

## Scaling professional services firms – the India proposition

The Modi government at the CA founders day in 2017 had said that by 2022 India should have scaled accounting and advisory firms. The PMO seems to have taken steps given that we are in 2025 and none have emerged though India heads towards being the 5<sup>th</sup> largest economy in the world. Whilst a committee, mainly of government officials has been formed, I have thought of expressing my views on key issues that may need to be overcome before we see scaled Indian professional services firms. Mindset may drive change better than simply regulation which the committee will address, mindset changes can only happen through influence and opinion. Hence this piece. Key areas of mindset change required as per my experience are as follows:

*Disbursed Ownership* – if you look at the scale chart in professional services firms, ownership is not concentrated. The higher the scale the more diversified is the ownership of firms. The Big firms have evolved as global partnerships that have grown into LLPs or corporates basis their business activities. The more the shared ownership, the more is the ability to attract the best talent. Also, India can leapfrog into corporations offering equity to its key members and creating a pool for future partners at the onset. That structure would enable funding for growth as well as participation in growth for professionals. Corporate structures may also enable external capital raise to fund upfronted growth. Having centralised ownership has been a single largest mindset that may have impacted scale up.

*Evolving business models* – Business models of professional services firms are no longer restricted to Audit and Tax related services and more so not restricted to process-based services (filing tax returns, forms and traditional auditing) which are increasingly being automated across the government. Value added services would be more of Risk management, Governance, Insolvency and turnaround services, M&A Advisory, Strategy, process management, technology services and GCC based manpower management services. Professional services involve services across the spectrum and helping clients grow would be the single most objective. Clients too seem more dependent on professional services firms to manage scale, benchmark and outsource one off services. Business models now have various regulatory authorities and some remain unregulated.

*Data & Knowledge Orientation* – Professional services firms have large IT practices most of which help client set up Data Lakes, which basically enable data collection in a way that can be used effectively to run their business in these technology dependant times. The Irony, however, is that no professional services firm has every built a data lake for their own businesses. Basis Audit, tax and advisory services work across clients, their ability to anonymise and leverage data is immense adding a lot of value to clients. The Strategy firms have an advantage there which professional services firms

in the accounting business need to harness. Caution needs to be exercised on client confidentiality, which is at the core of trust. Further data harnessing will enable cumulation of best practices of various clients for optimal advice especially in GCC based consulting.

*Single profit pool* – whilst there is a need for performance measurement, the profit pool for all partners across the globe is critical so that usage of resources can be seamless as well as profitability is determined across businesses reducing the dependency on any one business or one client. Increasingly global delivery models are evolving and India has a particular advantage of running global firms with back ended India based delivery models.

*Consolidation* – India is characterised small enterprises compared. Similarly professional services firms are sub scale and managed by many small accounting firms. Over time, we have changed from being professional services to the business of professional services as our industries too have grown from being mid corporates to large corporates. Scale would enable Independence (dependency of one client would reduce), enable investments, attract talent, invest in processes and technology and set up the right systems commensurate with those that large corporations are used to. Remaining subscale and wanting to manage our own business make professional services vulnerable to anchor clients, low end services and unable to attract the right talent. Large corporations require larger firms to be able to service them better. Larger Indian firms would be attractive for foreign professional acquisition and/or tie ups

The regulators need to consider some mindset changes. For example, moving from measuring conflict from an audit and non-audit perspective to overall client dependency (client revenue more than 5% of total revenue may impact attest quality) for all attest-based services. Changes should be gradual and may be implemented over 3 years. Further, incentives being offered for firms to remain small should be done away with gradually (for example bank audit allocations – why do banks have to appoint branch auditors when the concept of core banking has long been established. The concept of mandatory partnership firms too can be done away with and so should the restriction on professional services firms advertising their products. Creating agnostic brand names (not related to partner names) and getting various self-regulatory and regulatory bodies to monitor respective businesses would be the best. The firms should be left to decide their holding structures. This happens in industry all the time and whilst ownership structures could converge, respective subsidiaries are regulated separately.

As I look back at 35+ years of professional services experience all of whom have grown basis strong domestic relationships and only financial help from their global brands, the global firm concept of Andersen, the domestic build out of KPMG in India from scratch, the excellent domestic relationship-based growth at EY stand out. These are testament that building a scaled domestic firm is inevitable once a bunch of professionals are willing to mindset change backed by some regulatory action where the changing role of professional services is given its due recognition over practices which were relevant at inception but are crying out for reform today.

Abizer Diwanji, Founder

NeoStrat Advisors LLP

*Leveraging Ideas for Valu*