

The Institute of Chartered Accountants of India
Eastern India Regional Council
Regional Conference, 26th November 2011, Calcutta

Speech on “Accounting Profession – Changing Dimension”

I am delighted to be standing before you to talk of the Accounting Profession – Changing Dimension at this Regional Conference of Eastern India. I must warn you, however, that I see some difficulty for me as the word dimension means size and I have no intention talking to you either about the size of the profession or about sizes of individual chartered accountants. What I shall do instead is to talk about the changes that have affected the profession, the changes that are likely to affect the profession and how to cope with such changes.

The strange thing about change is that we always feel that the changes which we see are stupendous and can never be repeated. When I think of my parents I remember that they used to say that the changes that they had seen in their lifetimes were of such staggering proportions that such major changes were unlikely to be repeated. They had seen the Second World War, they had seen the atom bomb dropped over Japan, they had seen the freedom struggle and India getting freedom, they had seen the assassination of Gandhiji and they had witnessed the beginnings of the planning process and the industrialization of India. These were indeed enormous changes and they rightly felt that such changes were not likely to recur again. When I think of my lifetime I remember that when I grew up there was no television, there was no

computer, there was no internet, there was no man on the moon, there was no frequent air travel and there was no Bill Gates doing new versions of Windows every year. India was considered to be a country of sadhus and snakecharmers. If I feel today, therefore, that the changes which I have seen have been enormous and will never be repeated, will that be correct? The answer is 'no'. I am sure that the succeeding generations will see bigger changes and changes will occur at a faster rate.

If change, therefore, is constant, if changes are occurring at a very fast pace and if the scale of change keeps on increasing, we can always put ourselves at a distance and say that change is inevitable. What is more difficult to accept is that such changes affect the way we think, affect the way we behave, affect the way we react to events and, therefore, we must be prepared for changes. We must understand changes and we must understand how to cope with such changes.

In understanding changes it is very important to understand the context and to understand the time and place. We live today in India which is poised to overtake Japan as the third largest economy in the world in purchasing power parity terms. We live at a time when amidst all the downturn in the Western world India's GDP growth rate this year is likely to be second only to China's. This optimism, this reality of an economic boom is reflected among the accountants of India. Today we have over 1,70,000 chartered accountants in the country and this number will

increase manifold as 7 lakh students are aspiring to become chartered accountants. While this is good news, there is also bad news. Statistics show that the membership increase for chartered accountants from April 2005 to March 2010 was 37,970 and more than 90% of these new entrants went into employment and not into the profession. While traditionally for many decades India had more than 50% of all chartered accountants in whole time practice, as on March 2011 this has fallen to 44.81% and going by the current trends of large numbers of young people not coming into the profession, this is likely to fall sharply in the coming days. So the question is what has changed in the profession so that youngsters find the profession not rewarding enough.

To answer this question let us get a perspective of some of the fundamental changes that have taken place in India in the last two decades. In the pre-liberalization economy India was closed off from the world – there was protection from competition, protection from imports, protection from globalization. In that atmosphere many Indian corporates grew and became major national businesses and they developed their unique management styles and many national and local CA firms helped them in doing so. In those days our laws were very complex and dealing with the demands of those laws and regulations was a very major task. Chartered accountants in the profession rose to this challenge, developed knowledge and abilities to deal with issues in taxation, issues in company law, MRTP, FERA, they handled trusts, societies and they developed many skills to help corporates deal

with complex laws and innumerable bureaucratic requirements. Such services were in great demand and most Indian C.A.firms grew and prospered.

From the 1990s, however, with the opening of the economy, major changes came in. I can see ten major changes which have impacted the profession and let me try to summarize them for you.

The first major change was in the business environment in India. With the opening of the Indian economy and entry of global companies into India the level of competition intensified and to survive, Indian business houses had to grow in size, they had to diversify, they had to adopt a global outlook. As markets opened up nationally and internationally, new Indian entrepreneurs come up with new ideas, Indian companies became multinationals and there was complete reorientation of business practices. Indian companies adopted the best practices from around the world and learnt successfully from their peers across borders. This change in the profile of Indian business changed the demand pattern for professional services. Businesses wanted from C.A. firms different and new skills, different standards, different set of capabilities, different knowledge levels and complete makeover in the services that chartered accountants were rendering earlier. We can understand this change in expectations when we see how our demand patterns have changed. Earlier we were happy with the Ambassador. Then we wanted a Maruti Zen. Now we are not happy

unless we have a Nissan Micra. We want a Sony TV and not the old Onida and, of course, we only want Adidas and Nike and not old fashioned brands. If our demands have changed like this, no wonder businesses are also demanding new services from Chartered Accountants. The shift in demand is from services which were based on legal compliance to services which are more skill intensive and are in the nature of advisory services.

Second change. Many of our clients did not survive the opening of the economy. We lost many old clients whose businesses died or were sold to MNCs but could not make an entry into new businesses which are bigger, more global in outlook.

The third major change, of course, came in as a result of the above two. The basic shift in demand for professional services, the need for greater range of services on a global standard and the opening of the global economy created a bigger playing field for the big five (now big four) who increased their market share in India dramatically and entered many Indian business houses which had earlier been serviced only by national or local C.A. firms.

Fourth change. Earlier most of the services that the profession rendered were created by the requirements of the law or by the regulatory regime. Businesses needed statutory audits, they needed tax audits, there was need for a large number of certificates, brokers' a/cs had to be audited, etc. All these were because of

requirements of law. Now we have to create new services as the marketplace demands. We have to render new services such as due diligence, financial restructuring, system studies, risk evaluation and it is open to us Chartered Accountants to design and render new services. There is now continuous demand for innovation for the accountancy profession to find new ways of helping clients to cut costs, to optimize use of resources, to develop survival strategies during hard times, to anticipate national and global trends and to strategize. This is a paradigm shift and the accounting profession in a brief period of 20 years had to change its mindset from assurance and compliance functions to become a partner of businesses in becoming more competitive.

Fifth change. In almost all the new areas in which demand for new services from chartered accountants is growing, there is also competition from those who are not C.As. We face competition from merchant bankers, Company Secretaries, specialized consulting firms, from engineering firms rendering valuation services etc. Many of these competitors are not subject to the kind of code of professional ethics which chartered accountants have to follow and often this puts us at a competitive disadvantage.

Sixth change. In the past we were too dependent on the public sector, on panel work, on PSU banks, etc. Now in India, the public sector is shrinking and the private sector is everywhere. Even the public sector is now behaving like the private sector.

This is a big change in the marketplace and we have to change our expectations to cope with this change.

The seventh change that has impacted the profession is the need for investment. In the good old days all you needed to start a C.A. practice was your brains and a typewriter. Now you need a large number of computers and software licenses to get launched. The profession has not only become skill intensive but also resource intensive.

While these seven changes have been megatrends there have also been three other changes that are not so visible. Firstly businesses are spreading their wings to smaller towns, backward districts and to the interiors in order to access resources and markets. This is creating many opportunities for the C.A. profession in places other than metropolitan cities.

Secondly, the techniques of knowledge management and acquisition of new skills are changing. These days the world of knowledge is on-line. You don't have to go to a library to learn. Therefore, those who can access such knowledge by using I.T. skills manage their knowledge resources better.

Thirdly, there is a change in demographic pattern in the profession. Women are entering the profession in large numbers, In March 2010 one sixth of the total

number of chartered accountants were women and between 2000 and 2010 26% of the new chartered accountants have been women. This trend is being maintained and is increasing and will bring major shifts in the way the C.A. profession works.

Let me stop here from talking about the changes that have already taken place and talk about the changes I see coming in the future. Of course, this should be a talk for future Regional Conferences but since I do not know whether I will be around or whether I will be invited, let me share with you now what I see coming in the future. I feel the changes that have taken place are nothing compared to the changes which will confront us in the present decade. Firstly there will be very frequent change in the technical content of our work. Already we have the challenges of XBRL. We are about to implement IND ASs. The new Companies Act is being debated and GST and the Direct Taxes Code are around the corner. And the audit and assurance functions will be increasingly driven by standards and not by individual judgement. Internal audits will also be subject to standards.

There are also major changes around the corner in technology. Developments in I.T. have changed our job profile because I.T. has taken away the assurance that mere numerical skills will make a good chartered accountant. Cloud computing is finally here in India and paperless offices will become the reality rather than empty talk. Clients will increasingly adopt Cloud based business processes and innovative Cloud

vendors will develop many new Cloud based subprocesses. Again this will change the way we deal with and process data and information.

Apart from I.T. with which many of us are now reasonably familiar, we also have to understand the effect of changes in communication technology. Today, because of better communication systems, geography is no longer a barrier. We can render services from anywhere to clients who are located anywhere around the globe. The virtual office is now a reality. This provides new opportunities as well as poses risks of global competition specially in advisory services. The client can access services and can choose service providers from anywhere in the world if they are useful and cost effective.

Also we must remember that our profession has traditionally been self-regulated. This is now changing. Outsiders are getting a say in the regulation of the profession. In the U.S. we now have the Public Companies Audit Oversight Board which has a major say in the auditing function. I see similar changes also coming in India. Sebi has already conducted peer reviews of certain audits of large listed companies. This major change will require from us much greater transparency, higher standards and responsiveness to public interest.

Friends, if these are the changes, we can say, yes we can see these changes. We can understand these changes. That's not so difficult. But that is not the real issue. The

real issue is – can we change ourselves to adapt to these changes? If change is continuous can we also evolve and change continuously or do the falling numbers in the profession suggest that apart from the big four the rest of the profession are dinosaurs about to become extinct?

The first step in such change management is to identify what services we are rendering and who are clients will be. Many of us are quite confused as to what we are selling. Sometimes it appears that we are selling knowledge. Sometimes it appears that companies are outsourcing their functions to us and we are selling cheap labour. At times it appears that we are selling only attestation services– in other words selling signatures. These three sets of services are quite different in their nature and the successful selling of each one of them requires a completely different attitude and skill set. We must ourselves know which one we would like to be our focus area and therefore what skills we should sharpen to sell those services.

I think the chartered accountant of the 21st century in a globalized India must understand that business is no longer looking for cheap labour from chartered accountants. To a great degree the development of IT has made data administration and accounting largely an automated function and one does not need chartered accountants to do all this. Chartered accountants will be valued for their knowledge and the first step therefore in adjusting to the new world is to become knowledge workers and to learn knowledge management skills. This may sound as blasphemy

to many chartered accountants who have long experience and knowledge they have acquired at great cost. But knowledge workers around the world know that knowledge gets obsolete very fast and therefore CA firms have to become continuously learning organizations. Knowledge management is the key. Knowledge management has four essentials. The first is the acquisition of knowledge. This is the most difficult task and goes much beyond getting CPE hours. Acquisition of knowledge is not only from the net or from the classroom or from the seminar hall or from the library but also from our clients as many new innovations, best practices are being designed by our clients in the marketplace. If we believe in the case study method of learning then we must understand that the best source of business case models are our clients. We have to learn from the successes and failures of our clients. We have to learn from their strategies and structures. We have to learn how they have created and destroyed value.

The second step of knowledge management is unlearning and updating. Unless we can unlearn obsolete knowledge it is not possible for us to relearn.

The third step is knowledge retention and retrieval. We must know where the knowledge is and create an infrastructure so that we can find the relevant information and guidance and best practices whenever needed.

For any learning organization the fourth and most essential step of knowledge management is dissemination of knowledge throughout the organization. Leaders must ensure that others are trained. They must make sure that learning gaps are filled.

The question of what kind of services C.A.s want to render and what is their strategy for the marketplace is also linked to knowledge management. We must know what will be our specialization, what will be our focus. Then we can target a particular branch of knowledge. Except for global firms it is impossible for any firm to handle all kinds of services and to take on all kinds of clients. It is better to specialize, it is better to be known as a boutique organization. The firm which can therefore understand its own strengths and capitalize on specialized skills will adapt better to the marketplace. This can be a specific domain knowledge or knowledge of some specific industry. The C.A. must transition from giving general advisory services to giving specialized advice. The chartered accountant must increasingly think like a consumer goods marketing man and work out what range of special services he wants to offer at what prices and to which segment of clients and over what geographical area. This blueprint of identifying his services is very important.

The delivery capability of chartered accountants also needs some rethinking. The speed, the flexibility, the ability to custom make packages for clients, the ability to

review work done and create quality control mechanisms to ensure error free delivery are very important.

To do all this firms need to reorganize. It appears that the majority of professional chartered accountants in India today are either sole proprietors or are in firms with not more than three partners. This trend has to change. Not only firms have to come together and merge to make bigger entities consisting of people with different skills but it is also necessary to go outside the firm and to do tie-ups for specialized skills and knowledge resources.

Lastly, the image makeover is very important. It is unfortunate that in the campus placements young freshly qualified chartered accountants are getting average salaries which are below salaries of students passing out from second tier business schools. Most of these young business school passouts have no working experience whereas the young chartered accountant has three years of articleship experience. Why are corporates willing to pay greater value for the business school passouts than for the young chartered accountant? Do we believe that our young C.A.s are inferior to these students from the second tier B-Schools. I do not think so. I think we have an image problem. Our image is that we are mere problem solvers. We do not have an image of being strategists. We do not have an image that we can seize opportunities in business. This image problem which is a hangover from the old days when we used to render mostly regulatory compliance services is hurting the profession a

great deal. And to change this image that we are backroom professionals and not future candidates for the boardroom, we have to work both individually and collectively. Institute level efforts are also needed for this image makeover.

I would like to raise a vital issue here. Image is not created only by public relations. It is created by sustained value creation. Chartered Accountants must be acknowledged not only as fire fighters and problem solvers but as those who create value. Once clients see that we help them in creating value, in creating sustainability, in creating new strategies for business, our image will improve and the risk reward relationship in entering the profession will change dramatically and the falling numbers of new entrants to the profession will reverse themselves.

I would like to conclude on a very positive note. India is the hub and the leader in the world for rendering services. Whether it is I.T. or whether it is I.T. enabled services, whether it is biotechnology or clinical research or health care, India is the destination. Our leadership in BPO and KPO has shown that we are the world's favourite back office. I believe that the accounting profession in India need not be apologetic. We are the single largest organized profession in India. We should be confident that we have the skills, organizing ability, I.T. knowhow and the reach to service the needs of the global marketplace. Many laws which earlier shackled us are being changed. The Limited Liability Partnership is now a possibility. We are very likely to see multi-disciplinary partnerships between C.A.s and non-C.A.s happening

very soon. Partnership with members of overseas institutes will also become a possibility in the near future. With these unshackling of bonds, with our inherent skills, with our analytical power we can acquire the competitive edge for Indian Chartered Accountants to become the leading C.A. profession in the world.