

## Building The Indian Big Four

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## INTRODUCTION

1. In the last few months there has been a lot of talk and activity triggered perhaps from a nudge from the Prime Minister's Office towards creating India's very own Big Four firm which could compete with the Global Big Four firms and also leave a significant India imprint in the world's professional landscape.
2. The four global networks - Deloitte, PwC, Ernst & Young and KPMG are commonly referred to as the Big Four. All of these networks are multi-disciplinary practices providing a wide range of professional services ranging from accounting, auditing, taxation services, financial advisory services, forensic services to a very wide range of consultancy services which includes Strategy Consulting, Technology Consulting, Human Resources Consulting, Government and Public Sector Consulting, etc. The firms in these networks have also begun rendering legal services in some countries. Some of their services are under the jurisdiction of different regulatory agencies and some are unregulated.
3. The Global Big Four networks boast of a clientele which comprise of the Fortune 500 companies, most of the top companies in every country in the world and federal, central and state governments across the world. They are also known to have provided services to the Vatican and other Religious Institutions in relation to finance and commercial matters. Some of the world's richest men, kings, Sheikhs, Regulators, etc. are the clients of the Big Four.
4. The Big Four networks are so large that each of them would have global revenues greater than the GDP of many countries. It is estimated that the combined revenues of the Big Four may be greater than \$200 billion, i.e. more than Rs. 17 lakh crores!
5. In most global events the services of Big Four are sought - Oscar awards, Beauty contests, Olympics, World Cups in cricket, soccer, etc. The Big Four are omnipresent and the range of services they are capable of delivering is ever increasing.
6. Clearly the Big Four are **TOO BIG**. No professional services firm comes close to them. Their nearest competitor is most likely 1/10<sup>th</sup> of their combined size. The gap is widening each year and seems to limit the choice for users of their services.
7. These firms started as accounting firms providing audit and tax services more than 100 years ago but over the years have transformed themselves into multi-disciplinary practices with audit and tax services becoming increasingly a small portion of their revenues.

8. Each of the global Big Four networks were formed over 100 years ago. Through a series of mergers and acquisitions they have not only consolidated but also spread their footprint across the world.
9. The firms in India too which are part of the Big Four network are extremely large when compared with other firms in the profession. Whilst the Indian arms of the Big Four are large when compared to their competitors in India they have a small share in the global revenues of the Big Four. Although no data about the firms in India representing the Big Four is publicly available it is widely speculated to be in excess of Rs. 50,000 crores. These firms employ tens of thousands of professionals not counting the over 1 lakh employees in the global delivery centers in India. No Indian professional services firm comes close to the Indian firms which are part of the Big Four networks.
10. Most of the firms representing the Big Four in India barring KPMG member firm have been in India for over 75 - 100 years. As India opened up in the late 1990s these firms grew exponentially through mergers and acquisitions and also by making significant investments in people, processes, technology and infrastructure.
11. Considering the limited choice which becomes even more stark when independence rules prohibit audit firms from rendering non-audit services, there is a dire need for more larger firms in the Indian and global market not only to facilitate wider choice but also to insure from the risk of failure of any of the Big Four.
12. This article is not a treatise on the Big Four nor does it comprehensively deal with how to build India's Big Four but merely highlights some of the challenges in building a large professional services firm in India. It is indeed sad that our country which boasts of the largest working age population and expected to become the world's third largest economy in a few years cannot produce even a single firm which has a large global footprint. The CA profession in India claims to be the second largest in the world and despite ICAI formed in 1949 there is no Indian firm of size with its own network across the world! Each of the Big Four originated in the West and continue to be dominated by the western world. It is time a firm emerges from the global south/east which can match the Big Four. Easier said than done!
13. I began my professional journey by starting my articleship in the branch of a then large Indian firm. There were less than 10 persons in the office including non-professional staff and I began my career in audit with a princely stipend of Rs. 20. In the 45 years, I have not only seen the Indian firm grow from a relatively tiny firm employing a few hundred staff to over 10,000 staff when I retired. Sadly, a number of Indian firms of the same vintage which are more than 50-75 years old are today functioning with a handful of partners with a small/medium practice. I have witnessed close hand the transformation of the Indian firm to its present size of greater than 10,000 staff and the global firm from being the last of the Big Eight to the number one firm of the Big Four. I was fortunate to be on the Global Board and experience the transformation to become the world's largest professional services firm.
14. I firmly believe that we can shape a large Indian firm with its own network across the world. There are a number of challenges which we must consider and address but above all we must have a mindset of thinking Big and believing in it.

## **CHALLENGES IN CREATING AN INDIAN BIG FOUR**

15. Before we identify the significant challenges in creating Indian Big Four firms with a global footprint, we must first address the issue of the nature and type of firms we

intent to create. A “Big Four” is a multi-disciplinary group with a range of services under a group of firms sharing a common identity or brand. Some of these services could be regulated by different regulators and some other services being unregulated. Together these result in a giant powerhouse creating a perpetual dependency for their clients as the range of services are such that often one or the other service is required by their clients. These are not accounting firms alone. In fact, accounting and assurance services are increasingly becoming a small portion of their combined services. If we were to attempt to create a large Indian firm with accounting, audit and tax services only the firm would be miniscule in comparison to a Big Four whose revenues from consulting and other non-traditional services are huge in comparison.

16. The biggest challenge in creating a ‘Big Four’ firm is the mindset challenge. Professionals in practice seem to be content with a rate of growth which some decades ago was known as the “Hindu” rate of growth. Typically there are four phases in a professional firm’s transformation into an institution. Initially a firm is formed by an individual as a proprietor and moves on to the next stage of including other family members as they qualify the professional services exam. Most firms remain at this stage though some move on to the third stage by adding non-family members as partners. In these cases too, the control remain mostly with the family and the non-family members being partners in form rather than substance. Rarely a family member is sub-ordinate to an outside professional. The fourth stage is the most difficult – creating a firm with professionals which is run purely on merit and no family member has any position merely by being a member of the family which established the firm. This means sacrificing the family name, identity, lineage, and the firm being truly a firm of professionals with fixed retirement period, performance based reward and no preferences for caste, creed, religion, language or any other criteria.
17. Even assuming that some have a ‘Big’ mindset, the challenge is in taking steps towards becoming big. In current times with exponential change happening all around us, the option of organic growth is not appropriate. Speed of action and taking effective steps towards consolidation is the key. This is not time for strategic alliances which can easily be unwound. There are a number of firms today which are part of the same international network and attempt to operate as members of an alliance. This does not create size as it is a loose federation with no permanence. Consolidation involves sacrifices like giving up one’s name, leadership position, financial freedom, unilateral decision-making, policies, procedures, etc. towards becoming a single entity with clear structures, responsibilities, accountability, compensation methodology, common finance and revenue pools, etc. which cannot be unwound or identified to its legacy constituent parts. It is like mixing milk, sugar and black tea. Consolidation will result in some pain. One cannot make an omlette without breaking an egg! Clearly it has to begin with a mindset that the sum is greater than the parts.
18. If the erstwhile Indian member firms of the Big Four networks could create a large Indian practice by aggregating firms with rich legacies, brands and iconic leaders to subsume into a single identity, brand, leadership, profit pool, talent pool, shared resources, etc. I do not see why other Indian firms (small and medium) cannot do so. Sadly in the CA profession alone there are more than 90,000 sole proprietorships out of more than 300,000 members. The profile of the profession is completely disproportionate to the constituency it serves!
19. Every professional services firm comprises of a roster of clients, a menu of services to be provided to clients and a professional talent pool with skillsets to render services from the ‘menu’ to the clients. This is in addition to technology tools and infrastructure as well as physical infrastructure like offices, etc. In building a firm the first question which arises is whether to seek clients and then source talent and then showcase their skills to win clients or to build a large professional pool first.

Professionals are expensive and in building a 'Big Firm' huge investments are required in people, technology, physical infrastructure, systems, etc. Imagine the investment which would be required to build a Indian Big Four firm to match an existing Indian firm which is part of the Global Big Four with revenues in excess of Rs. 10,000 crores!

20. Some mistakenly believe that 'big is bad' and advocate down-sizing of large firms or curbs on their growth. It is not right to make one's house the tallest in the locality by breaking down others' houses. The CA profession, sadly, still pursues empanelment, restriction on audits, rotation of work, quota based assignments which are disincentives to growth and do not create a competitive environment where the best succeed. There are numerous examples in India where absence of these seemingly meaningless restrictions or quota based allocations have created global Indian businesses. The best example is the Indian I.T. industry where Indian companies like TCS, Infosys, etc. compete with global giants abroad and have grown into large businesses with a global footprint without any special privileges to protect or facilitate their business. Are there quotas or restrictions on the number of passengers an airline can fly, number of surgeries a surgeon can perform, number of briefs a lawyer can take on or a number of subscribers a telecom company can take on? It is strange that a profession with over 150,000 members in practice out of a total population of 140 crores in our country seeks privileges of exclusivity, quotas, rotation, joint audits and other barriers which impede collaboration and growth.
21. Even in a sport like cricket, India is now a force in the world and has achieved the top slots in most formats of the game. How did this happen? This was possible by selection based on merit and no quotas for states or regions, preparing pitches to world standards which not necessarily friendly or suitable to the Indian teams, exposing players to international conditions, enabling Indian cricketers to play alongside and compete with foreign players in IPL tournaments, hiring foreign coaches and trainers, etc. Unfortunately the Indian CA profession does not want to open up its markets and face international competition. A number of sectors of our economy have opened up to foreign players and brands - automotive, consumer business, electronics, mobiles, pharmaceuticals, clothing, etc. Has this stunted the growth of Indian businesses or enhanced their quality and competitiveness?
22. Yet another challenge is the fast changing professional landscape. Clients are demanding technology based services and firms are moving from partner-led to platform-enabled models. Further, clients are seeking one-window solutions rather than shopping across professional services firms. There is also a congruence or overlap of professional work and the lines of distinction in terms of ability to render similar services by the professions like CA, CMA and CS are blurring.
23. Professional work arising out of the requirements of legislation is slowly disappearing. In future professions may not be able to seek exclusivity and their domain will progressively be encroached by others.
24. Finally, a large hurdle is the restrictions on partnering with other professional service providers, share profits with them, advertise their service offerings, accept 'success fee' based assignments - all of which are essential growth drivers in a free-market competition driven economy.
25. I have not listed many other challenges but the biggest challenge in creating an Indian network equal to a global Big Four network is the ability to raise the finances required and making huge investments in people, technology, physical infrastructure, etc.

26. In view of constraints of space I have not detailed the actions required to address the challenges which I have outlined. Needless to repeat, a number of actions are required to build a global network which requires the following to be addressed:
- Talent
  - Range of services
  - Technology
  - Financial investment
  - Dismantling restrictive Rules and Regulations
  - Providing incentives for consolidation
  - Permitting names, brands and advertising
  - Pricing
  - Reciprocal arrangements with other countries
27. When we create a network of professional services we must remember that some services will be subject to regulation while others may not. A firm or network as a whole should not be subject to regulation or oversight when its competitors are not subject to regulation or oversight. What is necessary is that the specific services are subject to oversight and regulation rather than shackle the entire network. It is also important to have a single regulator with oversight on the services provided.

## **CONCLUSION**

28. Global networks are not created by high decibel rhetoric or sloganeering like 'partners in nation building', 'partners in global building' or eulogizing the history of the profession (e.g. "formed before India became a Republic"). These have absolutely no meaning and have the same effect as showing a starving man pictures of delicious food items and expecting his hunger to be satiated.
29. As a first step all professional bodies which provide similar or overlapping services should be merged – e.g. ICAI, ICMA, ICSI IIA, etc. This will eliminate narrow self interest and create a larger and wider profession under one umbrella. Fragmentation of professions leads to fragmentation of firms! A Multi-disciplinary Regulator is the need of the hour.
30. Dismantle 'exclusivity' which is like the 'License Raj' was the scourge of the Indian economy in the previous century. Licence to practice may still be necessary to avoid quacks but it should be selective and be based on qualifications, skill sets and other credentials rather than membership of a professional body. Professionals should continue to be held accountable by a single professional body and standards should continue to be set for different types of services.
31. Finally, no change is possible unless driven by **'tone at the top'** and **'action by the top'**. Leaders of the profession, present and past, who have advocated growth and consolidation should walk the talk by initiating consolidation in their own firms and show by building their own firms into global giants before they like 'muezzin' speak of 'nation building' or 'global building'.
32. Building an Indian International network is a gargantuan task and cannot be achieved by discussion and debate alone. It is a long and arduous journey, which has to begin right away by taking the first baby steps and accelerating as many firms join in this movement. Creating an Indian international network with global revenues exceeding US \$ 50 billion (Rs. 4,30,000 crores) would be a distant dream! Just as we can't reach the closest star in our galaxy with our existing space technology, we cannot also create Indian global networks comparable to the Big Four unless there is

a concerted, consistent action which addresses the challenges and pre-requisites outlined in this article! This is not the time for sympathy or self-praise but hard decisions (which may be painful) need to be taken to dismantle some of the present structures, rules and regulations and rebuild an environment which accelerates growth and competition.

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