



# To the ramparts

Mid-sized Indian accounting firms face some demanding challenges – not least from the incursions of the Big Four – and they need to take action now, says Ajay Sethi

In developed markets, mid-tier accounting firms may number anywhere between 50 and 100. In India, this sector is under consolidation: there are about five mid-tier firms with national coverage; the rest are regionally focused, with three or four partners.

A key challenge facing medium-sized firms is deciding where they fit into the market and how to hold the space in the face of competition. If they position themselves too close to the Big Four, SME clients seeking an alternative to the Big Four may wonder if there is much to be gained from the services of a mid-tier firm. At the same time, the Big Four are expanding into the mid and small-sized client market, which has in the past been the domain of smaller Indian firms.

We are seeing an onslaught from the Big Four in terms of price and technology, which is difficult to match. That's a challenge for the revenue models of mid-tier firms.

As elsewhere in the world, there are also challenges in service delivery, primarily due to technology. Artificial intelligence, data analytics, cloud and blockchain are all now being regularly

used by Indian businesses, but most mid-tier firms are not properly prepared.

The traditional management style has been for people to look to the leader – someone like me – for all the answers to all the problems. But in the technology sphere, managing partners, along with their boards, need to change their mindset. We need younger people to lead the way, to enable us to get full value from the application of technology.

Technology is a global challenge: we don't just need to get our firms to adopt it, we need to persuade our clients to adopt it and generally change the profession's mindset about how to adapt (see box).

A third challenge particular to India is that laws are changing fast: company law was revised last year; indirect tax in the form of the goods and services tax (GST) has come into play; and insolvency and bankruptcy laws have been consolidated into a single code.





Meanwhile a new direct tax code is expected soon.

There are changes on the regulatory front too: the government is creating a new oversight body for accounting and audit that will address misconduct.

So, to keep up with all these developments, mid-sized firms must invest in training and re-training their staff so that the necessary knowledge flows down to grassroots level.

Equally important is talent, which is a longer-term challenge and one faced by firms of all sizes. There is no doubt that India's accounting skills pool needs to be developed further, but finding the right people who we can develop into professional accountants is not easy.

For example, we need to consider how to develop graduates who have taken non-accounting courses or who haven't studied to the level of a chartered accountant diploma. The ACCA Qualification, or that of the Institute of Internal Auditors, which add value to the individual and to the firm, could be a solution to this shortage.

But while there are big challenges facing mid-sized firms in India, there are also opportunities. In the face of competition from the Big Four, the strength of mid-sized firms is their ability to make engagement partners

## Defensive actions

- \* Be clear where you fit into the market.
- \* Challenge your mindset and embrace the younger generation to be sure to make the most of technology.
- \* Put training in place to ensure staff keep up with changes in the law and regulation.
- \* Consider new ways of widening the talent pool.
- \* Manage relationships with your own people as well as your clients.

accessible to clients. Mid-sized firms can afford to give clients concentrated time with senior people, which can be difficult for very large firms. The latter also tend to operate in departmental silos, which can make bringing together a multi-disciplinary team more challenging.

In mid-sized firms, we can speak directly to colleagues and quickly pull together experts to handle matters of a complex advisory nature and give clients a comprehensive, unified answer.

There are also opportunities to provide services to foreign SMEs coming to India. India attracts considerable sums in foreign direct investment and SMEs entering the market will be seeking advice from firms that can handle crossborder matters, which many medium-sized firms do through affiliations in other countries. Incoming

SMEs are not accustomed to using the Big Four for their routine work – and can't afford them. So there's a clear opportunity for mid-tier firms to provide services in areas such as outsourced accounting and payroll, crossborder taxation, auditing and forensic analysis.

The offshoring of bookkeeping and accounting is another great opportunity. As English speakers, Indian practitioners can provide such services more cost-effectively than firms in high cost nations.

The changing laws in India also create revenue potential. Until now firms have been focused on giving training inhouse to ensure their own staff are up to speed, but the methodology and techniques could also be used to provide training for clients. Penalties for regulatory breaches are steep, so there is plenty of opportunity here.

Finally, it is important to give equal focus to managing client relationships and inhouse teams – both play a strategic role in your bigger plans. And hone your listening skills – good leadership is based much more on listening than talking. <sup>AB</sup>

Ajay Sethi is managing partner at ASA & Associates.

## How ASA & Associates uses technology

A mid-sized firm with 26 partners and national coverage, ASA & Associates decided early on that it needed to embrace the cloud. Its internal accounting and time-keeping systems were migrated some years ago, giving real-time access to decision-makers. Furthermore staff across the country are able to link up for team updates and training sessions. In terms of client delivery, the firm uses software for client management and audit techniques – for example, to support sampling and the application of international auditing standards. The firm is looking into the creation of a forensic lab and deploying analytics software across its processes. Using data analytics to verify large mass of transactions is another area under exploration. An area that needs more work is understanding what state-of-the-art technology is available to support audit techniques. Above all, we as professionals need to understand just what technology can do for us and use it to augment our offerings to our clients.





