

VIEW AND COUNTERVIEW

PROFESSIONAL PRACTICE: IS IT ALL ABOUT SIZE?

Is size the pre dominant criteria for professional services firms (PSF)? There are niche firms and then there are those mammoth full service firms. Some focus on the markets that require size, scale and spread, while many others focus on select clients and hyper focused personalised services. What are the pros and cons? Is one better than the other? Is size, distribution and scale greater than niche, personalised and boutique?

This sixth VIEW and COUNTERVIEW tells the story from both perspectives. Both writers have been on both the sides and in practice for decades. They share their perspectives from two vantage points, so that the reader can get the whole picture.

VIEW: IT IS NOT ALL ABOUT SIZE!

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Life is becoming increasingly complex and it is very difficult to have one view without having a counterview to any dimension of life, and the subject of this article is no exception. Whether it is from the perspective of an experienced professional(s) or clients, it is a very tricky choice! The purpose of this view is to bring out the critical dimensions of size vs. niche and to discuss the case for niche practice in certain circumstances.

What is Size?

To get a perspective, the global network revenue of the smallest of the Big 4 entity would be in excess of USD 26.5 bn and the largest would be close to USD 39 bn (i.e. anywhere between Rs. 1,85,000 cr to Rs. 2,70,000 cr). As a global network, all of them employ in excess of 1,80,000 people going up to 2,65,000 people. That's size and scale! As far as India is concerned, all of them in some form or the other would employ between 8,000 – 15,000 people (excluding employees of global network

deployed in Indian operations, usually a back office); India contributes anywhere between 1% to 2% percent of the global network revenue. Being a part of such a global network enables professionals to access global knowledge, global resources and global practices and also provides potentially significant opportunities for global growth.

The big issue!

A key issue faced by the majority of small-sized firms is the spectrum of services that it seeks to provide with relatively limited skills and relatively limited strength. For example, consider a 30-40 people firm seeking to do audit, tax and consulting work. It would be very difficult for such a firm to make any meaningful impact in each service line, since the size of the firm and levels of complexities involved are unaligned. In fact, even if one looks at tax as a subject, it is an ocean in itself; the complexity of international tax vis-à-vis domestic tax, the depth of knowledge required for GST, the developments in the field of transfer pricing such as CbCR, APA etc., means that each sub-domain itself can constitute a practice and therefore, even the word 'tax' is fairly broad for a small firm to meaningfully handle. While professional organisations of all sizes are grappling to tackle the issue of complexity vis-à-vis specialised skill sets in some form or the other, however, as Indian companies grow in size and sophistication, the quality of the services and depth of knowledge required to service them will still demand significant upgradation.

If one takes the example of audit, there is not only statutory audit and internal audit, but there is Information Technology audit, forensic audit, due diligence and others, and each of these segments requires very distinct skill sets.

Another example beyond the usual professional practice is consulting- another ocean in itself; there is strategy

consulting, which is very different from operations consulting, whereas technology consulting and human resource consulting are two different worlds! Within each are again various dimensions, and clients are now seeking experts who understand their specific needs, rather than talking to generalists.

Significance of sector knowledge

Additionally, and very crucially, an important aspect is sectoral knowledge. Most sizeable firms have sector specialist teams. A few important examples where sectoral knowledge is particularly important are financial services (within which banking, insurance and private equity are sectors in themselves), infrastructure (where roads, ports, power and airports are again sectors in themselves), shipping and logistics (shipping being again different from logistics and logistics, in turn has different sub-sectors such as CFS, warehousing, third party logistics etc.), real estate, FMCG and several others. Clients in each such sector often require professionals to have detailed sectoral knowledge to service them. A comparison that always comes to my mind when I look at these sectors is cuisine- a few years back, one used to think of going to a restaurant, but today one first wants to first think about specific cuisine - is it Oriental, Continental, etc., and amongst Oriental, is it Chinese or Japanese and so on...

The bottom line is that specialisation, in terms of both domain and sector, is extremely important and, to some extent inevitable, in client servicing. To put it in perspective, knowledge needs to be deeper as opposed to being broader, although this approach itself has its own challenges - for the professional, for the client and also the organisation.

Need for Niche!

Necessity is the mother of invention! This statement cannot ring more truer for a niche/boutique firm where the need for a niche is an outcome of the need to tackle the challenges mentioned above, particularly the need for deeper skill sets and more integrated thinking, as well as more senior level attention. Incidentally, there is no clear definition of a niche/ boutique firm, nor there are specific attributes to define a boutique firm, but they are obviously small in size and typically operate in specific domains or sectors and offer specialised services; for example, management consultancy, litigation support, transaction support or valuation. Incidentally, the fact that, very often,

a boutique firm is established by a professional with a proven track record is a very comforting factor for the client as well as potential employees.

One key issue in the context of a niche/ boutique firm is that there may be a niche in the market, but is there a market in the niche? To elaborate, there may be a niche for a practice, dealing with say, co-operative societies, but from a revenue perspective, it may be difficult to say that there is a market in the niche!

The philosophy of a boutique firm is a critical aspect. Elements like the area of service, kind of work, types of clients, people etc., are important facets of firm philosophy. For example, whether to service comparatively smaller assignments or to service a few large assignments is a matter of firms' philosophy.

Let me elaborate some situations where a boutique firm could be a more compelling proposition.

- ◆ In the M&A structuring space, the complexity of tax issues and their interconnect with regulations (such as Companies Act, SEBI regulations, RBI regulations, stamp duty regulations etc.) very often makes a boutique M&A firm a very good choice from a client stand point.
- ◆ Another example is that of litigation where going to a boutique firm or a counsel (as opposed to a large firm) will usually be far more advisable, especially due to focus and the relevant vast experience of different matters, their ability to present matters in a manner that makes arguments more compelling and their sheer familiarity with the eco system; in this situation, of course, the dearth of such boutique firms and counsels is a major limiting factor.
- ◆ Valuation, such as required for mergers and acquisition, where a boutique firm with valuation expertise could be a good choice; larger firms often tend to take much longer, the cost is usually higher and the caveats in the valuation report can sometimes create confusion and be difficult to explain to stakeholders who may perceive these caveats to be virtually disclaimers.
- ◆ Forensic audit, especially if needed by a smaller organisation, where a boutique firm could give more personalise attention and perhaps do the work at much lower cost.

◆ Internal audit: a boutique firm with internal audit expertise, especially where there is direct partner involvement at a much intense level can often be very valuable.

In some of the examples mentioned above, such as that of M&A restructuring, tax litigation or valuation, the boutique firm can possibly be even a 10-20 people firm or even smaller, but in situations like, say, internal audit where client size is not very large (say up to 300 cr to 400 cr), a small-sized internal audit boutique firm could often do a good job. Obviously, this assessment has to be done by the client, but as a general proposition, in most examples given above, a boutique firm can serve the purpose better from a client standpoint.

Niche practice – the client dimension

Usually, big organisations with a global network are better placed to service MNCs. In fact, with most large MNCs already in India and a large number of smaller MNCs having entered into India, often a need for boutique firms is faced by smaller companies, which may not be MNCs in the true sense. In a sense, smaller MNCs or smaller foreign companies, may find that, in the Indian context, a boutique Indian firm is easier to deal with, provided it has the relevant expertise. A good example is that of regular tax work where smaller foreign companies find that boutique firms can give them more attention and very often, would be less expensive; another advantage is quicker turnaround time and more customised advice.

A similar situation from a client standpoint is that of a domestic client which can be again divided between the very large ones (say top line of Rs. 10,000 cr and above), the large ones (say Rs. 5,000 cr to Rs. 10,000 cr) and those below Rs. 5,000 cr. In the last category, there could also be sub-segments and without going into needless details, the point is that in the 3rd category (and very often, even in the 2nd category), there is a significant need felt by Indian clients for attention from senior advisors and that is where boutique firms can play an important part; this is especially so where relatively small teams are required to work on client matters, as opposed to the need of a large team (examples have already been given above in terms of M&A structure, valuations, forensic audits etc). One additional dimension is that Indian companies are often promoter driven and they feel more comfortable dealing with a boutique firm where they are directly talking to, and being serviced by, the founder(s) of that

firm and where there may be existing relations or easier to build relationships.

An important concern for any client is confidentiality. For example, in assignments involving family arrangement or succession planning, even with non-disclosure agreements (NDAs) in place, the potential exposure levels in a big organisation can be high, as such data/information can be (and often is) accessed by multiple people for a variety of internal reasons. This is again a reason why clients may choose to explore retaining a boutique firm.

As such, as would be seen above, there are several aspects of a professional service practice which necessitate deeper expertise, more integrated thinking and personal attention; the 'silo' ecosystem of large firms often creates a challenge, in terms of integrated advice, coordination and turnaround time.

Niche practice – the people dimension

From the perspective of professionals who are evaluating between a boutique firm vis-à-vis a big organisation, there are several aspects to be considered. A boutique firm often offers an opportunity to work directly with a 'grey-haired professional', a rare possibility while working in a big organisation. A niche/ boutique firm provides a professional an integrated learning experience, more client facing exposure, and importantly, understanding the approach and thought process of a senior professional. As such, it offers young professionals a platform to defy the "boxed thinking" approach and innovate. Yet another important dimension is the fact that large organisations have stringent processes for client acceptances and formalising assignments, and rightly so from their perspective; however, it does reduce the time available for actual client work and therefore, learning opportunity (alternatively, it lengthens the hours of work significantly!). Needless to say, a key consideration would be the financial and non-financial benefits which needs to be weighed while making the choice. Thus, depending upon the above aspects of career trajectory that a professional is looking for, the choice should be evaluated!

Concluding Thoughts

There are often two (if not more) perspectives to everything possible and the above discussion, as I mentioned earlier, is clearly not an exception! Having said that, a particular view cannot be viewed in isolation; there needs to be a

relative comparison between the two viewpoints to come to any conclusion. What one should really evaluate is how much of one outweighs the other in a 'relative' sense.

Clearly (as this view has presumably brought out), there are several services needed by the business community where niche/ boutique firms not only have an important role to play, but indeed could be preferred over a big organisation.

COUNTERVIEW: FULL SERVICE FIRMS CAN DELIVER HOLISTIC SOLUTIONS

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When the Accounting profession was formalised by the ICAI Act, 1949, the expectations from Chartered Accountants were largely centered around providing Audit or Accounting service. Also, with the Income Tax Act nearing completion of 100 years, providing tax service also has been a mainstay for our professional community. Back then, these services were largely availed by individuals and small businesses.

In the past 25 years, India's economy has taken a definitive shape, more than any other time in its history; the influx of MNCs post-liberalisation in 1990's to win a slice of large domestic market, becoming the services hub of the world, thanks to the domination of Indian IT companies, shared service centers ('SSC') being set up by large global corporations and so on. This has catapulted Indian economy to bring it in the reckoning to become the 5th largest economy in the world.

The global economy itself has transformed rapidly with the epicenter shifting to internet-driven business models and new businesses being created with supply-chain modeled on creating a borderless world. While there has been a recent push-back to globalisation in many countries reeling under staggering challenge of refugee-crisis, the businesses seem unmindful of this rethink and it appears that globally delivered business models are here to stay. There has been no better time in the history to set up a global business in the shortest possible time than today.

Most business groups are globally focused, technology dependent and most likely, confronting overdose of introduction of new tax laws and regulations. The list of new regulations being introduced at a rapid pace is quite

extraordinary as the Government and Regulators are also trying to cope with the change unleashed by technology. The process of disruption has been quite severe on economies and companies that were unwilling or could not embrace change. On the other hand, people loose jobs as companies that provided jobs shut down or they are unable to reskill themselves. The word 'disruption' has suddenly acquired a cult-status.

So why is the history and the present state of economy relevant to Chartered Accountants? Needless to mention but Chartered Accountants are required to follow the trend of the business to remain relevant.

In the present scenario, the expectations from our professionals have increased multi-fold. We need to provide answers to all the questions that would arise from parallel play of multiple tax laws, regulations and changes in the accounting standards, while mindful of the business challenges of clients. We also need to understand the new laws and regulations that emerge around 'data' (considered as the new 'oil'). However, in reality, an average professional finds it hard to cope with significant change sweeping our profession; new Indian accounting standards, introduction to GST, insolvency and bankruptcy reforms, industry regulations such as RERA, data privacy laws and the list goes on. Then again demand of our clients for forensic services, cyber security solutions and tech-driven services such as data analytics, big data, predictive analysis, data mining, is unending. We need to realise that there is no finishing line for technological progress.

In this rapidly changing world, how are Chartered Accountants going to keep pace with change and remain relevant? Will the conventional service model of Audit and Tax see us through for the next several decades? Let's deep-dive and assess the situation on the ground as well as peek into the future that would unfold for us. Also, before we recommend a professional to join a large professional services firm or pursue a niche as two clear career options within the profession-fold, it would be good to understand the DNA of both these options.

Like in business, the past few decades have seen flourishing of large accounting firms globally. The large professional services organisation working as a team, provide all answers to a client through deep expertise and support the client across the globe. A one-stop shop

for all the needs! To get this right, they invest in top talent (relatively easy to get as they pay well), use technology extensively, build world-class infrastructure and are connected globally through their partner firms in nearly every country. They are well-placed to cope with change as their ability to adopt to new demands of services by clients is extraordinary and therefore, also less at risk for becoming redundant. These firms are thriving and getting bigger as their clients are getting richer and more complex and need myriad of services.

On the other hand, professionals with niche expertise deliver well for a small part of a large puzzle but are unable to provide a holistic solution across varied demands of clients. Again, like in business, the small and boutique firms are getting squeezed out of the profession as they are unable to sustain the momentous challenges that they face on nearly every front. Inability to attract top corporates as clients, retaining existing client-base (audit rotation has played havoc with mid-sized Indian accounting firms), coping with technology, fight a losing battle to retain talent, inability to invest to remain relevant and most importantly, coping with the constantly evolving landscape of professional opportunity with ever-changing legal and regulatory framework; the list of woes is unending and growing.

In the recent past, one has witnessed several top-class professionals who were independent for most part of their career and achieved excellence, only succumbing to join the large accounting firms. While the demand from clients for service is becoming complex, such professionals realise that it is impossible to provide a well-rounded service across several laws and regulations more so, when they are unable to retain talent. For traditional tax practice, competition is coming from different directions; in-house tax teams, management consultancies, software developers, the business information providers are all increasingly interested in conducting tax work. The biggest challenge is coming from technology service providers who are first of the block as Government introduce digitisation like in the case of GST.

Over time, a niche service provider, at best, becomes a trusted advisor to the promoter but not to the company he has promoted. Individuals with niche are much more at

risk as changes in law hit them hardest for them to reinvent their expertise. The recent phase-out of all indirect law with GST is the classic example. Their ability to reskill themselves remains limited and their years of building expertise on a subject suddenly becomes redundant because of change in law or technology taking over.

In a very subject relevant publication, 'The Future of the Professions' the authors, Richard and Daniel Susskind examine how technology will transform the work of human experts. The authors observe that for centuries, much professional work was handled in the manner of a craft, individual experts and specialists – people who know more than others and offered essentially bespoke services. Their research strongly suggests that bespoke professional work in this vein looks set to fade from prominence. They observe that for a long time, professionals found it important to have all sorts of information at their fingertips; in books, technical papers and case files. But they say that a different need is arising and this is for the professionals to have mastery over massive bodies of data that bear on their disciplines with the help of many technology tools. As the boundaries of the professions blur and service becomes more focused on meeting client's overall needs, it is probable that multi-disciplinary practices will be formed and re-establish themselves as commercially viable. In the book, the authors have given considerable insight into the current and future state of audit and the tax profession.

Lastly, the key question remains, is it about me or about us? Niche practices have always been about 'me' and therefore die with the professional at the helm, whereas the large accounting firms is about 'us'; they survive the founder and become an institution. It consistently fulfills demands for jobs for well-qualified and smart professionals. They also fulfill a social responsibility for a nation that is so starved of jobs for the millennials.

The rules of the games are changing. It is not about the sheer brilliance of an individual like in a game of chess (remember Gary Kasparov losing to the Big Blue in the late 90's), but how we perform as a team like in football. The new superstars that world recognises are footballers! ■

*Never wrestle with a pig because you
both get dirty and the pig loves it.*