

Forming alliances with other firms: Expand your service offerings and ensure quality

Bringing in new clients is a concern for many accounting firms. In fact, in the most recent [PCPS Top Issues survey](#), it was ranked as a top 10 concern for most firm sizes. Growing your practice by obtaining new clients or providing expanded services to existing clients is a good thing, right? Well, it's only good if your firm can provide quality service to your clients.

The client acceptance tool provided in the AICPA PCPS [Invigorate the Focus on Quality Toolkit](#) asks you to assess whether your firm has sufficient personnel with the appropriate training and experience before you accept an engagement. Through the development of strategic relationships with other firms, you improve your ability to answer yes.

This resource will look at

- Ways to develop your peer network
 - How to leverage that network to grow your firm while ensuring your clients receive quality services
-

Developing Peer Networks

Your **peers from across the country and representing all firm sizes** have provided their insights into developing professional networks. Consider how you can leverage their approaches to develop your opportunities for sharing knowledge and resources. These relationships can be used to help you provide the services your clients need while maintaining your commitment to quality. These are just some examples. If you have other suggestions, share them with us at pcps@aicpa.org

- [State CPA societies](#)
 - Networking groups
 - Some state societies offer live meetings, conference calls or both, with groups based on firm size
 - Events
 - Attend or help plan conferences or social events
 - Participate in local chapters (consider serving at the chapter board level or planning or attending events)

- Committees
 - Get involved in a committee that interests you (A&A, Tax, Young CPAs, financial literacy, scholarship committees, etc.)
- Social media – this is a great way to see what’s on the mind of practitioners in your area. Topics often relate to technical issues.
 - Message boards
 - LinkedIn groups
 - Facebook
- AICPA [Private Companies Practice Section](#) (PCPS)
 - [Networking groups](#)
 - PCPS networking groups are offered by firm size. In addition to providing an open forum for practice management discussions, they can also serve as a network to turn to for technical expertise.
 - Social Media
 - [LinkedIn groups](#)
- AICPA
 - [Committee participation](#)
 - The AICPA’s committees, subcommittees, board, panels, centers, and task forces currently include approximately 200 volunteer groups, 80 of which undergo a formal application and appointment process each year. The remaining 155 volunteer groups comprise task forces, working groups, and advisory panels that are created to meet a specific need and disband once their project-oriented goals are completed.
 - [Social Media](#)
 - LinkedIn groups
 - Twitter
 - Facebook
- Firm Associations
 - Firm associations present a more formal approach to expanding your firm’s resources. Associations can assist with technical issues, referrals, marketing and in many other areas.
- Industry Organizations
 - Whether your firm is developing a niche or is already serving clients in particular industries (construction, banking, non-profit, etc.), meeting other CPAs or professional service providers operating in that arena can lead to valuable relationships. Consider becoming active through
 - Planning or attending conferences
 - Participating at the local chapter level
- Peer reviewers
 - By developing a strong relationship with your peer reviewer, you can build a relationship that provides a resource for your firm
 - Develop a relationship with other peer reviewers to assist when you accept a client in a new industry

- Establish a relationship with a peer reviewer to provide a cold review of financial statements prior to their issuance
- Seek an alliance which allows you to obtain assistance with your annual practice monitoring
- Former colleagues now working in other firms
 - Colleagues may leave to work in larger firms or smaller firms and for many reasons. Staying in touch provides an opportunity to expand your network of technical resources.

Developing a strong peer network may take some time, but the amount of time you invest will provide you with a supply of technical expertise that allows you to meet your clients' needs in a variety of ways.

Leveraging strategic relationships

The peer networks you develop can be used in different ways to serve your clients and grow your firm. Here are a few options for leveraging the “resource bank” you develop.

- Networking Groups
 - Individual firms of similar size meeting on a regular basis to share ideas and discuss timely tax, management, and business topics. Members of networking groups can become a resource for technical issues.
- Referrals
 - Refer engagements to or receive referrals from firms to create a non-competitive relationship
- Joint engagements
 - Combine labor and knowledge for a single undertaking, sharing profits and losses equally or as otherwise agreed
- Strategic alliances
 - Special projects and engagements
 - Contract with another firm to conduct a particular service directly for your client
 - Joint ventures
 - Work with another firm by dividing the scope of work into specific pieces. For example, if your firm doesn't perform audits, you could subcontract the audit portion of the engagement to an allied firm. They would have separate engagement letters with the client and render their own invoices.
 - “Just-in-Time” consulting
 - Use the resources of a firm as if they were yours and have the firm bill you, not the client

- Office-Sharing Arrangements.
 - A group of independent CPAs operating under one roof sharing space, operating costs, and possibly services

Let's take a closer look at Joint Engagements, Strategic Alliances and Office Sharing to see how they can help your firm and some of the issues to consider.

The following is adapted from the AICPA's [*Management of an Accounting Practice Handbook*](#). Additional details and sample agreements are available in chapter 106, "Expanding Firm Capabilities" in the handbook.

By William R. Pirollo, CPA
DiSanto Priest & Co.
Warwick, Rhode Island

As clients grow in sophistication and demand new and different services, firms can be faced with the challenge to respond to these needs.

By working in collaboration with other firms through **joint engagements** and **strategic alliances**, firms can offer a variety of services to clients without hiring or acquiring the expertise.

Joint engagements are usually short term and limited to the job at hand.

Strategic alliances are usually long term.

Establishing a Joint Engagement

A firm's opportunity to obtain an engagement may be enhanced by a joint arrangement with another firm. A joint engagement is

- a relationship in which two or more persons or firms combine their labor and knowledge for a single undertaking
- share profits and losses equally or as otherwise agreed

Reasons for Joint Engagements

Joint engagements can allow firms the opportunity to enter bids and obtain engagements that they otherwise would not be qualified to perform. Firms may seek joint engagements for any of the following reasons:

- To combine auditing and advisory strengths with another firm
- To acquire qualifying small disadvantaged firm participation for governmental services
- To obtain experts with industry specializations
- To make use of excess staff

Selecting a Joint Engagement Partner

Once a firm has decided that a joint venture engagement may be useful, the following steps are suggested to help locate a partner or subcontractor who may enhance the firm’s qualifications and to define the terms of the joint engagement.

- Communicate interest in a joint engagement and request qualifications
 - Meetings, telephone calls, or letters may be used to express an interest in the possibility of joint engagements.
 - If the other firm is interested, ask for qualifications, brochures, and related experience.
- Outline goals of a joint engagement
 - Address how the needs of the contracting and subcontracting firms can be met in a **mutually beneficial** way.
 - Goals may include
 - seeking additional off-season work
 - training staff in new kinds of engagements
 - securing additional or more substantial private sector engagements
 - increasing the firm’s visibility
 - developing expertise in a particular segment of audit, tax, or consulting and advisory services work
- Review qualifications and relevant experience of firms interested in joint engagements
- Interview potential firms
- Agree to terms
 - A letter of agreement should be drafted before submitting the proposal for a joint engagement.
 - The [*Management of an Accounting Practice Handbook*](#) includes a “Sample Letter of Agreement—Joint Engagements”

Once the proposal is submitted and the firms have successfully obtained the engagement, an engagement letter should be prepared and signed by both joint engagement members. Job progress should be closely monitored, planning and review should be attended by both parties, and other important details of the engagement should be jointly monitored. Before signing the report, both firms’ quality control procedures should be fulfilled, and both firms should be in agreement with the engagement opinion.

Signing the Audit Report

In most instances, a single firm, generally the lead firm or primary contractor, should sign the report.

Although there is no prohibition against joint signing of audit reports, the professional standards do not provide for sharing the responsibility for an audit of the financial statements. If both firms sign a report, each individual or firm is considered to be separately expressing an opinion. Signing the report is appropriate only if the individual or firm has complied with generally accepted auditing standards (GAAS) and can individually express an opinion on the financial statements.

The procedures necessary to achieve a level of assurance so both firms could sign would be much greater than those necessary in a principal or other auditor situation. **Firms should consult their attorney to consider their legal liability and the implications of such a relationship.**

By entering into joint engagements, additional resources may be made available to a firm. Joint engagements can provide specialized expertise and create work that might otherwise be unattainable. A joint engagement can also create additional growth within the firm, which can add significantly to bottom-line profits.

Forming a Strategic Alliance

A strategic alliance can be described as the cooperative efforts of unrelated firms working together to provide a wide range of products and services to a diverse client base.

Strategic alliances should not be confused with accounting associations. Firms in these associations will typically share ideas and resources on issues of practice management and may work in joint venture on specific engagements. They provide members with a strong support system that can help firms compete. They are peer-to-peer groups, usually requiring minimum size and service requirements for entry, with members strategically recruited in various geographic regions.

Some key things to remember about strategic alliances:

- They can benefit **firms of all sizes working together in the same geographic location.**
- An allied firm could look completely different from your firm, **providing products, services, and expertise that your firm lacks.**
- A strategic alliance is a **long-term relationship**
 - bringing together firms that have different focuses
 - providing a network of general and specialized experience
 - quickly reacting to a wide variety of client needs

How to Get Started

Three steps to forming a strategic alliance are as follows:

- Conduct an analysis of the firm
- Define goals and objectives for the firm
- Select strategic partners that will help achieve those goals and objectives

Conduct an Analysis. The first step in establishing a strategic alliance is to develop a solid understanding of your firm statistics and your client demographics. Basic demographic information is essential to any long-term plan for establishing a strategic alliance. Always be prepared when discussing your firm, especially with a larger firm. They know their statistics and will ask you yours. The [PCPS/CPA.com National MAP Survey](#) is a great place to start.

Define Goals and Objectives. Now that you have become acquainted with the statistical side of your firm, the time for self-examination is here. You will need to perform a SWOT analysis of your firm, meaning that you should look at the firm's strengths, weaknesses, opportunities, and threats. The formation of any long-term plan requires buy-in from all parties. Involve everyone in the process from partners to administrative staff.

Whether you are a sole owner or a partner in a firm, it is critical to know where you are going. Only through self-examination can you decide where you are and where you would like to be. Be honest with yourself. Write down your short- and long-term plans. Start a dialog, and make a decision to change. The PCPS resource [Creating a One Page Strategic Plan](#) can help.

Once you've analyzed your firm and defined your goals and objectives, you are now prepared to begin the process of forming strategic alliances to fulfill your goals with a plan in mind. An alliance without a plan is just a work-sharing arrangement that will not benefit both parties involved. **If both parties to an alliance do not recognize a benefit, the alliance will fail.**

Select Strategic Partners. Your choice of strategic partners is critical. How do you begin to seek out firms that you can associate with on a long-term basis? One of the best ways is to get involved. Several suggestions for developing your peer network by getting involved were provided earlier. Typically, firms that are actively involved are forward thinkers who may be open to just such an arrangement. You may already be acquainted with these firms and simply need to start a dialog.

You can impose many criteria in determining which firm will provide the best match for you and your clients. Issues such as billing rates, location, experience, and range of services are all important. Nothing, however, is more important than the **firm's philosophy and culture.**

Every practitioner has a personal style that his or her clients are comfortable with. That is why they are your clients. If you are going to directly or indirectly expose your clients (your largest

asset) to another CPA firm, you need to be sure they will service your client with the same care and temperament as you.

Spend lots of time with the partners and key staff of any firm with whom you choose to form a long-term alliance. What is their firm philosophy? Are they quality people? Do you trust them to be professional with your clients? Will they respect your firm and work collaboratively? Think of yourself as the end client and screen them as you would any other professional. Make sure that its goals in forming the alliance are in sync with yours.

Start small. Bring a potential allied firm in on a special project or perhaps just on a single tax issue. This will establish a tone for how future engagements will evolve. The best of marriages begin with a courtship.

Types of Strategic Alliances

The three basic types of strategic alliances are the upstream alliance, the downstream alliance, and the specialized alliance.

The Upstream Alliance. An upstream alliance is quite like it sounds, a smaller firm forming an alliance with a larger firm. This type of alliance provides the greatest potential for service sharing and long-term gain. A large firm is defined as one with adequate resources to provide a wide range of specialized services, and a small firm as one needing those services.

If you are attempting to facilitate an upstream alliance, your goal should be to leverage the assets of the larger firm to yours and your client's best advantage. The ideal relationship treats the firms as if they were satellite offices of one another, each having access to the other's resources. None of this is accomplished without very well-defined objectives and open lines of communication.

The first step is to identify the strengths and services available through your upstream partner. Meet with the senior partners and have them provide you with an overview of their firm's departments and a list of their specialties. Meet with the partner or accountant in charge of the department or services that you foresee implementing for your client base. Make sure they understand your firm and how you can help them.

The Downstream Alliance. In theory, every upstream alliance creates a downstream alliance for the other firm. What you need to envision is your firm being in the middle and seeking to form both an upstream and a downstream alliance. In this situation, you are seeking a firm that is perhaps smaller than yours or has some specialized service niche. These types of alliances are very helpful if the job at hand is too small or price-sensitive for a larger firm. Keep in mind that this will become an upstream alliance for your downstream firm. Seek out a firm that is open-minded to forming a long-term alliance with your firm.

The Specialized Alliance. These are the same arrangements that CPAs have traditionally used for years. CPAs have always worked with professionals in other fields, estate tax attorneys,

investment advisers, insurance specialists, business brokers, and bankers, to name a few. Today, the difference lies in the shift in the profession from the traditional service mix to the specialty service area. CPAs are now delivering disciplines such as business valuation, investment advisory, and even insurance. Your choices as a practitioner are to deliver these services yourself or align with someone who does. If you do not see the need to work on a regular basis with another firm, you can seek out these specialists to work with you on an as-needed basis.

Which of these options is correct for you depends on your situation. Many firms use all three effectively. The idea is to think and plan differently for your firm. **Decide that there are alternative ways of doing business, and get started.**

Contract Matters

As with any professional arrangement, care should be taken to ensure a clear understanding of the terms, and their effects on both firms and especially the client. Two issues need to be clarified upfront

- Terms of the long-term alliance
- Terms for the specific engagements that will develop from that alliance

You may consider a formal strategic alliance agreement, but as the relationship evolves over time, it will be difficult to identify all the possible scenarios. There should, however, be a letter of understanding highlighting the spirit of the agreement. Issues to cover include the following:

- Communications
- Client relations
 - Your clients should always be aware of and approve of any shared services.
 - As the primary accountant, you have a duty to protect your client's confidentiality.
 - Information regarding the firms involved, the nature of the assignment, and the billing arrangements should be in writing.
- Dispute resolution
- Noncompete
 - You should always include a noncompete clause in all strategic alliance agreements.
 - Still, if you are afraid the firms in your alliance will steal your clients, you have picked the wrong firms.
- Nonsolicitation of employees
- Billing
 - Rates and fees should be thoroughly understood.
 - Depending on the particular assignment at hand, billing can be between firms or directly to the client.
 - Billing passed on to the client can be in the form of a line item, such as a pass-through cost, or invisible.

Individual projects on behalf of clients should be more formalized based on the nature of the service.

Alliance Structures

There are several types of structures used to establish strategic alliances including special projects and engagements, joint ventures, and “just-in-time” consulting.

Special projects and engagements. In this type of arrangement, you contract with your affiliated firm to conduct a particular service directly for your client. This could be business valuation, investment consultation, personal financial plan, cost accounting study, Web trust, or any other type of freestanding service. In this arrangement, separate engagement letters are issued and typically the allied firm bills the client directly for the service. Your firm’s job is to coordinate the scope of the service and monitor the engagement on behalf of your client.

Joint ventures. In this kind of arrangement you are working with your allied firm by dividing the scope of work into specific pieces. For example, if your firm doesn’t perform audits, you could subcontract the audit portion of the engagement to an allied firm. They would have separate engagement letters with the client and render their own invoices.

“Just-in-Time” consulting. One of the strongest advantages to a smaller firm in an alliance is the ability, on a specific basis, to “rent” rather than “own” expertise needed. Just-in-time consulting allows you to use the resources of your allied firm as if they were yours. This arrangement is most applicable for specific tax or accounting questions that arise as part of your regular engagement. Invoicing in these matters is generally directly between the firms. In effect, you become the client. Costs can simply be passed on to the client invisibly. In many cases, the allied firm may have no knowledge of who the client even is.

Office-Sharing Arrangements

Another form of alliance that can benefit practitioners is an office-sharing arrangement.

Attorneys and physicians have worked successfully in these types of arrangements for years. The CPA profession is beginning to see the benefits. One reason for the shift is the move to specialization within the profession. It is now possible to form a group of independent CPAs who work in different disciplines under one roof. Even CPAs with similar practices and clients can share space, operating costs, and possibly services.

For the most part, these arrangements are no different than other tenant relationships, with the exception that you may actually share the same physical space. Issues to be addressed may include:

- Access to files
- Client confidentiality
- Noncompetition
- Common supplies and equipment
- Reimbursement for staff time

A formal lease arrangement can be used or a simple letter of understanding.

Strategic alliances provide you with the ability to provide a wide range of services to your clients. They are also a source of cross-referrals. They provide a place to turn when you cannot accommodate a service because it is too small, too big, or too specialized.

For smaller firms, and particularly sole practitioners, forming strategic alliances are a way to plan for practice continuation, should the need arise. In a death or disability situation, you would want to secure the most value from your assets by planning for an orderly transition. If you are nearing retirement, a strategic alliance can provide a period of courtship before a sale. If you are looking to grow your firm through acquisition or consolidation, alliances may be the first step.

For all firms, alliances are a way to leverage your existing client base, expand through controlled growth, and provide ways to provide additional services to help your clients. Your firm can grow in size, quality, and profitability, while staying focused on what you do best. Alliances are simply another path to marketing, management, and profitability for your firm.

Conclusion

Building your network of other CPA firms can provide new opportunities for you to serve your clients while maintaining your commitment to quality.

Harness the relationships you develop to create referral resources, joint engagements, strategic alliances or other approaches that work for you and your clients. Your firm can benefit in several ways including offering additional services to existing clients, gaining new clients and increasing its knowledge base.

DISCLAIMER: The contents of this publication do not necessarily reflect the position or opinion of the American Institute of CPAs, its divisions and its committees. This publication is designed to provide accurate and authoritative information on the subject covered. It is distributed with the understanding that the authors are not engaged in rendering legal, accounting or other professional services. If legal advice or other expert assistance is required, the services of a competent professional should be sought.