



# Practice Models, Associations and Networks



Module  
2

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## 2.1 Introduction

This module looks at a number of structural considerations inherent in owning or running an accounting firm:

- The various models available: sole practitioner, partnership, and corporate structures;
- The major approaches to profit-sharing and to decision-making within a firm; and
- The use of networks and associations to multiply the power of your own advice.

If your firm is built on a solid foundation of good decision-making, ethical and efficient processes, with a balanced team of committed visionary leaders, it can be confident about its long-term future.

“Launching your own [accountancy] firm is one of the greatest professional challenges you’ll ever undertake—and potentially one of the most rewarding. Fraught with hard work and long hours, it’s nevertheless a chance to build a business, provide real value to clients who depend on you and, ultimately, shape your own destiny.... Most of the must- do start-up activities are the same as for any small business.”

Myers 2006<sup>1</sup>

## 2.2 Which Practice Model is Right for You?

This section examines the key types of firm. One of these will be right for you, in a legal sense and also from a business management perspective.

When considering the different models for accounting firms, contact your local professional association to identify any special conditions or requirements that you must comply with. For professional, ethical, regulatory or legal reasons, not all legal structures will prove usable in every country or region, so this module refers to a range of options and sometimes uses country-specific examples. However, the bulk of the discussion will relate to functional aspects of each firm model, rather than local legal issues.

For example, even a sole practitioner might be able to operate through several alternative legal structures such as:

- An individual with no separate legal entity;
- A sole director company to afford some degree of asset protection;
- A service entity that employs some employees and owns some operating assets and that also permits some profit-sharing to a non-accounting person (for example, a spouse, or key personnel);
- A cost-sharing arrangement with similar practitioner(s); or
- Some combination of the above.

A medium-sized or larger firm might create separate legal entities for specific parts of their service range, for example:

- An information technology services entity;
- A financial planning, or wealth management entity; and
- Audit services provided through a traditional partnership of individual partners.

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<sup>1</sup> Myers, Randy. “Start Your Own Practice. Shape your own destiny and provide value to clients,” *Journal of Accountancy*, April 2006. [www.journalofaccountancy.com/Issues/2006/Apr/StartYourOwnPractice.htm](http://www.journalofaccountancy.com/Issues/2006/Apr/StartYourOwnPractice.htm).

These options can be used to reward key employees with specialist skills who are not eligible or desirable for partnership, or they might be adopted to comply with ethical rulings from your professional association. With increasing focus on family concerns in accountancy, as elsewhere, practice models need to allow for easy entry to/exit from partnership, and this is often facilitated by structures that differentiate between equity and non-equity principals.

As you read through this module, you may wish to prepare an evaluation table to help you determine the most suitable structure for your needs and those of your partners.

### 2.2.1 Sole Practitioner

Many firms start life with a single principal. Perhaps this accountant has been employed by another firm and has decided to go it alone. Perhaps he or she is dissatisfied with life as a partner in a larger firm and seeks a more immediate or more direct say over key decisions. Or perhaps this person is leaving a corporate or government role, looking for a new career direction. The backgrounds are many and varied, but the issues remain the same.

A sole practitioner is responsible for the whole firm: fee-generation; development and maintenance of professional standards and work processes within the firm; marketing, promotion and selling of services to current and prospective clients; management of the firm; and providing funds for its operations.

The sole practitioner doesn't need to be the only person working in the firm, and doesn't need to be the only fee-earner. It will be up to you to decide how much you involve the other people within your firm. This aspect of your management style should be discussed with potential employees when you are doing pre-employment interviews. For instance, their expectations and style will need to fit very closely with your own, especially in the vital first few positions that you fill. If, for example, you plan to grow the firm's revenue but hold the ownership of the firm very tightly, then an employee looking for early admission as a partner should be aware of that. When the principal and the senior employees know each other's ambitions, this gives the best chance of ensuring a compatible fit.

A sole principal might also use a combination of their own equity plus some external debt to fund the firm. Yet even in this situation, it is the sole principal who is entirely responsible for repaying any debts that the firm might incur.

Potential benefits of this model include:

- Single point of final decision-making. The principal makes the decision alone and bears the responsibility of the decision. They may well take advice from suitably qualified or trusted experts, consultants, or employees but they alone must stand by their decisions. The process can be relatively quick and straightforward and is certainly free of political considerations;
- No profit-sharing;
- Flexibility to change the internal rules quickly and adapt to market demands; and
- The sense of direct involvement and control appeals to many people.

Potential drawbacks include:

- The principal might not have the range of skills or experience to run the entire firm. There might be a critical weakness in a management discipline such as marketing, systems development or quality control. Such weaknesses can be overcome by subcontracting part of the workload to a trusted specialist. If the weakness relates to an entire range of accountancy services, the practitioner should refer that work to a suitably qualified firm or employee;

- Sole practitioners can find it very difficult to keep abreast of changes in legislation or accounting standards due to the increasingly complex commercial environment in which accountants work. The broader the range of services offered by the sole practitioner, the bigger this problem and the higher the professional risk;
- If there is only limited professional support within the firm (for example, a very senior and/or experienced person who can make many decisions unsupervised), the principal can be “on call” much of the time, even on holidays. If a principal is continually under this type of pressure, it can lead to significant health problems;
- Professional loneliness can reduce the quality of work or possibly the personal satisfaction of the practitioner. It can be overcome by using professional networks (possibly available through your professional association, discussion groups, and so on) to bridge the gap to some extent;
- The principal might not have enough money to fund the firm at a suitable level. Inadequate funding, or excessive debt, might leave the firm starved of cash or the necessary level of investment required to keep the firm operating at a sustainable level. This might lead to under-investing in training or technology, for example; and
- The firm might spend too much of its fees on fixed-cost items (for example, rent, subscriptions, fixed assets, software licenses, and possibly some employees). This happens because all firms need a minimum set of resources, even though those resources might not be fully utilized during the year.

### **2.2.2 Cost-Sharing Arrangement**

Cost-sharing helps overcome some of the drawbacks within the sole practitioner model. In essence, several firms share the use and cost of a common set of resources. The individual firms earn their own fees and pay other discretionary costs individually, plus their share of the common costs.

Potential benefits of this model include:

- Each firm retains much of its own flexibility and independence. If a single member of the group needs a specialist item, that member can purchase it alone; and
- Sometimes firms who share costs in this way can also complement each other’s skills. One firm might be a tax specialist; one might offer audit services; another might have a specialty in wealth-management services. Those firms can then cross-refer clients within the group to ensure a well-rounded and relevant service offering, without fearing loss of control over the client.

Potential drawbacks include:

- Each firm might remain relatively small, only offering a narrow range of services. The firms might even have to agree among themselves not to compete directly in each other’s area of specialty; if so, that would restrict their options for growth of their own firm;
- Some time is required to manage the central ordering and payments and to arrange the cost-sharing invoices for each firm. If this role is not shared equally, or if the time is not incorporated in payment made by the other firms, then it represents a cost for the firm doing the group work; and
- Customers may lack confidence in “one person shows” in this era of knowledge.

### 2.2.3 Partnership of Equals

“Partnerships can be collegiate, flexible and professionally liberating. While they can also be haphazard, inefficient and desperately political, they are some of the most successful business models that the world has ever seen.”

“As a result, leaders—really successful leaders—solicit the views of their partners much more extensively than, say, those of a list company would.”

“Different leaders tackle this in different ways. One, for example, parceled out parts of his job to ambitious partners. Another by contrast, took inordinate care to ensure that leading voices of the various small networks in his large firm were represented on governance groups.”

Young 2008<sup>2</sup>

Laurie Young’s article, quoted above, is a suggested text. It highlights the strengths and potential weaknesses of a partnership model.

Within various countries, there are different legal options for trading as a partnership, so refer to your local professional association to identify the range of options open to your firm in a legal sense. Different legal options carry different implications, for example:

- The extent of personal liability assumed by each partner, especially for the actions of fellow-partners;
- Asset protection; and
- The range of services that can, or in some cases must, be delivered through limited liability versus unlimited liability structures.

If you start a new partnership, the firm must be established from the ground up. This means you will initially have no policies, procedures, systems, or resources, other than the collective knowledge of the partners. It will be important to document those policies as they emerge, so that all people in the firm come to know “the way we do things here.” Considerable time is needed to develop and refine your approaches. See [Appendix 2.4](#), [Case study 2.1](#) for an illustration of how a partnership can be organized.

If you join an existing partnership then, you also inherit the existing systems, processes, policies, and philosophies of the current partner base. This is certainly easier than setting up from scratch and will save you time re-inventing the wheel with some of the preliminary documentation. However, you still may feel some processes could be improved. This might mean you still spend some time trying to change various things in the partnership. This will give you an opportunity to develop your diplomacy skills!

Buying into an existing firm may require you to pay a sizeable amount to the existing partners to compensate them for any dilution of their interest in the profits of the firm. Alternatively, your payment might go into the firm as working capital. Even though the size of the outlay will vary from one potential firm to another, it does have the advantage of ensuring a reasonably predictable level of profit and/or drawings.

Starting a partnership, on the other hand, might involve a smaller outlay up front, but the firm will take longer to deliver a viable level of profit (or drawings, salary, etc.). Early profits might be consumed in the growing level of work in progress and debtors. There might also be a need to invest further in key assets for the practice.

In the simplest partnership models, all partners contribute equally to the funding of the firm, all share equally in profits, and all are involved in decision-making. This approach is often used at the commencement of a partnership, where shared goals and mutual respect give all partners a very similar view of the business.

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<sup>2</sup> Young, Laurie. “All For One.” *Accountancy*, August 2008, 55–56.

In larger partnerships (for example, with five partners or more), complexities arise because of the variety of professional skills and interpersonal relationships. Decision-making might become the province of a subset of the partners; profits might be shared unequally depending on factors such as the length of time a partner has been in the firm or the relative performance of each partner; ownership levels can also vary. These issues will be addressed in more detail below.

Potential benefits of this model include:

- Two (or more) heads are often better than one. A partner is a colleague who can swap technical information, discuss strategic options, or provide back-up. One of the partners can stay within the firm while you have the chance to take appropriate leave, and vice versa. A partner allows for the responsibilities of running the firm to be shared;
- Simplicity in contributions and profit sharing;
- The capacity for individuals to specialize in specific services, thereby expanding the scope to fully service a client's needs; and
- Access to funds from more than one partner, to provide working capital to the firm.

Potential drawbacks include:

- As the number of partners grows, it becomes harder to achieve the common purpose that was present in the earliest days. This is because the age of the partners will start to vary; their financial resources and requirements will place different demands on the firm's cash flows. Such factors will start to play a part in the way partners relate to each other;
- A wider range of interests and abilities within the principal base, while a strength of the model, can also be a weakness. Some might gravitate toward certain roles while others avoid those roles; the workloads of individual partners may differ markedly; the contribution of some individuals to revenue or profit generation may vary; even the attitudes toward the amount and intensity of work time might vary. These differences have the potential to cause tension among individual partners;
- Decision-making can be slowed by the need to have all partners consulted (and possibly agree) before a decision is made;
- All partners are generally bound by the actions of a single principal; and
- Legal liability for errors or malpractice can be borne by all partners, depending on the nature of the specific legal entity being used.

[Appendix 2.1](#) provides a checklist for evaluating potential partners. In [Appendix 2.4](#), [Case studies 2.2](#) and [2.3](#) illustrate how a partnership can be organized to recognize partners' abilities and strengths.

#### **2.2.4 Unequal Partnership**

In this section, we assume that all of the "partnership of equals" material above is understood. This section highlights the differences that flow from having inequalities in either the ownership, workload, and/or profit-sharing arrangements.

An unequal partnership can be a result of many reasons. An older or established principal might take a different approach to a particular issue from a newer or younger partner, or selling partners might have a different approach to the cost of entry and the drawings policy than a buying or incoming partner. In some cases, the firm value is so high that an incoming partner cannot afford to buy a full-parity share, so they buy a smaller proportion initially, or build up their equity over time by trading off profits.



Buying into a firm may require a large financial outlay to acquire a share of firm assets, in particular for goodwill. This single transaction may well require the incoming partner to borrow much or all of the investment. Fortunately, a realistic repayment schedule can often be negotiated with the financier (or the partner who is selling down their interest), based on the firm's demonstrated cash flows. In this way, the debt can be reduced in a predictable way over several years.

However, if the sale and purchase of the share in the partnership is handled badly by one or both parties, there is potential for long-term difficulty. This single transaction might cause resentment in the selling partner because "the price was too low," yet the incoming partner may feel that "an outrageous price was demanded." This difference of opinion could influence each partner's dealings with the other, long into the future. It will certainly create a demand for more drawings: the selling partner might want to compensate in some way for the low price, while the incoming partner requires more cash to service the loan. That may turn out to be one of the very few things that the two partners have in common! While these situations can occur, there will certainly be many exceptions too.

Before joining a partnership (either in a new firm, or by joining an existing one), you must spend some time discussing the way that partners will deal with each other. Many interesting court cases involve disputes over partnership arrangements simply because no agreement was ever recorded or agreed on. See [Appendix 2.2](#) for the major issues that should be discussed, agreed on and documented by the partners.

One final point to consider, for partnerships in particular, is the need for a succession plan and having someone to sell out to. For many years, the partnership model was seen as a "carrot." A bright accountant would work for several years for slightly below average pay, a trade-off for the chance to buy into the firm later. Today, young accountants have many career options, and some are less inclined to wait patiently for their career to progress within a partnership. This represents a challenge to the traditional partnership model.

So accountancy firms today are facing challenges to their very structure. A firm needs to be interesting enough to compete as a career choice with the other, newer options available to accountants. It also needs to be profitable enough to meet the earnings requirements of a new breed of professionals.

Partnership as a structure presents some challenges in interpersonal relationships. But it has served the profession well for many years and will continue to do so. However, if a partnership is not structured properly, or if the fundamental relationships between partners break down, partnerships have a number of inherent challenges. Since accountants become involved in helping to structure, and sometimes resolve problems in, partnerships for clients, it is important to have your own house in order first.

### **2.2.5 The Consolidator Model**

Consolidators amalgamate a series of small businesses into a single, larger one to extract operating efficiencies and cost savings. Consolidators claim to be able to transfer best practice from within any part of the large group, leading to cost savings and/or revenue gains. This of course requires strong and pragmatic decision-making by the acquirer and acceptance by the acquired firm, in order to deliver the savings as quickly as possible.

A listed consolidator firm has a set of shareholders, which will generally include the partners of the formerly independent firm(s) as well as other private and/or institutional investors; shares in the business are traded on a stock exchange.

In the UK, Australia and the US, this listed consolidator model has been attempted with mixed results. For this reason, "consolidators" are not a key proportion of the market now; their appeal tended to be greater for firms facing a significant retirement of partners. By comparison, a newly established or strongly growing firm will most likely value its own independence and not be interested in selling to a "consolidator" practice.

Listed consolidators offer several opportunities to the principal in a public firm:

- A way out for retirement purposes: swapping a firm for either cash or shares;
- Access to capital: this is especially important to help fund the technology costs faced by firms today;
- Access to improved systems of management;
- Access to a larger pool of talented people and specialist knowledge (for example, precedents, training and industry specific knowledge); and
- A career path for high-quality personnel and a financial incentive to participate in the firm's success through shares and/or stock options.

On the other hand, they are culturally different from an independent accounting firm:

- Joint decision-making by the partners is often removed;
- Central corporate management needs to be strong enough, strategically focused, and well communicated to deal with newly acquired businesses that were previously independent in thinking and decision-making.
- A more corporate flavor is introduced into the office;
- Staff mobility may be seen as a benefit to employees, but clients might not see it the same way;
- Often, restrictions are placed on partners of the acquired firms to prevent them from selling their shares for a period of time after their firm is purchased;
- The business will then need to make sufficient profit to service the needs of the senior practitioners and the shareholders;
- The demands of the stock market, if listed, can give an undue focus on quarterly results and short-termism; and
- The ultimate value of a firm also depends on the behavior of the stock market.

The lure of partnership is not necessarily as strong a motivator for some bright young people in these firms. In turn, this is changing some of the culture of accounting firms.

As a result, the extent and manner in which an individual can make an impact on an office is different: some would argue that an individual would have less impact in the office of a consolidated firm.

In the past few years, listed consolidators have experienced vastly differing performances. Several have ceased to exist, and, in large part, the component firms or offices were bought back by their previous partners.

The most successful current "consolidator" firms tend to be privately owned but acquisitive accountancy firms. Larger firms buy out, or merge with smaller practices; sometimes the principals from the "acquired" firm remain working in the larger firms, and sometimes they do not. The targeted firms might have special expertise that is considered valuable to the larger group, or they may broaden the geographic reach of the acquiring firm. Whether the "consolidator" is a listed company or an unlisted firm, the principles and justification remain the same: a focus on transferring "best practice procedures" through the larger group and at the same time eliminating wasted or duplicated expenditures.

### **2.2.6 Multidisciplinary Firms**

In some countries, a professional association or regulatory body might restrict the sharing of profits between its members and people who are not members of the association. Government legislation or regulation might also prevent non-qualified persons sharing in the profits of an accounting firm.

This section outlines how some countries have approached this issue, which permits the accounting firm to offer a broad range of services to clients, while also providing suitable incentives for the non-accounting specialists.

The most common approach is to create a series of special purpose entities, such that part of the equity is contributed and owned by the accountants and part is contributed by the non-accounting specialist. For example, the accounting partners could take a 50% interest in an information technology consulting company, and have the information technology specialists own the other 50% of the company. Similar approaches have been taken to include finance specialists or wealth management specialists in some firms.

Potential benefits of this model include:

- A clear focus for each separate entity;
- Separate legal liability for each entity;
- Separate regulatory scope for each entity, if applicable;
- Each entity can develop in its own style;
- There is no dispute as to who “owns” each client relationship, since the accounting owners are the common link in the entire chain of service delivery. In effect, the accounting practitioners at the core of the multi-disciplinary group will have a major influence on the level of service provided to each client. The ownership of clients is clearly understood by virtue of the common ownership links among the service providers;
- Considerable opportunity exists to cross-sell services from one entity to another within the same group; and
- Equity or other funding can come from a wider group of non-accountants.

Potential drawbacks include:

- This structure does not necessarily ensure that the best businesses are guaranteed access to internal funds (that is, the equity or cash flow from across the group), owing to the different ownerships of each entity; and
- There will be some additional management, accounting and reporting required to maintain the web of separate entities.

If this arrangement may suit or be of interest to your firm, contact your professional association for guidance.

## **2.3 Practice Management**

### **2.3.1 Family Members Working in the Firm**

From time to time, members of a sole practitioner or partner’s family might be employed in the accounting firm and may eventually come to own the firm entirely. The idea that an accounting firm should be handed down from one generation is common in some countries; in others, it is an unusual event. The approach taken to engaging family members in a practice may vary widely between countries, cultures and economic regions.

This issue of family member employment in a firm raises special considerations, over and above the normal commercial issues.

- First, it is important for the family member who is employed within the firm to have a clearly defined role, in the same way that any other employee would have. The role should be consistent with the family member’s abilities at that stage of his or her career. The family member should have

employment experience similar to their equally skilled fellow-employee(s). Expecting the family member to perform at a level beyond their skills and experience is unrealistic and professionally dangerous.

- Second, if the family member is subjected to an accelerated learning program, then their on-the-job experience should be supported by a mentor. In some cases, or for some parts of the professional work, this may well be the related partner; in other cases it might be another partner in the firm, or a senior and highly skilled staff member. Once again, the scope of the accelerated learning program should be described clearly: the expected length of time to be spent in each professional area, the learning objectives to be achieved in each phase, and the performance and skill targets that must be met.

The steps described above should result in creating a well-trained and disciplined professional, capable of running the entire firm in due time. Retaining the respect of employees is a key objective of the entire process. They must have confidence in the leadership offered by the relative of the partner.

When the time comes for the “trainee” family member to be elevated to the status of sole practitioner partner or part owner of the firm, another set of issues arises. At this stage, the firm faces a number of “second generation issues.”

The newly promoted family member must be given areas of responsibility within the firm. This applies to both professional roles, dealing with clients and delivering high-quality professional services, and to a role in “non-professional” work such as administration, management or possibly business development. One common approach sees the senior family member perform much of the relationship-building with existing or potential clients, with the “junior” equity owner performing much of the professional work, possibly under the guidance of the senior family member.

When the junior family member becomes part of the ownership of the firm, it may be necessary for him or her to make some payment into it. On occasion, in lieu of this, the junior family member might accept a lesser amount of total remuneration than the senior family member. In this way the junior family member is seen to pay for the privilege of becoming an equity owner, and to contribute financially to the firm.

Promoting a junior family member to partial ownership of a firm may impact on the future prospects for a capable employee, especially if that employee wants to become a part-owner of the firm one day. Such employees are an important part of the firm’s success, and so the owners should consider ways of retaining their services. This might involve some form of loyalty bonus, or the salary of the senior employee might be linked to the fees they generate.

In time, when the senior family member starts to reduce working hours or ceases working in the firm altogether, a smooth handover of clients becomes necessary. Even at this stage, the senior partner may find it difficult to hand over clients and/or responsibilities; both parties must remain focused on the reasons for it. The aim is to ensure continuity of service and the preservation of the firm itself. Both the senior and the junior family members should exercise considerable tact and discretion in their dealings with the other during this handover.

While this is occurring, the junior family member may well continue paying the senior one a regular amount by way of a pension or gratuity, even though the senior family member performs no work for the firm.

The family relationship should not be destroyed or weakened as a result of the involvement of other family members within an accounting firm. The guidelines above should help achieve this, but it will require substantial amounts of goodwill and effort by all parties involved in the transition from employee to owner to retirement.

Module 8 examines succession planning options in more depth.

### 2.3.2 *Decision-Making Approaches*

In any firm with more than one principal, decision-making must be considered. The approach to decision-making will reflect the philosophies of the partners/owners; getting this wrong can cause considerable friction.

In smaller firms (up to four or five partners), it is important to hold regular partners' meetings. This is where operational as well as strategic decisions are made. Usually, all partners are present, and a decision needs the support of most (if not all) of them in order to carry weight. The partners' meeting might spend a considerable amount of time—sometimes all the meeting time—debating minor operational decisions, and overlook strategic issues. When this occurs, the development of the firm can slow dramatically because it becomes too hard to reach any kind of agreement.

When firms reach around five and more partners, it becomes harder to gain 100% or a high proportion of support for many decisions. At some point, the partners will see that too much time is spent trying to achieve consensus or an absolute majority of votes.

- One response is to deem a particular level of agreement as a valid and binding decision on operational issues (75% of votes, for example). Other, more strategic matters (for example, admission or expulsion of a partner, decision to offer a new service, merger with or purchase of another firm, or possibly the dividend/drawing policy of the firm) might require 100% support. Differentiating the type of decision in this way represents a clear admission that not everyone must support every decision, but all must abide by the decision. It also reduces the time required to achieve a decision, because fewer partners will need to be convinced.
- A second response is to delegate some decisions to a management group or other subset of the partners. Members might be elected from within the full partnership, or might volunteer for this role because of their interest in management. In this way, the operational-level decisions can be made more quickly and efficiently while still binding all partners. Other major decisions may be determined through a meeting of all partners. This approach might work for up to around twelve to fifteen partners, possibly working across one or two office locations.

It is important to understand the politics within a partnership. If a small number of partners continually disagree with decisions or feel that their views are not being heard, they might become progressively more remote and, at worst, form a splinter group, which might directly disrupt meetings or the progress of the firm, or their actions might signal that employees need not comply with decisions that they do not like.

When a firm reaches around twelve to fifteen partners, and especially if it operates from several offices, it might reach a point where they employ a general manager, chief executive officer, or managing partner to guide the firm. This person might be one of the equity partners (who will then generally take a lighter fee-generating role, or perhaps be relieved completely from any fee-generation responsibility at all) or it could be a specialist employed for this role. Once again, it is likely that the chief executive officer/general manager would report regularly to a subset of the partners and less frequently to the full group of partners. The chief executive officer/general manager must be supported by a sizeable majority of partners.

Whatever management structure is chosen, it must be fully supported by the partners in order to function effectively. Once a noticeable segment of the partner base fails to support it, a new structure must be tried.

### 2.3.3 *Issues to Consider when Structuring or Restructuring a Firm*

Some of these issues have legal or financial ramifications (which may point to a better or preferred option, based on an objective review of the facts). In some cases, from a management perspective, the right answer is the one that suits the current group of partners.

### 2.3.3a Your Strategic Plan

The strategic plan adopted within a firm is likely to shape the legal and organizational structure. For example, if you invite non-accounting specialists (such as information technology employees or financial planners) to own a portion of their part of the firm, local ethical rulings might see you create a separate legal entity to deliver that service, and have a different ownership pattern from that of the rest of the (traditional) accounting services.

More on strategic plans is included in [Module 1](#).

### 2.3.3b Legislation or Rulings by Your Professional Association

Professional regulations might place restrictions on the type of entity that can offer accounting services. Those restrictions maintain some commercial and professional integrity, and might include:

- **Separation of some work for professional indemnity purposes:** In some countries, audit services might have to be provided via a partnership entity, while other advice covering tax, management consulting, or wealth management could be provided through a limited liability company or partnership. In other countries, tax-based and advisory work can be delivered through a company, while other services can be offered through limited-liability partnerships.
- **Profit sharing arrangements:** Can profits from an accounting firm be shared with non-accounting-qualified personnel? In some countries this can be achieved by using a separate entity to provide “administration,” leaving the responsibility for accountancy services to be provided through an entity owned by the professionally qualified partners.
- **Non-regulated services provided through a specialist entity:** This allows the partners of the accounting firm to profit from providing non-accounting services (for example, technology or human resources advice), without all equity owners being members of the professional (accounting) association. This structure also allows the accounting firm to provide incentives and equity involvement to the non-accounting specialists who are critical to that wider service range.

Arrangements will be subject to your country’s laws or professional regulations; refer to your professional association for details that apply in your region.

### 2.3.3c Legal Options

There are many types of business entity defined in the legal systems of various countries. These include corporations, cooperatives, partnerships, sole traders and other specialized types of organization.

The range of options available to you might include:

- Sole trader;
- Partnerships: either unlimited liability or, in some countries, limited liability partnerships;
- A company or corporate shell;
- A trust; or
- Some combination of the above.

Limited liability partnerships are used by many of the largest accounting firms in the world. A limited liability partnership (LLP) is a partnership in which some of all partners (depending on the jurisdiction) have limited liability. A limited liability partnership exhibits elements of partnerships and corporations. In an LLP one partner is not responsible or liable for another partner’s misconduct or negligence. Limited liability partnerships are distinct from limited partnerships in some countries, which may allow all LLP partners to have limited liability,



while a limited partnership may require at least one unlimited partner and allow others to assume the role of a passive and limited liability investor. It should be noted that the regulations governing a particular type of entity, even those described as roughly equivalent, may differ to a greater or lesser extent between countries.

### 2.3.3d Tax Issues

Over the life of your firm, there may be admissions and/or departures of partners. Each legal structure has certain benefits and drawbacks in this scenario.

You might need to consider:

- Income tax payable on trading profits;
- Taxes on distributions drawings or dividends, or on profits retained within the entity;
- Taxes linked to share transfers or asset transfers (possibly stamp duty or transfer taxes or even inheritance taxes); and
- Capital gains taxes, should the value of the equities in the firm vary with the various changes in equity.

Tax regimes vary greatly around the world. Those variations will impact the ease or the cost to transfer assets, or the timing and amount of taxes. Your net return from the firm will be reduced if the wrong structure is selected.

For these reasons, select a structure that does not disadvantage the firm when partners inevitably move in or out of the ownership structure.

### 2.3.3e Asset Protection

In some countries, limited liability structures can be used as vehicles for accounting firms. Where this concession applies, professional associations generally require a firm to hold a minimum level of professional indemnity insurance. This protects clients as well as practitioners, if negligence or malpractice is proved against a firm.

The lawful and ethical use of a limited liability structure is a reasonable and prudent commercial strategy. You will need to consider the risks for your firm and your own ethical standpoint in determining how far to take advantage of the benefits offered by limited liability.

### 2.3.3f Other Insurance

Every firm will require a basic level of insurance for professional indemnity, to protect clients and partners; for physical assets, against theft, fire and so on; and public liability, to safeguard employees and visitors who might be injured while at the firm's premises.

Other types of insurance coverage can contribute toward the firm's overall risk management strategy. They include:

- **Income replacement insurance:** Especially in smaller firms, the sole practitioner is a significant fee-earner. If he or she becomes ill for an extended period of time, this insurance replaces the income that he or she would have generated. It might enable a locum practitioner to be employed to keep the work flowing, or it could replace the drawings or salary that the sole practitioner would have taken.
- **Private health insurance:** This will fund all or part of the health-related costs incurred during an illness.
- **A life insurance policy or key person policy, taken on the life of each partner:** This pays a lump sum benefit if a partner dies. The benefit might be paid to the firm, for additional employees or a locum partner, or to cover other increased costs incurred. It can be a powerful and flexible approach

to succession planning, especially in a smaller firm. In many small partnerships, each principal cross-insures the other partner(s); if a partner dies, the insurance policy provides the funds needed to buy the deceased partner's share of the firm. The value of each policy is linked to the value of a share of the firm. It is a good idea to have an agreed practice-valuation formula in place which can be referred to at such times. It also means the insurance policy needs to be updated and reviewed regularly to ensure that adequate amounts of coverage are in place.

- **Business expenses or continuity insurance.** This pays additional costs that flow from a severe disruption of business (possibly data loss, or fire, flood, or storm damage to the firm's premises).

Insurance policies are a core part of risk management. They involve small and regular outlays now in return for a large payout if the event actually occurs. Every firm must perform its own assessment of the various risks, and decide whether an insurance policy is a good-value risk-mitigation strategy.

The benefits include peace of mind as well as a greater capacity to cope with the financial impact, should some disruption affect the firm.

Liability and insurance within a firm is examined in depth in [Module 7](#).

### 2.3.3g Access to Finance/Bank (Third-Party) Borrowing

If a firm operates as a sole trader, or small partnership, any borrowings by the partner(s) may need to be secured over their personal assets, by mortgages, or other guarantees, for example. If the partner has aggressively sheltered their assets (for example, all their assets are owned by a spouse, or a separate trust), then they will have no assets to use as security, and so have very limited capacity to secure borrowings for the firm unless that other party provides a guarantee for security.

However, where a firm is conducted through a large partnership or corporate entity, borrowings can also be secured by means of the entity itself pledging a guarantee or giving security over its own assets. By contrast, a small partnership might not be permitted to use its work in progress and/or debtors to secure a loan facility.

In larger firms especially, it becomes easier to raise financing through a company/corporate entity than through a partnership. The financier still may require personal guarantees from the partners, but the mechanics of, for example, signing loan documentation, become much more streamlined.

### 2.3.3h Flexibility to Handle Growth

Each legal structure has its own method for handling changes of ownership and/or entitlements. For example, it is common practice for corporate or company structures to have shareholders buy or sell an interest in the entity: these structures were designed with this purpose in mind. In contrast, changes of a partner within a partnership entity may require the old partnership to be wound up and a new one created. This becomes cumbersome, especially as the number of partners grows.

As outlined in the tax issues segment above, different structures might be more or less favorably treated each time a change of owners occurs, depending on the tax regime in your country or state.

### 2.3.3i Management Structure and Approach

This issue is dealt with earlier in this module. You and your fellow partners should establish a practical and workable management structure. This structure must ensure that all partners have sufficient input into relevant decisions, without unduly distracting them from their professional work.

As with many aspects of management, the chosen structure should be suitable for the size of firm and should be widely supported by the partners.



### 2.3.4 Partnership Agreements

Once you have at least one partner in your firm, it is essential that you agree upon and document fundamental aspects of the relationship as well as sharing similar values and principles. According to <sup>3</sup>Murray and Foster (2011), understanding partnerships is as crucial upon entry as it is upon exit. A partnership agreement outlines key philosophies and directions about the firm's operations. However, it can never seek to govern every decision, and it should always be seen as a "living document," which may change from time to time, as the mix and attitudes of the partners change.

The checklist at [Appendix 2.2](#) highlights the issues covered by a partnership agreement. A formal contract drafted by a legal professional is preferred, as it is intended to be regarded as a binding document that governs the dealings among those partners.

Many disputes involving partners (and especially former partners!) could be avoided by having a clear, documented partnership agreement in place. The agreement also answers a lot of questions and provides a clear framework when a new partner is admitted to the firm.

### 2.3.5 Remuneration and Profit-Sharing Models

As it grows and develops, your firm will probably appoint more partners with a range of personalities, skills, interests and work ethics. The larger the partner base, the more significant these differences could become.

Growing your firm might also require partners to specialize in certain areas: some may be excellent marketers (sometimes referred to as "rainmakers"), others will focus on management and/or administration of the firm, others will develop technical specializations or support large amounts of fees, and still others will just go about the business of managing a suitable workload competently and efficiently. It will not always be easy to properly recognize the performance and provide a suitable reward for each person, but that is no excuse not to try!

#### 2.3.5a Different Attitudes at Different Times

In a sole practitioner structure, profit-sharing is easy: it's all yours! You decide how much to draw out for personal requirements, and how much to reinvest within the firm for working capital and/or capital assets.

You might consider sharing some profit, if you have fee-earning employees who contribute substantially to the firm's success. This may verge on salary administration, but it would be aimed at providing incentives for key employees to stay at your firm and keep delivering high-impact results.

In a small partnership, and especially in a new partnership, the most common approach is for each partner to contribute equally to the firm, and share equally in the profits.

As the partnership base expands further (perhaps to around five to six partners), the differences in attitude and performance between partners can widen. This can occur when longstanding partners charge higher hourly rates or fees for their expertise. Sometimes younger partners, soon after promotion, charge lower hourly rates and deliver a smaller total fee base in a year. Sometimes the so-called "non-productive" roles such as management and marketing eat heavily into the time of a few partners. A point can be reached when some partners feel that their efforts are not adequately rewarded, or that "I'm doing more for the firm than some of my partners."

This is when profit-sharing becomes a hot topic within formal and informal partner meetings. Wise leaders will sense when to act. An unwise leader will have to deal with a group of de-motivated partners or even a possible split in the firm: either situation weakens the fabric of the partnership.

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<sup>3</sup> Murray, Clare and Foster, Susanne, "When you say 'I do.'" *Accountancy*, January 2011, 79–80.

### 2.3.5b Some Factors to Consider

Planning and introducing a differential profit-sharing system represents a major change of mind-set. It acknowledges that not all roles or performances are equal. Each reward given to one partner is paid for by the other partners.

Also (and especially in the larger firms), there might be a few high-performing partners at one end of the scale, and possibly a few under-performers at the other end.

### 2.3.5c What are you Rewarding?

The profit-sharing system must fairly reward and motivate each partner, reinforcing that they are better off staying within the current partnership than striking out alone. In shaping an alternative system, the following questions arise.

- Are you rewarding presence at the office; a basic achievement such as generating a fair level of fees; or exceptional performance based on fees or another criterion? Does the system measure an individual's performance, or a team's performance? Has the individual's performance truly changed the firm or its operating results?
- Some monetary or measurable criteria might include: total fees billed, individually or by your work group; write-downs; level of premium billing performed (or value of write-ups); or number of chargeable or billable hours performed.
- Some of the less measurable factors include: management, marketing or employee-related roles played by the partner; other forms of non-billable work performed; gaining new clients or new work for other work groups; contributing to activities of the professional association; and performance beyond the basic expectation.

### 2.3.5d What does the Firm Need?

Many firms now avoid owning assets within the firm itself. For example, firms will lease equipment or rent their premises, rather than buying those assets outright. If a firm does own its premises, this might be done through a separate entity (possibly owned by only some of the partners), which deals at arm's length with the firm. Therefore, how much profit must you retain in the firm, and how much can be paid out?

### 2.3.5e How Frequently are the Profits Distributed?

Every firm must utilize its partners and employees to maximum effect, especially given that many firms are facing shortages of qualified accounting personnel. People will generally work more happily and productively when they are working in an area of special interest and/or expertise. This still permits those people to broaden or deepen their skills, or to have the option of working in different parts of the firm, while continuing to deliver genuine benefit to the individual as well as the firm.

Any incentive structure, whether for partners or employees, needs to encourage the right actions in the right directions, consistent with the firm's strategic plans.

### 2.3.5f Will the System be Driven only by Formula, or is there a Subjective Component Too?

Some partners will prefer a predictable, objective system, using targets, benchmarks or a formula to allocate the firmwide profit. This has the benefit of total transparency: each partner can work on specific aspects of their performance (the ones that are rewarded by the model) to increase their share of the available profit.

Alternatively, some partners may believe that fundamental differences justify a more subjective approach (for example, "Your department is more profitable/faster growing at the moment, and that disadvantages

the important work and clients that I look after,” or “I spend XX non-chargeable hours looking after this function and so can’t achieve the fees that you generate”). If a subjective approach is used, then some fair method of allocation needs to be devised: a voting system involving all partners, or perhaps a remuneration committee with a small but representative number of partners. The aim is to generate a result that others will see as fair.

Are you allocating all the profit or just some part? The firm might allocate all its profit on the basis of performance criteria, or it might decide to divide its profit into several distinct pools, for example:

- A regular amount per person, to reward a solid performance (this might be an equal amount per person, or it could be a differential figure to reflect the role, the fee-load or the seniority); and/or
- A percentage return on investment in the firm; and/or
- A performance-based measure (using either an arbitrary or a discretionary set of rules, at the firm’s choice).

As you can see, many features can be incorporated into a differential profit-sharing system. The challenge is to use an approach that is seen as fair, yet simple. Of course, the factors used in the formula must align with the firm’s objectives.

Changing the profit-sharing model is one of the most sensitive decisions a firm can make. It should not be done hastily, nor should it be changed too often. A good idea is to bench-test the proposed new model (for example, using last year’s figures, or perhaps the last two years’ results) before finally accepting it. This lets all partners see the practical impact of the new approach: “Who are the winners or losers?” “How will I personally be affected?” Each person can judge its suitability.

If a firm has an under-performing partner(s), a differential profit-sharing system can help highlight the size of the problem. It shows all partners how much profit the under-performer earns compared to others. However, the profit-sharing system itself should not be used to discipline that partner. Instead, an under-performing partner should be treated in much the same way as an under-performing staff member:

- They should be formally advised that aspects of their performance are currently not suitable;
- They should be given guidelines and/or targets and time frames for improvement;
- They should be given technical and/or mentoring support during the rehabilitation phase; and
- If this process does not improve performance to a suitable standard within a reasonable and agreed time frame, there is a strong argument that the poor performer should be dismissed.

The ultimate test of any proposed differential profit-sharing model is that it must be seen to give fair rewards to the best performers in the firm, while also delivering a suitable remuneration for the important efforts of the solid performers within the partnership.

The legal structure utilized by your firm will determine how profits are allocated (for example, is it a drawing from a partnership or a dividend from a corporation) but should not affect the basis of arriving at the various profit shares.

In [Appendix 2.4, Case study 2.4](#) illustrates how a small firm can arrange their profit-sharing to begin with, then alter profit allocation as the firm takes on more partners.

## 2.4 Using Networks and Associations to Add Value

Networks, alliances, or the generic term associations are often used to describe associations in which a firm may enter for branding purposes, to gain clients via referral, and to share in training or development initiatives, including practice tools and quality review processes.

This section examines several types of networks that a firm might want, or be permitted, to use. The essence of any network, whether formal or informal, is to utilize the skills or contacts of the other party, for mutual benefit. Networks can prove especially useful when trying to accommodate the needs of an increasingly international client base. Here we will look at four different types of network that an accounting firm could use:

- A referral network;
- A network to assist in delivery of professional services;
- A network to benefit the management of the firm; and
- A network that shares knowledge.

It also provides clients with the comfort that the firm can draw on resources internationally as required.

According to respondents to the [2015 IFAC Global SMP Survey](#), the top three benefits of membership in a network, association, or alliance are: attracting new clients, broadening client service offerings, and branding and marketing. These benefits address many of the main challenges they are facing. Membership can also expand small- and medium-sized practices (SMPs) capabilities to serve clients operating internationally.

However, only slightly more than one-quarter of SMPs reported that they currently belong to a network (11%), association (10%), or alliance (7%); this is more common among larger SMPs, with 65% of respondents from practices with 21 or more partners and staff indicating they belonged to a network, association, or alliance. An additional 24% of SMPs indicated they were considering joining one.

#### **2.4.1 Advantages and Disadvantages of Network Alliances**

##### **Advantages**

- You can concentrate on your core services and leave others to focus on the technical requirements of their service.
- Networks are flexible, as you don't incur the fixed costs of setting up that equivalent service. You don't have commitments to additional employees in your firm.
- The other owner is responsible for having the resources to cope with the volume of transactions; they fund their business, and you fund yours.
- Networks can be changed relatively quickly: if a better provider arrives on the scene, you can quickly start to refer work to that new provider.
- You can offer a greater level of client services, which provides greater value to the client.

##### **Disadvantages**

- A network rarely guarantees the same degree of control as offering a service yourself: you rely on other people to implement that particular service.
- If arrangements are made between the owners of two or more organizations, the delivery often happens through their employees, who might not always have the same degree of commitment as the partners. There is a cost involved in creating and nurturing an alliance: meetings to scope the "rules" and the service standards to negotiate preferred bases of operation between the firms, and so on. The trade-off may well be that it is quicker and easier to negotiate an alliance than it is to study the feasibility of, and subsequently to implement, the new service directly through your own firm.

### 2.4.2 Referral Network

A referral network exists when several firms agree to refer or introduce potential clients to the other(s) if the referring firm cannot provide a particular service required by a client. For example:

- Legal;
- Marketing;
- Insurance;
- Wealth management or financial planning;
- Computer consulting;
- Bookkeeping;
- Real estate agencies;
- Valuations of land and/or businesses;
- Architects, engineers or surveyors; or
- Finance providers.

A referral network is generally built on a series of one-to-one arrangements, for example:

- A local legal firm referring clients who have recently purchased or started a business and who need a public accounting firm;
- A real estate agent referring the purchaser of a business to the accounting firm; or
- Senior employees in a financial institution referring clients who need more help than their current firm can deliver. This might come about when a business owner seeks finance for a loan and the financier requires more detailed cash flow or profit forecasts.

You might prefer to offer a full range of services through your firm, or you might use networks to confidently refer clients to specialists. Either approach requires an investment of time and possibly money. To illustrate:

- Your firm can invest time and money to develop a service. You will need to employ or re-allocate a senior employee or partner while they learn the skills and gain the required qualifications and registrations. While this happens, they cannot be a fully functioning fee-earner. Once the new service is offered, it will take some time for the new service to become self-sustaining.
- Your firm may buy or merge with a qualified provider. This takes considerable time and investment to locate, screen, purchase, then integrate the new business into your own. This is more difficult to achieve if you are a sole practitioner or in a two partner firm.
- Even when you refer a client to a separate firm, best practice demands that you keep in contact with your mutual client and with the other firm.
- The final alternative is less palatable: Watch your full-service competitors take away your clients! This too has a cost. Whichever option you take has financial consequences. Be guided at all times by the best interests of your client:
- Would the client be better off if I offered the service in-house?
- Would the service be better?
- Would the cost to the client be lower?

- Would the return to your firm be higher?
- Would there be enough activity to make a viable business within your own firm from this service?
- Are the training requirement(s) and/or professional risk too high for this to be offered in-house?

Decide whether your relationship is with another practitioner, such as a trusted representative from each business, or with the organization itself. This affects the way you evaluate each relationship, and whether you need to review the choice each time there are personnel changes. While the culture or receptiveness of an organization might only change over several years, the personnel can change very quickly, and this can have a serious impact if a highly skilled operator leaves the other firm.

### Key points to consider

- Do you expect that there will be referrals by both organizations? If so, you need to think about measuring and monitoring the value to each party. If not, you can simply approach the other organization from the perspective of enhancing client service.
- Which criteria will be used to add or to remove an organization from your panel or list? Do you need to formally advise a firm or a key contact from time to time that it is on your panel, or will you presume that the firm or contact is aware?
- Are there legislative or ethical considerations—such as privacy or confidentiality—that must be addressed before clients can be referred?
- Will special conditions or benefits (such as special pricing or free initial consultations) be offered by either organization to clients introduced by the other?

Any referral arrangement must be built around a healthy respect for the professional skills and service levels offered by the other organization. If you refer a client to another firm and the client receives incorrect advice or poor service, that reflects poorly on your own firm. Keep in regular contact with a key contact from the other organization to monitor progress with your mutual client. This tells your client and the other adviser that you are committed to gaining the best result for the client. There should be a joint session where service-level agreements are documented and a new joint culture developed.

Consider the organizations you will use in this way. Will you refer to only one provider, or will you refer to one of several different firms? In an “earned exclusivity” arrangement, a firm offers such a good service, deal or level of expertise that you wouldn’t want to refer anywhere else. This kind of approach can mean that the client gets high-quality service, and that the referrer is confident that a better-than-average deal has been negotiated for high service standards. The firm obtaining the referral will clearly know how many referrals are obtained and the overall value of those referrals to the business.

When you establish a referral arrangement, don’t let it be too restrictive. If you tie yourself in a formal way to another organization for referral or cross-selling, this might restrict your flexibility if a firm merger or sale comes up. By keeping the arrangement flexible, you can move quickly if a major structural change in your own firm is about to be made.

Module 6 examines the advantages and disadvantages of referrals as part of the client relationship management.

In some businesses, sectors or geographical locations, the payment of referral fees or commissions may be common practice, while in others it may be strictly prohibited. Receipt of referral fees or commissions may give rise to self-interest threats to objectivity, professional competence and due care. You should consult the IESBA Code or your professional bodies for further guidance. It is recommended that where



referral fees or commissions are allowed, appropriate disclosure is be made to the client. Ethical threats and safeguards are examined in more depth in [Module 7](#).

See [Case study 2.5](#) in [Appendix 2.4](#), which illustrates what needs to be taken into account when a firm decides how it will manage referrals.

### **2.4.3 Professional Network**

A referral network (as described above) can also operate among accounting firms. A specialized part of the client's needs (for example, audit or wealth planning) might be performed by a suitably skilled firm. Or a service might be required in a location you cannot service.

Examples might include referring a specialist tax problem to a firm skilled in that area. The client's problem is resolved with the considerable expertise by the specialist, while the referring firm keeps full control over the client relationship.

The network might operate geographically, which allows a client to be referred after changing location if they require a firm nearby. This can be especially important where national boundaries are crossed.

There is international debate about the ethical issues involved in large-scale outsourcing of some accounting roles to independent firms located in other countries. The practice raises questions of client confidentiality and the extent of disclosure. The same questions also apply with any referral of confidential client information outside the home firm. For these reasons, partners should have a well-considered and well-documented set of criteria and procedures when they subcontract professional work to other firms.

With any referral, a high-quality service is important to all three parties:

- The referring firm can have its relationship with the client tarnished if the other firm fails to provide good advice or good service;
- The receiving firm might not gain a long-term client if they do not provide good service; and, most importantly,
- The client loses out if the advice is not good in a professional or technical sense.

Mid-tier or large firms might offer a fee-for-service arrangement to other firms. This could include access to the mid-tier firm's professional employees, possibly at concessional charge-out rates. Or it could gain access to employee training programs, avoiding the need for the smaller firm to develop its own training packages. It could even offer firm management services. The support service will probably extend to making professional work papers and other template documents available. Investigate the availability of such a service, then see whether it represents a good value option to support your firm.

Any such support service must be of high quality; it must also provide a quick response when you need it. The cost might be based on a minimum annual or monthly fee to access the core services, plus an additional fee based on use of other services (for example, to allow the smaller firm to send multiple employees to a training course).

Increasingly, too, professional associations are forming networks. Such alliances can make it easier for individual members of any association to arrange international transfers or work experience assignments; it might help make the transfer of people and skills easier via mutual recognition of the qualifications of individual members.

Look at the benefits that a professional network may deliver. Especially if you are a sole practitioner, it could provide an important and cost-effective level of protection.

Section 290 of the IESBA Code provides a definition of network firms. A firm is deemed to be part of a network if it is part of a larger structure aimed at cooperation and profit or cost sharing, or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name or a significant part of professional resources.

#### 2.4.4 Management Support Network

The third type of network deals in firm management information. At its simplest, it could involve bulk-buying some services, to gain savings that would not otherwise be available to individual firms.

Your firm might join a network of accounting firms. The members of these affiliations often share management insights, so that all firms in the group can benefit from best practice developed by any one member. Or perhaps the cost-sharing allows highly renowned speakers or consultants to address specific management issues of common interest.

Some of those groups run their own inter-firm or benchmarking comparisons; others run discussion groups among managing partners and so on. They might even share the cost of developing specialist items (such as performance appraisal forms or document templates).

There will be a cost for this type of information-sharing, but it can be less than each firm would spend individually. So what is the best practice standard for forming network or alliances?

- Strike up flexible arrangements with high-quality providers.
- Negotiate some favorable basis of dealing with your client. This may include an initial free consultation, or a bonus piece of related work undertaken by the service provider.
- Keep in contact with the clients you introduce to these other organizations, to make sure that each client is happy with the service. In the event of problems, discuss these as early as possible with a senior member of the other service provider. Tell your client that you have followed up on their problem. If no improvement is noticed, consider referring your clients to another provider.
- Be prepared to offer reciprocal arrangements to firms that refer new clients or potential clients to your firm. See [Appendix 2.3](#) for a checklist on establishing network alliances.

#### 2.4.5 Knowledge Networks

Networks are not always formal, and technology is changing the way we interact, access and share knowledge. Knowledge networks, virtual or otherwise, enable you to use peers to help solve challenges and problems or gain access to expert advice. Knowledge networks empower accountants by providing users with the ability to network, collaborate, share good practices, answer questions and resolve problems, research and more, all with other professionals, peers, associations and societies, vendors, university accounting students and professors, consultants and thought leaders to the profession. With virtual networks, there are no geographical limitations: there is the potential to network with anyone from anywhere at any time.

Social networking sites are great places to find knowledge, and those in need of knowledge. Online conversation across all social networks can be as authentic as any other networking channel but offers the advantages of low cost, ease of access, and no formality. However, both online and offline conversations can add value.

Knowledge networks may include:

- **Discussion groups** provide an opportunity for individuals to discuss various topics amongst each other. Discussion groups may be online or offline.



- **Collaborative hubs** provide online convergence for individuals and organizations with shared interests. They provide interactive space for sharing knowledge and experiences.
- **LinkedIn** is a social networking website for professionals. The gated access approach has been designed to build trust and allow professionals to expand networks through existing relationships. It is an online space for professional networking, allowing professionals to share information, insights and views, as well as ask business-oriented questions of the community.
- **Twitter** is an online social networking and micro-blogging platform that enables users to send and receive text-based messages of up to 140 characters, known as tweets. By posting updates, news, and other information, Twitter can be used to promote your practice. It can be used for market research, allowing you to spot and track current trends. It provides an opportunity to collaborate with like-minded professionals and can also be used to engage with clients.
- **Facebook** is the world's largest social networking platform. Users create a personal profile, add other users as "friends," and exchange messages. Depending on account settings, users receive automatic notifications on friends' activity. Additionally, users may join groups, for example, by employer, hometown, or other characteristic(s), and categorize their friends into lists. Facebook can serve as a powerful form of word-of-mouth marketing. It can help you reach the right audience and turn them into clients.

Increasingly professional accountancy organizations are using Twitter, LinkedIn, and Facebook. Members of these organizations, both individuals and firms, may find it useful to join them. [Module 3](#) will cover in more depth the use of social media for marketing.

Knowledge networks help to create brand awareness, build credibility, create a professional network with peers, and market your firm and its services. However, you also need to consider the issue of reputational risk or risk by association, and how it may impact your brand if something were to go wrong with a network member. These areas of risks should be included in your risk management strategies.

## 2.5 The Evolving Firm and the Need for Regular Review

In time, your firm will hopefully grow and develop in accordance with your plans. More employees, more clients and perhaps more partners will change the shape and possibly the culture of your firm. This will usually be a gradual change, unless there is a major event such as merging with, or buying another firm.

It is important to take periodic snapshots of your firm to reveal the nature and extent of changes. This is the purpose of an annual retreat meeting for partners: to look at the firm's services, skills, strengths and weaknesses. Only a realistic review of the firm as it is today will enable you to keep it headed in the strategic direction. If certain decisions have taken the firm away from its strategic path, then either the firm can be steered back onto the right path, or the strategy must be amended to reflect the new direction.

Sometimes the key personnel of the firm can perform this review more than capably. They know the firm intimately, they are competent business analysts, and they know the challenges currently facing the profession. On other occasions (such as in a larger firm, or one where there are significant factions), an external facilitator is helpful to chair the meeting and discussion. A facilitator is independent from the regular decision-makers, and can ensure that the discussion remains at a high level or policy level.

To be successful, change management must occur by design and in a specific, agreed-upon direction. [Case study 2.6](#) in [Appendix 2.4](#) illustrates how a firm can manage its direction, through organizing or reorganizing the way it is structured.

## 2.6 Conclusion

This module has discussed:

- The various types of firm you can create or join: sole practice, alliance, partnership of some type, or a corporate firm structure.
- The alternative approaches to decision-making within a firm, so that decisions can be made in a transparent, efficient and businesslike manner.
- The need for structure or decision-making styles to evolve as the firm grows and develops.
- Some practical checklists and tools.

Keep considering your own suitability to the life of a partner in an accountancy firm: your ability to lead, advise, motivate yourself and others, and your capacity to take on the responsibility and workload for the professional and the commercial success of your business.

It can be an exhilarating journey, which requires hard work, focus, and commitment.

## 2.7 Further Reading and IFAC Resources

The [IFAC Global Knowledge Gateway](#) is a digital hub where professional accountants can easily access thought leadership and resources from IFAC, member organizations, and other notable groups and individuals.

The Gateway Practice Management section includes additional articles, videos, and resources to complement this module. We encourage you to review the content, provide feedback, engage with contributors, and share your own insights on contemporary practice issues.

## Appendix 2.1 Evaluating Your Potential Partners Checklist

If you plan to form a new partnership, you will need to ask:

- Who will my partner(s) be? Do they also have the necessary qualifications to be my partner(s)? If not, when will they be ready? *Are we compatible?*
- Have we fully discussed our aims and objectives, so that we understand each other's needs and expectations? *Are we compatible?*
- Have we recognized and reconciled significant differences of opinion, either to prepare for inevitable disagreements, or to determine a way of handling those issues? *Are we compatible?*
- Will we share profits equally, or on some differential basis?
- Will we start completely from scratch and build our own client base?
- Do we expect to have a client base come with us from our current employer(s)?
- Will we buy a parcel of fees to start our firm's work and cash flow?
- Where will we practice?
- Can we find suitable offices at a suitable price?
- What employees will we need initially?
- What licenses and approvals will we need to have: professional qualifications and memberships, local council regulations, etc.?
- What physical resources and equipment do we need: phones, fax, email, website, listings in phone books, initial promotion of the opening of the firm, stationery and letterhead, office equipment, working capital?
- Professional indemnity insurance must be arranged. Get more than you think you need!
- What capital does each of us need to commit to the firm? What will finance our living costs in the early months? Do we both have the resources or the reserves to equally fund our commitments?
- Can I/we afford it?

If you plan to join an existing partnership, you'll need to ask:

- Who will my partner(s) be? *Are we compatible?*
- Have we all fully outlined and discussed our aims and objectives, so that we understand each other's needs and expectations? *Are we compatible?*
- Have we recognized and reconciled significant differences of opinion, to either prepare for the inevitable disagreements, or to determine a way of handling those issues? *Are we compatible?*
- Will we share profits equally, or on some differential basis?
- What is the age profile of the partners? What are the other partners' retirement plans? What are the buyout arrangements when a partner decides to leave? Can I fund my initial purchase, plus a potential departure of another partner? What contingencies do I need to cover to meet my commitments?
- What due diligence process should I embark on before committing to buy into the firm? What assurances do I need? What protections or "letters of comfort" do I need to obtain from the existing partners?

- ❑ Check the firm's professional indemnity insurance policy and terms, and any claims history that the firm may have.
- ❑ Is the firm's current client profile of good enough quality?
- ❑ What role will each partner play in the new firm?
- ❑ What price is being asked for a share of the firm? What am I buying? What return can I expect from the firm? Can I live comfortably and still service the buy-in arrangement?
- ❑ Can I/we afford this?

## Appendix 2.2 Items to be Included in a Partnership Agreement or Shareholder Agreement Checklist

### Aim of the firm

- The range of services to be delivered;
- Target client types;
- Geographic location of the firm; and
- Number of offices.

### Ownership and profit sharing

- Clear statement about the percentage of net assets to which each partner is entitled on dissolution or wind-up.
- Profit-sharing arrangements (these could be equal or based on differential percentages, or based on an equal draw of \$[XXXX] per month per partner with the balance to be divided in some predetermined fashion).
- Ownership and profit share are not necessarily identical in all partnerships.

### A decision-making policy

- Will decisions be based on the proportion of equity held by each partner, or one partner, one vote?
- Will proxy votes be allowed if a partner is absent from the meeting?
- How many partners must be present to represent a valid quorum?
- Will the chairman have a casting vote if required?
- What decisions must be made at a partners' meeting?
- What delegated authorities are given to each partner?
- What proportions of the partners must agree, for a decision to be valid?
- How often will partners meet?

### A drawings policy

This should be a general statement as to whether profits will be, for example, paid out as soon as the cash balance permits, or whether profit retention will be the preference. It could specify that a certain percentage of accounting profit should be retained to fund working capital (for example, similar to the payout policy that can be specified by a corporation listed on a stock exchange). It is largely a statement of intent but should set the tone for the firm's approach to drawings.

### A debt policy

Is interest payable on partners' loan accounts? This could outline the types of debt finance likely to be used, or could put some limit on the maximum debt tolerable by the partners (for example, "Total interest-bearing debt is not to exceed the value of debtors fees outstanding at any month-end").

### Leave policies

- The amount of each type of leave that will be accrued by the partners, and the means by which leave can be scheduled or taken, especially in regard to the following:
  - Holidays or recreation leave;

- Sick leave;
- Professional development leave;
- Compassionate leave;
- Unpaid leave;
- Time-in-lieu leave if some partners work substantially more hours per year than most others; and
- Sabbatical leave or long-term leave.

### **Insurance**

- Presume that the firm will have insurance for such things as office equipment and professional indemnity. This provision needs to deal with, for example, sickness insurance/income replacement policies and key person or life insurance type policies.
- Will these be taken out by the firm automatically for all partners, or taken by individuals at their option?
- Will the cost be borne as a normal firm operating cost, or will it be charged as a drawing to each partner?

### **Motor vehicles policy**

- Will the firm own and operate partners' cars?
- Is the cost to be charged as a drawing to the individual concerned? Or should all partners make their own arrangement totally outside the firm?
- What rate is payable for genuine, firm-related vehicle usage?

### **A performance policy**

- This outlines the reasonable expectations that all partners should have of each other: for example, the number of working hours, chargeable hours or fee budget expected over a year.
- Related to this is the way that any alleged under-performance will be handled by the partnership.
- Acceptable forms of community support (*pro bono* work) that can be performed on firm time might need to be listed. For example, time spent in professional bodies or regional development organizations might be acceptable during normal working hours, but time spent networking with clients at the local golf course might not be considered acceptable. This may prove a difficult issue to handle in a large partnership where many different roles may need to be covered. In that case, a clear job description for each partner can be used to recognize different roles and the related performance expectations.

### **An entry and exit policy**

- How are new partners admitted?
- What amount of notice is required if a partner wants to exit the partnership?
- How is a new partner to be admitted?
- Who determines the percentage of the firm that will be offered to the incoming partner?
- Will new partners enjoy full profit share immediately, or some form of lock-step entry over several years?
- How is goodwill of the entire firm to be valued? It's best to set a formula or other model, then let the variables at the time of admission or departure determine the final price of a share.

- ❑ Is there a compulsory retirement age?
- ❑ What payment terms are offered on the way in or out? Will existing partners provide vendor finance and, if so, how are the terms structured?
- ❑ What happens if a partner has to exit for unsatisfactory performance? Is a different basis used from the normal formula? What if the exit is due to poor health?
- ❑ How do the above issues change if the departing partner leaves (with clients) to set up a new firm? How will the valuation be affected?
- ❑ Will the firm own cross-insurance policies on each partner's life? How will the proceeds be used?
- ❑ What restraint of trade is suitable and enforceable when a partner leaves the firm?

**Handling matters not covered in the agreement**

- From time to time, matters will arise which have not been pre-agreed and recorded within the partnership agreement. The agreement should specify the normal way to resolve these issues (for example, discussion over perhaps several weeks, to guarantee that issues can be raised, debated, considered, then finalized; guidelines as to the proportion of partners who must agree to a particular resolution). A methodology for handling disputes or stalemates (possibly involving an independent chairman at some stage in the deliberations, to ensure that procedural fairness and a balanced debate are achieved before the decision is finalized).

**Other matters as required**

- ❑ For example, a policy about hiring partner family members.

## Appendix 2.3 Establishing Network Alliances Checklist

### What type of assistance do you want?

- Technical: for example, details of recent tax changes, or changed accounting standards.
- Referral: for example, someone who can deal with a specific, specialist piece of advice for a client but not end up poaching the client.
- Management: for example, tips or advice about the organization and management of your firm.
- Knowledge: marketing insights, competitor analysis, industry trends.
- Buying group: for example, discounts on commonly used items such as stationery.
- Specialist service: for example, a financial planning research service, or provision of fully licensed support.

### How much might these benefits be worth to your firm in a year?

- In direct cost savings;
- In time savings;
- In comfort, confidence and security; and
- In study time.

### What fee is sought for the package?

- Initial.
- Ongoing.
- Is the benefit greater than the cost?
- Is the service provider sufficiently focused on providing support to you and other firms like yours, or is it a sideline activity for them?
- Is there any benefit available in being seen as part of that brand? Will it assist your marketing? Which brands do your clients know? Which brand is the most valuable? Or the least?
- Does your involvement with the group prevent or restrict you from any of the following?
  - Doing certain work;
  - Taking on certain clients; or
  - Promoting your firm or your services.
- Can you talk to existing members about their degree of satisfaction with the following?
  - The service;
  - The value for money; and
  - The people who create, or deliver, the service.



## Appendix 2.4 Case Studies

### Case study 2.1

*This case study relates to [Module 2](#) (“Practice models, associations, and networks”).*

In their discussions about the legal structure of their new firm, Indira and William recognize that they are likely to add partners in the future; accordingly, they select a structure that makes admission of new owners relatively simple and cost-effective.

Because they are not “buying fees” or another firm, they do not need qualified accounting employees initially. William and Indira will each have sufficient time available to promote the firm as well as perform the work they generate. This situation is likely to grow more difficult to juggle by the end of the first year of trading, but it is manageable until then. The implication is that they will require some administrative assistance for the first year, but no professional employees yet.

In their planning, William and Indira are keen to set the ground rules now for the way they wish the firm to evolve. By doing this, they are setting in place a long-term culture that they can explain to clients and to potential employees. They can then hire people who understand and accept that ethos.

William and Indira summarize their major employee-related policies as follows:

- Our firm sees all our people as an important part of our success. We all contribute to the benefits that clients will derive from our services. We will involve our people in the full operation of our firm, and provide regular updates as to our plans, our progress and our financial performance. (William and Indira took some time to reconcile their personal views about that statement. William was keen to have full disclosure of the firm’s financial results to all employees, but Indira was a little less willing. They discussed this difference in approach and finally adopted a “middle-ground” approach, which discloses some actual results as numbers, and other results as trend lines rather than specific numbers.)
- We respect our people. Our workplace will be free from any form of harassment or discrimination, and we will be ever alert to ensuring our workplace is safe and secure.
- We expect our team to behave in an honest, ethical and professional manner. Where an employee has concerns about a particular situation, it is to be discussed immediately with one of the partners of the firm. All personnel will be expected to commit to maintaining confidentiality over information and to respecting our firm’s right to continue serving our clients. All personnel will be asked to guarantee those performance standards, using a legally enforceable and reasonable contract.
- We will cooperate with our team to provide a work environment that responds simultaneously to clients’ needs (in the timely delivery of high-quality advice) and to the needs of our people. We are willing to tailor working conditions to suit the unique requirements of each employee: in this way we can respond in a fair and balanced way toward family commitments, career development and day-to-day workloads.
- We value the development of skills. We contribute to this via our in-house training events and external courses. We are willing to contribute part or all of the investment in short courses and formal qualifications, in a way that reflects the impact of that training on our firm.
- Our remuneration policies will include incentive schemes relevant to the roles individuals play.

Indira and William anticipate that this statement will make their firm seem like a desirable place to work, thereby giving them the best possible choice of applicants. They intend to send this statement to all applicants for work in their firm.

## Case study 2.2

*This case study relates to [Modules 1 and 2](#) and touches on issues about self-assessment, partnership agreements and funding arrangements for new partners.*

When the firm began, Indira agreed with the way that the firm was expected to be funded, and was willing to leave more undrawn profit in the firm initially. This approach would ensure that both partners had equal investment in the firm within a reasonably short period.

As a result of their early review of their personal and professional situation, the partners went a long way toward settling their services plan, addressing elements of funding the firm too. They documented these agreements as the starting point of their partnership agreement.

Some years later, the firm has grown considerably. Each time a new partner was added to the firm, William and Indira put the proposed partner through the same self-assessment exercise they had done. By doing this, the existing partners hoped to ensure that the partners shared enough of the most important attitudes, and this has made for a harmonious partner base in the firm.

For the first few new partners, they used the same checklist ([Appendix 1.1 in Module 1](#)) and invited the intending partner to discuss the results with some of the existing partners. This approach worked well initially but became more and more daunting (and therefore less useful) as the number of partners increased. Eventually the firm decided to use an independent consultant to talk to the incoming partner as well as to the existing partners.

Because the firm was becoming progressively larger, there was slightly less flexibility about the financial arrangements for the admission of a new partner. Instead of allowing differential levels of equity or lower drawings to equalize the equity, the “existing” partners agreed to provide vendor-finance to the incoming partner on favorable terms.

## Case study 2.3

*This case study relates to [Section 2.2](#) (“Which practice model is right for you?”) in [Module 2](#).*

William and Indira have decided on the following approaches to allocation of responsibilities and decision-making.

William will take primary responsibility for the professional matters relating to the firm’s tax advice; Indira will focus 60% of her time on audit, with the remaining part spent on general accounting for a small group of clients. Each will be available to take on some management advisory work, and each assignment will be allocated to one of them according to the nature of the assignment rather than who “owns” the client.

Indira has accepted a role attending to administration and quality control issues; William will spend some of his time in promoting the firm’s services across a range of current and prospective clients.

They have determined that both need to agree on decisions; this particularly applies to decisions regarding accepting new clients, or adopting new internal processes. They expect that this will be a workable and collaborative arrangement in the early days of the firm; however, each has also agreed to consider deferring to the other’s recommendations if one of them feels strongly about an issue and the other is ambivalent about it. As a result, the less significant decisions should not cause undue delays or friction between the partners. They are in complete agreement, however, that once a decision is made, it will be adopted and embraced strongly by both.

These undertakings have been added to the partnership agreement.

## Case study 2.4

*This example relates to Section 2.3.5 in Module 2.*

William and Indira each respect the work and commitment that the other gives to the firm. They see some merit in initially sharing profits equally, but are also keen to structure a longer-term arrangement that will reward a larger group of partners for visible contribution to the firm. In short, they want to start today with an approach that they believe will suit a larger group of partners in the future. At the beginning of the firm's life they decide to allocate profits as follows:

- The key accounting policies are listed and agreed, so that both partners know how profit will be calculated.
- The interest paid to William (on his higher capital contribution to the firm) over the first two years will be treated as an expense of the firm and will be paid before profit is struck.
- The first 80% of available profit will be shared equally between William and Indira.
- Of the remaining available profit, 10% will be split in proportion to the total number of hours that each spends working on direct client-related work plus the hours spent in their agreed management roles. In this way, the management roles are rewarded on an equal basis with the fee-earning hours.
- The final 10% of profit will be shared in proportion to the dollar value of fees (net of write-downs and bad debts), which each partner generates personally.
- The dividend/drawings policy will see a fixed amount paid to each partner each month (expected to represent about half the targeted net profit for the year). Other lump sum distributions will be paid quarterly, subject to availability of cash within the firm.

This arrangement will exist on a trial basis for the initial two years of the firm's life, then reviewed. It has been written into the partnership agreement.

*Note: This approach is provided solely to let you see one of the many ways that profit-sharing could be approached in a new, tightly owned firm. It is NOT to be interpreted as best practice in profit-sharing arrangements. The partners of each firm must tailor the profit-sharing and drawings policies to suit the unique circumstances of their own firm.*

Several years later, William and Indira are part of a much larger partnership. Their initial approach to profit allocation worked well for a long period. The firm now has a full-time managing partner who earns no professional fees at all. There is also a general manager who runs the firm on a day-to-day basis. As a result, most partners spend almost all their time in fee-earning work.

One particular partner has developed a reputation for winning new clients. They are generally large clients, capable of paying an above-average level of fees per hour and per year. This partner has increasingly come to believe that he is not being rewarded properly for his impact on the firm's growth and profits. There has been talk of a partnership split. The other partners all accept that the particular partner has contributed substantially to the larger size and profitability of the firm over the last five years.

During the course of several partners' meetings, the partnership decides to change the profit-sharing formula:

- From the start of the current financial year, 60% (previously 80%) of available profit will be shared equally among all partners.
- Twenty percent of profit will be shared in proportion to the value of first-year fees generated by new clients introduced by each partner.
- All other allocations will remain as they are.

These changes have been put on paper as part of the decision-making process. The partners who are not good at winning new clients will earn a smaller share of total profit. They accept this because they benefit from the total profit pool rising faster due to the new clients introduced. The partner who felt underpaid still feels he could earn more by splitting from the firm. However, he sees the benefit of having a large group of trained accountants on hand to perform the work requested by the new clients.

Indira and William are happy with this outcome: they know that partners must look beyond their immediate interests to consider the benefit to the firm overall. They were impressed that the expanded group of partners dealt with this issue in a positive manner, and that all partners were prepared to cooperate to achieve a sound solution.

### **Case study 2.5**

*This case study relates to [Section 2.4.2](#) (“Referral network”) in [Module 2](#).*

For the first two years, William and Indira initially decide to restrict their service offering to traditional accounting and write-up services, taxation advice and lodgements for clients, plus audits of small to medium-sized clients. They will also offer management advisory services such as in-house financial controller support. This package of services allows them to keep in regular and close contact with key clients, in turn allowing them to identify additional services required by those larger clients.

They have examined their audit independence and have decided to develop a specialized audit niche in local government bodies and not-for-profit firms. This minimizes the amount of other accounting work that they will have to decline, since these organizations generally require only an assurance review. They are aware that this approach may well limit the size of their audit firm and possibly require more travel out of their local region, should they be appointed to audit far-flung organizations.

They decide to handle other work by forming strong links with one or two specialist providers of additional services such as audit work that the firm chooses not to take on, wealth management, insolvency and reconstruction, and finance broking.

For each referred service, William and Indira develop a list of approved providers, so that they can offer clients a choice from among top-quality firms. Related to this, William and Indira have at least half-yearly meetings with the other firms, to keep track of changes in personnel and to maintain a good working knowledge of each client’s situation. They will ensure that clients give both firms the authority to discuss confidential information pertinent to the client’s affairs. William and Indira anticipate that such strong links among the network member firms will encourage the other firms to refer accounting clients to the firm; however, this is not a key requirement for continuation of the referral arrangement.

Appropriate notes are to be taken and placed in the respective client’s file, following each of these review meetings among the network members.

Several years later, the firm decides to add a new service, involving corporate rescue, insolvency and reconstruction. The partners believe that the skills required for this work flow naturally from the extensive business advisory services and the in-house financial controller service that they deliver.

A partner is selected to gain the necessary licenses and registrations. This is expected to take a year, during which time that partner’s fee-target will be halved and some clients reallocated to other accountants within the firm.

The partnership as a whole has developed a business plan for the new service. The plan estimates the impact on both profitability and cash flow over the next three years. The short-term loss of profit is expected to be repaid within two years of the commencement of the new service. The firm has already made key referrers aware of its plans, especially the local banks.

Launching this new service in-house requires that the firm stop referring this type of work to their previous referral-partner. The two firms worked well together so they remain on good professional terms with each other.

### **Case study 2.6**

*This case study relates to [Section 2.5](#) (“The evolving firm and the need for regular review”) in [Module 2](#).*

As firms grow in size and complexity, they generally need to adapt the way they are organized to deliver professional services. Since professional personnel are likely to constitute around 80% of all personnel in the firm, reorganizing the professional teams will necessarily lead to a different organizational structure to support them.

Indira and William regularly examine the way that their firm is structured. Over time, it has changed.

When the firm started, the structure consisted of just two teams: one headed by William, providing general accounting and advisory services; and one headed by Indira, focusing on audit services. This simple arrangement suited their relatively narrow client base initially.

New employees were added to each team as needed: audit employees were added to Indira’s team, and all other accounting personnel were added to William’s team. When Indira required staff for non-audit work, she arranged this through William.

After a few years, Indira and William each acquired more clients for accounting and tax work, and Indira also acquired new audit clients. As the number of employees increased, it became more and more awkward for Indira to book access to employees through William’s team the number of requests became so high that it reduced William’s productive time considerably. The two partners agreed that each would have a team of people sufficient to handle the work that each principal supervised. Both also agreed to manage any excess workload in one team by sharing with the other team’s personnel.

A few more years later, William and Indira added a new partner. This required handing over some clients (mainly from Indira to the new partner) so that Indira could focus on running her audit team, while William and the new partner looked after general tax and advisory work. The personnel in each team were realigned so that each team had enough employees to handle the expected workload for “their” partner.

When the firm added a financial planning (wealth management) service, this required a further rethink of structure and personnel. The service was very popular, and profitable, and it saw a rapid increase in employees. The financial planning team was built up as a stand-alone team and could not assist the other teams with overload work; nor could they use personnel from the accounting or audit teams when their own workload became high.

The partners found that they needed to review the organization about every second year. Sometimes a major reorganization was needed, and at other times only minor fine-tuning was required.