. Types of Practices.**

#### **The Expertise Practice**

Imagine a professional practice group (or firm) that focuses its attention on serving the needs of clients with innovation problems. How would you run such a practice?

True to the professions traditional self-image of being elite practitioners, the staffing requirements of this “expertise-based” practice would be such that the firm would need to seek out and attract only the top grade graduates from the best schools, in order to generate top-notch professionals who could meet the quality needs of the frontier practice. Training would best be accomplished through an informal apprenticeship system and since standards would be high a rigorous up-or-out promotion system would ensure that the firm retained only the best and the brightest.

While some large-scale engagements, might require large numbers of junior professionals to draft documents, perform analyses, or conduct client interviews, most expertise engagements would tend to require a high percentage of senior professional time, due to the high diagnostic component in the work. Accordingly, we would expect the expertise practice areas to be relatively unleveraged, with low, fixed costs and high margins. The firm would make its profits through high billing rates or some form of

value billing, justifiable and sustainable because of the critically, complexity and risk in the client engagement.

Since few clients would have regular ongoing needs for top-flight critical expertise, the client mix professionals practicing in this area would tend to be diverse, and constantly shifting. With relatively low leverage and an up-or-our system the internal pressure for growth would be less than in other practice area types and (appropriately) growth would not be a major goal for the firm.

### **The Experience based Practice**

Now consider a firm whose practice-mix was made up predominantly of clients who, rather than needing the profession's most creative talent, wanted to find a firm that had accumulated experience in handling certain types of problems and would not take an expensive "start with a blank" approach to the problem. Rather than relying on individual talents, the firm would need to create more of an institutional reputation, based not only on the talent of key individuals but on the ability of the firm to bring to bear its collective knowledge derived from past engagements.

For such firms, practice development would involve identifying documenting and promoting their specialized knowledge, through brochures describing previous engagements. Clients newsletters or special seminars on topics related to the firm's particular areas of experience. Experience based practice areas would tend to have a more clearly focused and stable mix of clients, with steady relationships becoming increasingly important.

In contrast to the "frontier practitioners", the work content of the typical engagement would require less time spent on diagnosis and more on executing increasingly predictable (if still technically demanding) tasks. Accordingly, the ratio of junior to senior professional time would increase, with profits from increased leverage offsetting the generally lower billing rates. It is in this middle experience stage of practice area maturity that time and expenses billing practices would be (and are) most relevant and common in all professions.

The firm's hiring needs would expand to include a major role for less skilled professionals and more trainee professionals, since the increased structuring of familiar engagement types would allow the firm to employ an increasing degree of systems and

procedures and hence require less mature talent. Training approaches would become increasingly formal with greater use of out-of-hours classroom sessions and practice manuals.

### **The Efficiency based Practice**

Let us consider a practice area that had high preponderance of clients who were mostly interested in the efficiency with which the firm dealt with low-risk, familiar types of problems. The firm would be squarely in the business of demonstrating that it had established systems and procedures to handle specific types of problems. Cost, reliability, speed and other such characteristics would come to the fore. The client mix in such practices would tend to be focused around a core of high volume clients.

Client fee sensitivity would require that engagements be staffed at the most junior level possible, including maximum possible use of trainee professionals and increasing use of technology to substitute for professional labour. Fee pressure would be offset by increasing use of staff and technology leverage and pricing would increasingly become a matter of fixed price contracts or bids.

Efficiency practices, with their relatively high fixed cost structure and many juniors, would need to take a more studied, planned approach to growth in order to capture the volume necessary to offset lower margins. The needs for both management and administration would increase, in order to devise optimum ways of dealing with familiar engagement types and to monitor and supervise the project teams to ensure that the best procedure is indeed being followed. Rather than the heavy use of judgement employment in expertise-based practices, efficiency practices have high needs for short-interval measurement systems both for quality assurance and productivity. Rather than inspirational leadership styles, efficiency based practices would need managers who are disciplined, organised and detail oriented.

## **4. Strategies for being More Valuable to Clients**

- (a) Develop an innovative approach to hiring so that we can be more valuable to clients by achieving a higher caliber of staff than the competition.
- (b) Train our people better than the competition in a variety of technical or "counseling" skills so that they will be more valuable on the marketplace than their counterparts at other firms.

(c) Develop innovative methodologies for handling our matters or engagements, transactions or projects, so that our delivery of services becomes more thorough or efficient.

(d) Develop systematic ways of helping, encouraging and above all, ensuring that our people are skilled at client counseling in addition to being top technicians.

(e) Become better than our competition at accumulating, disseminating and building on our firm wide expertise and experience, so that each professional becomes more valuable in the marketplace by being empowered with a greater breadth and depth of experience.

(f) Organise and specialize our people in innovative ways, so that they become particularly skilled and valuable to the market because of their focus on a particular market segment's needs.

(g) Become more valuable to our clients by being more systematic and diligent about listening to the market: collecting, analyzing, and absorbing the details of their business than does our competition.

(h) Become more valuable to our clients by investing in research and development on issues of particular interest to them.

## **5. Increasing the Firm's Capabilities**

### **1. Increasing Knowledge of client's industry**

- Study industry magazine/newsletters thoroughly
- Attend industry meetings with client
- Conduct proprietary studies

### **2. Increasing knowledge of client's business**

- Read all clients' brochures, annual reports and other public documents
- Ask to see strategic plan
- Volunteer to review internal studies
- Conduct reverse seminar

### **3. Increasing knowledge of client's organization**

- Ask for organization chart
- Ask who, the client deals most with?
- Ask about the client's boss

- Ask about power structure
  - Arrange to meet other executives
  - Spend time with client's juniors
4. Increasing knowledge of client
- Find out precisely how client is evaluated inside his or her company
  - Find out what he or she is unhappy with

## **6. CRM - Approach towards Business Growth**

Making the Client Disposed to Use the Firm Again

1. Going the extra mile on the current engagement
  - Use new business budget to fund extra analysis
  - Use budget to improve turnaround time, service
  - Improve quality of presentation
  - More documentation, explanations, accessibility
  
2. Increasing the amount of client contact
  - Telephone regularly
  - Visit at every opportunity
  - Schedule business meetings near mealtime
  - Invite to firm offices
  - Introduce one's partners
  - Get firm leaders involved
  
3. Building the business relationship
  - Help client with contacts
  - Put on special seminars for client's staff
  - Volunteer to attend client's internal meetings
  - Offer free day of counseling on non-project matters
  - Send client useful articles
  - If possible, refer business to client

4. Building on personal relationship
  - Social activities
  - Remember personal, family anniversaries
  - Keep in touch
  - Provide home telephone number
  - Offer use of firm's facilities

## **7. Tactics to enhance Client Value**

1. Dictate and transcribe summary of all meetings and significant phone conversations and send copy to client same or next day.
2. Involve clients in process through – brainstorming sessions, give client tasks to perform.
3. Give client options and let client choose.
4. Explain clearly and document what is going to happen, make sure process is understood in advance. If appropriate, develop printed booklet laying this out.
5. Make meetings more valuable
  - Establish specific Agenda and goals prior to meeting
  - Send info, reports in advance – save meeting time for discussion, not presentation
  - Find out attendees in advance, research them
  - Always establish next steps for both sides
  - Call afterwards to confirm that goals were met
6. Make report more valuable
  - Get client to instruct the firm on format, presentation
  - Provide summary so client can use it internally, without modification
  - Have all reports read by non-project person prior to delivery to ensure readability, comprehension
  - Provide all charts, tables and summaries on overheads for internal client use
  - Write progress summaries in a fashion that client can use internally without modification



7. Help client use what is delivered
- Assist client in dealing with others in client organization
  - Empower client with reasoning steps
  - Advise on tactics/politics of how results should be shared inside client organization

**8. Tactics for dealing with people crisis**

Productivity strategies

- Speed up training process so that costly resources can handle higher value work
- Reward partners explicitly for good coaching
- Change engagement staffing, so that all are put to "highest and best use"
- Use technology to enhance productive capabilities of staff members
- Increase expected billable hours from staff
- Change pay schemes to reward performance differentials

Reduce Need Strategies

- Withdraw from some services and markets that cannot support new salary levels
- Drop "up-or-out" system to reduce turnover
- Rethink fast growth strategies
- Emphasize profitability more, volume of fees less

Substitution Strategies

- Use more Trainee professionals
- Use technology to substitute for labor
- Hire "non-traditional" candidates and offset by training
- Hire people for "jobs" instead of "careers"
- Accommodate part-time, flextime, alternate "life-style" workers

**9. Tactics for improving profitability  
(in descending order of impact on profit health)**

One : Raise Prices (i.e. Fee Levels)

- Earn higher fees through specialization, innovation, adding more value

- Use marketing knowledge to get “better” work
- Speed up skill-building process in staff
- Invest in new (higher - value) services

Two : Lower Variable Costs (Delivery Cost for each Engagement)

- Improve engagement management performance
- Increase leverage in the delivery of services
- Make greater use of Trainee professionals
- Develop methodologies to avoid duplication of effort

Three : Fix Under Performers

- Deal with under performers
- Drop non-remunerative services
- Drop non-remunerative clients

Four : Increase Volume

- Increase utilization (billable hours per person)

Five : Lower Overhead Costs

- Improve speed of billing
- Improve speed of collections
- Reduce space and equipment costs
- Reduce support staff costs

## **10. Lessons for individual Professionals**

### **Lesson One**

What you know now and are able to do now, what your current success is built on, will unavoidably depreciate in value unless you actively work on learning new things and building new skills. Continual professional development is a lifelong requirement, not an option. There may have been a time when once you got good at something, may be “made partner”, you could live off that for the rest of your career. If those times ever existed, they are gone now. The minute you start thinking you know how things work, you are dead.

## **Lesson Two**

The health of your career is not dependent so much on the volume of business you do, but the type of work you do (whether or not it helps you learn, grow, and develop) and who you do it for (whether or not you are increasingly earning the trust of some key clients). In any profession, the pattern of assignments you work on is the professional development process – you just have to learn how to manage it.

## **Lesson Three**

No matter how busy you are, you still owe it to yourself and to your career to get involved with and take charge of your own practice development activities (marketing and selling). If you let others in your firm generate the business you work on, you are putting your career development in other people's hands – a risky move at best. If you rely on business flowing to you unsolicited, then, with high probability, it is going to be "asset milking" rather than "asset building". What marketing and selling are about is truly practice development : Influencing the qualitative nature of what you work on, so that you use your work experience to continue to build your career.

## **Lesson Four**

Since asset building is about managing your affairs for the long-term health of your career, you would better take charge of it yourself. Do not wait for your firm to establish formal policies to reflect concern about the balance sheet as well as the income statement. It probably should, but whether it does or not, it is in your own interest to get started yourself.

## **Lesson Five**

Also you cannot automatically assume that what your firm "asks you do do" will always be the right thing to build your asset. For example, if you are already experienced in a certain area, chances are that others in the firm will turn to you every time an issue comes up in that area. If you don't take charge, others will exploit your asset. You have got to be a good corporate citizen, but you have also got to learn to balance that with what makes sense for your own development.

**Lesson Six**

Among the worst mistakes a professional can make is under investing in marketing to existing clients. Existing clients are not only more likely to give you new business, but the business they will give you (if you work to earn) is likely to promote the value both of your skill asset and your client relationship asset.