

Building a Credible Indian Alternative



Ever since the Hon'ble Prime Minister Shri Narendra Modi spoke to Chartered Accountants on CA Day on July 1, 2017 about his proposition that there should be Big Eight global accounting players, four of whom should be from India, a lot has been written on the subject. The Institute, in its Vision 2030, has very laudably taken on the objective of developing competencies as would enable Indian Chartered Accountants to serve clients globally. Indians have proved time and again that they have the capabilities to build to global scale, particularly in the services sector. So, while we have abundance of capabilities, what is it that will ensure that this proposition goes beyond the rhetoric and into the realm of reality? Read on to know more...

Evolution of the Big Four

To start, let's look at the evolution of the Big Four accounting firms. These firms have all emerged through a process of global mergers over several decades. Originally, their growth came alongside the growth of global organisations whom they served. In the age of globalisation, the global MNCs expanded their presence and so did their service providers. The expanding geographic presence of their clients provided them a ready base to set up operations in multiple jurisdictions, without having to start from the ground level up. This was a major

advantage. These accounting firms soon expanded their horizons to tax and advisory services. Today, the revenues from these services is larger than their revenues from audit services. These other services are not necessarily the domain of accountants and, as a result, the accounting firms have ceased to be 'accounting' firms. They render diverse services including in corporate finance, HR consulting, real estate planning, forensic, IT consulting and advisory, etc. In fact, if we go by publicly available statistics, in 2017, the audit turnover of the Big Four accounting firms was only between 36 and 42 per cent of their total turnover.

It is necessary to understand this composition of services to understand their businesses. In strategy consulting, the Big Four like to compete with the likes of McKinsey, BCG and Bain, in IT consulting and advisory, they like to compete with the likes of Accenture, Capgemini and IBM, in HR consulting they compete with the likes of Stuart Spencer and KornFerry.



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Capacity Building

Clearly, the Big Four grew as accounting firms but used the exclusive domain of audit to build a base of relationships to diversify; they have now reached a stage where they are no longer accounting firms but are services conglomerates providing diverse services. As to whether the breadth of services they provide is so large that they create conflicts is a separate subject and not covered in this article. What the author would like to point out is that as we examine the subject of creating an Indian accounting firm of scale, we need to better understand what the Big Four are all about.

It is also necessary to recognise that being early starters, these organisations have invested billions of dollars in developing best in class methodologies, best practices, etc. Their internal processes tend to be very robust. As a result of constant scrutiny by regulators, they have evolved independent policies and conflict-check mechanisms which are laudable. That said, failures abound – be it huge audit lapses, conflicts of interest, overlooking client issues for larger business interests, etc. Thus far, regulators have looked upon these as individual lapses and not as organisational lapses. Again, as to whether this approach is right or not is not the subject matter of discussion here. What is necessary to note is that in a profession where there is huge investment in technology and where there is a high degree of internal reviews and external regulatory oversight, several lapses, and large ones at that, abound. This shows that in creating a global practice, one needs to factor the inherent risks in the audit process.

We seem to have now reached a stage where most regulators regard the Big Four as being too big to fail. With just four in number, there is a lack of choice and regulators seem to have taken a view that if their number were to go down any further (because of regulatory action), the choices would narrow even further. Time will tell whether this ‘too big to fail’ approach is the right one. What we do need to understand is that this seems to be the current mindset of the regulators.

Let's for a moment, also deal with the next two global players. At turnover of approx. USD 6 - 8 billion, they pale in size compared to the Big Four. Attempts by the regulators to say that there is a Big Six and not the Big Four is thus rather lame.

Indian Firms – How They Stack Up?

Let's now see how Indian accounting firms stack up in size and scale. As mentioned earlier, global

firms grew with the organisations to which they rendered services. In contrast, Indian MNCs have traditionally used global accounting firms for audit and other services in India and overseas. There are two primary reasons for this. First, Indian MNCs wanted 'credibility' as they raised global funds. Getting accounts audited by a global accounting firm provided them this credibility. Second, Indian firms did not invest sufficiently in size and technology and did not have the global reach as would enable them to compete with their global counterparts. This has also happened in China and an opportunity for these two emerging economies to provide credible alternatives to the global firms was lost.

In fact, our Government itself seems to prefer using global firms (presumably with credibility and global access in mind). This makes it clear that talking about Indian alternatives to Global firms will remain mere rhetoric unless some fundamental issues are addressed.

How Can Indian Firms Emerge as Credible Alternatives?

There is obviously no magic formula for this, and I wish I had all the answers, but set out below are some of my thoughts on what it would take for Indian firms to emerge as alternatives to the global firms:

- **BUILD TO QUALITY, NOT TO SCALE:** This is fundamental. We need to build really high-quality organisations with non-negotiable ethical standards. An attempt to build to size is a wrong focus. What we need is to create a framework which helps build scale (discussed later). Scale has to be a consequence and not a goal. An attempt to merely build to scale will result in mergers which have no synergies and which will prove to be negative in the long term.
- **ADAPT AND BE AHEAD OF THE CHANGES:** A small size gives nimbleness. There are just too many changes happening across the globe. These could create level playing fields for us. Technology could be one big leveller.

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With data being on the cloud, several of the Big Four are carrying out audit functions of overseas entities in India. That gives them a great cost advantage. Why then can we not be the ones doing this? Transfer Pricing has global regulations and there is no dearth of talent in our country. We can and should aspire to do global transfer pricing work for global MNCs. IFRS is one opportunity as we have converged with IFRS. We would be IFRS hub for the world. Big Data is yet another opportunity.

- **CHOOSE YOUR AREA OF FOCUS:** As discussed earlier, the large 'accounting firms' are into diverse activities. There is no point in trying to be present in each of the fields into which they have grown over decades. Choose your area of focus, dominate and then diversify. How do you eat an elephant....one bite at a time!!
- **IT'S NOT THEM versus US. IT'S THEM AND US:** We often tend to look at competition as enemies. That's a totally incorrect approach. The global players have put in place several best practices and there is a lot to learn from there. The idea should be to learn, to imbibe, to excel, to create a distinction and grow. I find the approach of asking for a level playing field to be self-serving. There are no level playing fields. These are the fields that we have to level ourselves and make them our fields.
- **REGULATIONS WILL PLAY THEIR PART. DON'T ASK FOR REGULATORY SUPPORT:** I know that with Trump around, protectionism is in!! That said, we have talent and capabilities and do not need regulatory protectionism. Regulations will evolve and impact the profession. Sarbanes-Oxley played its part. There will be more regulations which will impact the global players in times to come. We need to be prepared to seize those opportunities when they come; not yearn for them. Do we need any regulatory intervention? Sure, we do. The ICAI needs to take lead in ensuring that our curriculum **remains world class**. We

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We need to create institutions. This requires creating governance platforms, going beyond individuals, grooming talent, investing in the future. There is a lot of talent in India which is world class and which can compete globally. What is needed is to harness this talent into institutions and provide credible alternative to the market place.

- need better and formal interaction with service organisations which are built to scale. We need to skill our members with technology, which is a critical need. We need to engage with regulators across the world to ensure that we are able to get a foothold in overseas markets. But, even without that, opportunities abound.
- **THINK GLOBAL:** The global accounting firms have operated in multiple jurisdictions with local talent. When it comes to Indian firms, we find very few who think beyond our borders. There is no dearth of talent that we have and there is no reason why we cannot aspire to set up offices in many countries and start to get the global feel. That needs courage, conviction and investment. In the field of taxes, IFRS, etc. there are multiple opportunities to work in jurisdictions like the Middle and the Far East, there are significant advisory opportunities in the Middle East and Africa....the list can go on. We do need to recognise the regulatory barriers that may not enable overseas talent to practice locally; the need would be to recruit local talent.
- **Finally, WE NEED TO CREATE INSTITUTIONS:** This requires creating governance platforms, going beyond individuals, grooming talent, investing in the future. All of this is a huge imperative but there exist several great management literatures on this, and there is no point my repeating it here.

As I mentioned earlier, I do not have all the answers; what I do know is that I have seen a lot of talent which is world class and which can compete globally. What is needed is to harness this talent into institutions and provide credible alternative to the market place. With all the changes happening globally, I am confident that the proposition canvassed by the Prime Minister can become a reality....if not in size and scale, at least in terms of credibility and quality. ■