Accountants for small business
ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 154,000 members and 432,000 students in 170 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 80 offices and centres and more than 8,400 Approved Employers worldwide, who provide high standards of employee learning and development.

ABOUT ACCOUNTANTS FOR BUSINESS

ACCA’s global programme, Accountants for Business, champions the role of finance professionals in all sectors as true value creators in organisations. Through people, process and professionalism, accountants are central to great performance. They shape business strategy through a deep understanding of financial drivers and seek opportunities for long-term success. By focusing on the critical role professional accountants play in economies at all stages of development around the world, and in diverse organisations, ACCA seeks to highlight and enhance the role the accountancy profession plays in supporting a healthy global economy.

Accountants for Small Business is a campaign aiming to raise awareness of the value of professional accountants in SMEs.

This report is the centrepiece of the campaign, which will build partnerships between ACCA and business associations, government agencies, and service providers in order to provide practical resources and support for SMEs investing in internal finance functions.

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REPORTERS, PRESERVERS AND CREATORS OF VALUE

Although it is sometimes assumed that SMEs’ accounting needs are driven by regulation, they are in fact mostly driven by genuine business and stakeholder needs. SME stakeholders, from business owners and management to finance providers, government agencies and employees, need the raw material of the finance function – information – distilled into actionable insights.

Building the finance function begins before start-up, at least when business planning is done properly. Once they begin trading, micro-enterprises build financial capabilities to ensure compliance with the law and cement the owner-manager’s control over a growing business. As small businesses mature, their finance teams devote their time to the standardisation and monitoring of business processes, often under pressure from third parties such as investors or customers; but once this process is complete, the finance function can reach its potential and help the business position itself for growth.

Young businesses rely to a great extent on external accountants and maintain relationships with them even after they have built their own in-house finance teams. This bond, based on competence and trust, has earned practitioners their reputation as SMEs’ most trusted advisers. Accountants in practice and in-house finance staff are not competitors, because SMEs’ demand for financial skills is not a zero-sum game. Rather, financial expertise and capabilities, correctly matched to the business’s changing needs, help SMEs grow and hence develop their demand for the more diverse, value-added advice that proactive practitioners offer them.

This is possible because financial capabilities in SMEs are not just a consequence of success but, rather, one of its causes. SMEs with well-developed financial capabilities are much more likely than others to be growing rapidly and sustainably. SMEs hire finance staff to help them build or preserve capital, both tangible and intangible, and to create product and service innovation. While the impetus for finance function development often comes from investors or supply chain partners, most of the value stays with the business itself. In other words, a well-resourced finance function is a source of competitive advantage.

THE CASE FOR COMPLETE FINANCE PROFESSIONALS

It is hard to over-emphasise how varied the role of the finance professional can be in a small business, where distinct business functions cannot be resourced and formalised. In fast-growing businesses, the role becomes even wider: entrepreneurs need to hire complete finance professionals who can support an SME today but also lead the large business it is likely to become. The unique breadth of the ACCA Qualification ensures that members are able to step into such roles with confidence.
1. Small business matters

Not everyone agrees on what small and medium-sized enterprises (SMEs) are. Different stakeholders use fairly arbitrary thresholds typically based on headcount, turnover and assets. As a rule of thumb, businesses with fewer than 250 employees tend to be considered SMEs in developed countries, while in emerging and frontier markets businesses with 100 employees or more are seen as large businesses. It makes more sense to define SMEs on the basis of resources and governance. ‘Small’ businesses are generally independent, largely owner-managed, and have limited functional specialisation.

While they may not agree on definitions, policymakers and business leaders around the world do agree that small and medium-sized enterprises (SMEs) collectively are big business. Half of the world’s private sector output, nearly two-thirds (63%) of jobs worldwide and about one-third of all developed-country exports are generated by SMEs. As countries develop, the SME share of their economies increases as previously informal businesses come out of the shadows – typically with the help of an accountant.

The SME sector is a major employer of finance professionals in its own right. Although only about 13% of ACCA members’ careers start in SMEs, 45% of members, including 54% of CFOs, have at some point in their lives worked for an SME.¹

Nor is ACCA’s interest in SMEs purely commercial. Entrepreneurs embody three core ACCA values: opportunity, innovation and diversity. For this reason, ACCA has prided itself for over 100 years on being the professional body most closely aligned with enterprise and small business.

¹ This estimate is derived from the ACCA/IMA Global Economic Conditions survey for Q4 2012 and includes members who claimed to be working in SME finance functions. A definition was not provided for the sector, so the resulting figures should be treated with some caution.
2. Accountants for small business: the campaign

Accountants for Small Business is the centrepiece of a wider ACCA campaign by the same name. The campaign builds on ACCA’s long history of working to support enterprise globally, but also the strategic direction of ACCA’s key global partners, such as the International Federation of Accountants (IFAC 2011; IFAC 2012) and the UN Convention for Trade and Development (UNCTAD 2012).

The ‘Accountants for Small Business’ campaign aims to:

- raise awareness among entrepreneurs, SME owner/managers and their advisers of the value of employing professional accountants in-house and the process of building a professional finance function
- cultivate partnerships around the world between the accountancy profession and the business associations, government agencies, and service providers best placed to promote capacity-building among SMEs
- provide practical resources for owner-managers considering investing in the finance functions of their businesses and those supporting them in their efforts
- acknowledge the sheer breadth of the finance professional’s role in a small business and the need for complete finance professionals to help run SMEs
- focus stakeholders’ attention and ACCA’s efforts on the kinds of SME best placed to benefit from investment in the finance function.

A GLOBAL PERSPECTIVE

The ‘Accountants for Small Business’ campaign is carried out under the auspices of the ACCA Global Forum for SMEs.

Launched in late 2011, the Forum is convened on a quarterly basis and represents over 15 countries and a wide range of professional backgrounds – from finance institutions, academics and professional advisers to entrepreneurs themselves.

The Forum reflects the sector’s needs at a global level and facilitates the sharing of best practice. It serves as both a source of ideas and a sounding board for ACCA, helping distil truly global insights out of national and regional developments.
The raw material of the finance function in businesses both large and small is information – and the business’s various stakeholders need this information distilled into actionable insight. To understand the role of the finance function, it is therefore important to understand whose decisions it is supporting, and what these decisions are.

<table>
<thead>
<tr>
<th>Users</th>
<th>Acknowledged in IFRS for SMEs?</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business owners/investors</td>
<td>Non-managing shareholders only</td>
<td>Evaluating performance&lt;br&gt;Deciding on the risk and return of continued investment in the business&lt;br&gt;Deciding whether profits can be distributed</td>
</tr>
<tr>
<td>Management</td>
<td>No</td>
<td>Evaluating performance&lt;br&gt;Managing cash flow, collecting money due, etc&lt;br&gt;Diagnosing possible financing needs&lt;br&gt;Input into planning, forecasts, etc&lt;br&gt;Supporting recommendations to owners on the portion of profits to retain and distribute&lt;br&gt;Supporting recommendations to owners on a proposed change in the range of products or business activities</td>
</tr>
<tr>
<td>Governments and their agencies</td>
<td>Yes</td>
<td>Assessing tax liabilities&lt;br&gt;Informing enterprise statistics and national accounts</td>
</tr>
<tr>
<td>Banks and other creditors (plus suppliers as creditors)</td>
<td>Yes</td>
<td>Assessing credit risk&lt;br&gt;Evaluating performance</td>
</tr>
<tr>
<td>Customers/suppliers</td>
<td>Yes</td>
<td>Assessing the risk and returns for those entering a business relationship with the enterprise&lt;br&gt;Monitoring the supply chain for efficiency/sustainability</td>
</tr>
<tr>
<td>Employees</td>
<td>No</td>
<td>Assessing the viability of wage demands</td>
</tr>
</tbody>
</table>

Framework adapted from EC (2008). Rankings of information needs taken from Deaconu et al. (2009)
The heaviest users of information about SMEs tend to be business owners and managers themselves, seeking information for management, rather than compliance, purposes. Indeed, good access to information has been shown to help make the most of entrepreneurs’ knowledge and experience (ACCA 2012a), and in emerging markets management education is a very strong predictor of SME reporting activity (Ernst & Young 2011).

Survival and stability are at least as important as growth to owner-managers (Jarvis et al. 1996), who place particular emphasis on information relevant to safeguarding liquidity and managing cash (Deaconu et al. 2009). Tables 3.2 and 3.3 demonstrate in detail the information that SME owner-managers use on a regular basis.

Table 3.2: Perceived usefulness of general sources of management information

<table>
<thead>
<tr>
<th>Information</th>
<th>Mean score (1-5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly/quarterly management accounts</td>
<td>4.24</td>
</tr>
<tr>
<td>Cash flow information</td>
<td>4.06</td>
</tr>
<tr>
<td>Bank statements</td>
<td>3.97</td>
</tr>
<tr>
<td>Budgets</td>
<td>3.53</td>
</tr>
<tr>
<td>State of order book</td>
<td>3.49</td>
</tr>
<tr>
<td>Additional accounts for management</td>
<td>3.38</td>
</tr>
<tr>
<td>VAT records</td>
<td>2.91</td>
</tr>
<tr>
<td>Statutory accounts for shareholders</td>
<td>2.61</td>
</tr>
<tr>
<td>Statutory accounts for the Registrar</td>
<td>2.61</td>
</tr>
<tr>
<td>Credit rating agency data</td>
<td>2.32</td>
</tr>
<tr>
<td>Published industry data</td>
<td>2.20</td>
</tr>
</tbody>
</table>

Source: Collis and Jarvis (2000)

Table 3.3: Frequency of use of specific sources of management information (%)

<table>
<thead>
<tr>
<th>Source</th>
<th>Monthly</th>
<th>Quarterly</th>
<th>Annually</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank reconciliation statement</td>
<td>63.9</td>
<td>5.5</td>
<td>3.6</td>
<td>73</td>
</tr>
<tr>
<td>Profit and loss account</td>
<td>48.1</td>
<td>18.7</td>
<td>20</td>
<td>86.8</td>
</tr>
<tr>
<td>Cash flow statement</td>
<td>39.5</td>
<td>14</td>
<td>5.2</td>
<td>58.7</td>
</tr>
<tr>
<td>Balance sheet</td>
<td>38.2</td>
<td>14.3</td>
<td>25.7</td>
<td>78.2</td>
</tr>
<tr>
<td>Budget variance analysis</td>
<td>36.1</td>
<td>13.2</td>
<td>2.1</td>
<td>51.4</td>
</tr>
<tr>
<td>Cash flow forecast</td>
<td>34.3</td>
<td>13.5</td>
<td>8.3</td>
<td>56.1</td>
</tr>
<tr>
<td>Budgeted profit and loss account</td>
<td>32.2</td>
<td>16.1</td>
<td>9.4</td>
<td>57.7</td>
</tr>
<tr>
<td>Budget plans</td>
<td>21</td>
<td>13.5</td>
<td>8.3</td>
<td>42.8</td>
</tr>
<tr>
<td>Costing reports</td>
<td>18.7</td>
<td>5.2</td>
<td>3.1</td>
<td>27</td>
</tr>
<tr>
<td>Break-even analysis</td>
<td>9.6</td>
<td>5.7</td>
<td>6</td>
<td>21.3</td>
</tr>
<tr>
<td>Standard costing and variance analysis</td>
<td>9.1</td>
<td>2.3</td>
<td>2.3</td>
<td>13.7</td>
</tr>
<tr>
<td>Ratio analysis</td>
<td>8.6</td>
<td>7</td>
<td>10.6</td>
<td>26.2</td>
</tr>
<tr>
<td>Industry trends</td>
<td>6</td>
<td>7</td>
<td>9.4</td>
<td>22.4</td>
</tr>
<tr>
<td>Inter-firm comparison</td>
<td>2.9</td>
<td>4.2</td>
<td>8.8</td>
<td>15.9</td>
</tr>
</tbody>
</table>

Source: Collis and Jarvis (2000)
CREDIT PROVIDERS

All financial intermediation relies on four raw materials: information, collateral, control, and risk appetite. Many small businesses, however, struggle to provide collateral or personal guarantees and most SME owners are unwilling to give up control of the business to outsiders (in the form of either equity shares or covenants). This means that, in comparison with large businesses, SMEs’ access to finance tends to be determined more by the quality of financial information they can produce and the degree to which individuals, institutions and government are willing to take the risk of financing them.

In countries with a stronger supply of financial information and stronger provisions for creditor protection, SMEs are more likely than in countries with weaker disclosure environments to be able to source all the finance they need, and the financial system is better at distinguishing between better and worse risks. Figure 3.1 demonstrates this relationship using data from Forbes Insights (2011). Even within individual countries, however, businesses with regular management reporting and financially trained staff find it easier to secure loans and overdrafts (BDRC 2012).

Like owners and managers, creditors (including banks and other finance providers but also suppliers) focus on assessing cashflow and liquidity, although under crisis conditions they will tend to emphasise security and guarantees at the expense of financial information (IFAC and The Banker 2009, see figure 3.2).
Governments are heavy users of information about SMEs and become more so as their economies develop. As already discussed in Chapter 1, developed countries do not have much bigger SME sectors than developing ones. More often, they have just managed to move more of the healthier parts of their informal economies into the formal sector (see Figure 3.3) through better infrastructure and public institutions, as well as more proportionate taxation and regulation (Schneider 2009).

Given a choice, few entrepreneurs operate informally, because doing so means poor access to finance and public services, unenforceable contracts, and the risk of legal sanctions (Battini et al. 2010). Governments, of course, also have a great deal to gain from business formalisation, as this allows them to monitor and anticipate tax revenues as well as to improve their control over the social impact of enterprises.

Business formalisation is almost synonymous with the building of the finance function. Businesses become ‘formal’ when they begin to give an account of themselves to the state or before the law – signing contracts; acquiring licences and permits; demonstrating compliance with employment or other regulations; paying taxes and social insurance contributions; tendering for government contracts. Almost all elements of formalisation involve record keeping and reporting, first by the owner-managers themselves, and ultimately by employees hired for this purpose.

**Figure 3.3: Estimated shares of total (formal and informal) output in OECD and non-OECD countries in 2009**

![Chart showing estimated shares of total output in OECD and non-OECD countries in 2009](source: ACCA (2010))

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**EQUITY INVESTORS**

Equity investors, such as venture capital funds or business angels and, more rarely, investors in listed SMEs, need a much wider range of information than creditors because they have to assess both the upside and the downside of their investments.

Although this means they rely less on financials than creditors, venture capitalists pay a great deal of attention to financial forecasts and profit margins (Ludwigsen 2009), and unrealistic projections of turnover and profit are one of the most commonly cited ‘deal killers’ (Mason and Harrison 1996). Moreover, although they focus on forward-looking information at the investment stage, investors’ emphasis then shifts to other types of information, especially information on the business’s ability to meet agreed milestones (Wiltbank et al. 2009). The business’s ability to provide actionable information tied to the business planning process is a significant element of what venture capitalists refer to as ‘investment readiness’ or ‘investability’.

**EMPLOYEES**

Employees are an often-overlooked group of SME information users, partly because organised labour is rare among smaller businesses. Typically, information on an employer’s earnings and cash reserves can influence bargaining for wages and benefits. Even so, present and prospective employees may well want to assess the viability of the business, while those on contingent remuneration will be interested in assessing their incentive pay. Moreover, key staff in young, promising businesses will sometimes take an interest in the business as potential investors or creditors.

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GOVERNMENTS

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**Figure 3.3: Estimated shares of total (formal and informal) output in OECD and non-OECD countries in 2009**

![Chart showing estimated shares of total output in OECD and non-OECD countries in 2009](source: ACCA (2010))
Recognising the importance of business formalisation to multiple stakeholder groups, as well as the commercial case for the profession and other service providers, ACCA is working to support capacity building and professionalisation in small business in all its markets. ACCA’s most important partners in this process include:

- business development agencies, both national and international
- tax authorities
- business associations and representative bodies, including their international umbrella bodies
- financial services firms, investor and venture capital associations, exchange operators and capital market authorities
- academic enterprise researchers and/or enterprise educators
- private non-financial service providers with significant SME offerings: telecoms, logistics, payments, accounting, customer relationship management (CRM) and enterprise resource planning (ERP) system providers.

The last category of stakeholders are the ‘silent majority’ of service providers; although they are less engaged in enterprise policy in most of ACCA’s markets, they provide the infrastructure on which SMEs rely for growth and are central to the working lives of accountants in business.

ACCA’s engagement in building SME’s capacity focuses on:

- supporting training provision for basic bookkeeping and tax administration
- developing and spreading standards for management and governance
- supporting entrepreneurs in building professional networks
- attracting and developing enterprise mentors
- improving SMEs’ understanding of external finance providers and signposting to professional funding advisers
- demonstrating the value of financial management and helping SMEs build relevant skills
- guiding SMEs in process modernisation and the adoption of international standards.

Figure 4.1 describes ACCA’s recent capacity-building partnerships around the world.
December 2009: ACCA and the Trinidad & Tobago Business Development Company (BDC) sign an MOU to assist the development of local businesses through skills and training provision.

October 2009: ACCA and BSBA (Barbados Small Business Association) sign MOU to bring greater professionalism and accounting rigour to the SME sector.

March 2010: ACCA and the Chartered Management Institute sign an MOU to promote professionalism and ethics in finance and management.

January 2006: ACCA and the SME Development Association (SMEDA) of Pakistan sign an MOU to promote SME capacity in book keeping and taxation.


February 2010: ACCA and Singapore’s ASME (Small and Medium Size Enterprise Association) sign a MOU to develop a framework of cooperation on training and development and joint networking opportunities.

October 2010: ACCA signs MOU with Enterprise Uganda to foster marketing leadership, human resource and finance management skills among SMEs.

January 2011: ACCA and the Zambia Institute of Directors (IoD) sign an MOU to improve corporate governance among businesses in the country.

October 2012: ACCA and the SME Development Agency of Nigeria (SMEDAN) partner to formalise and modernising their operations.

October 2008: ACCA and the Zambia Chamber of Small and Medium Business Associations (ZCSMBA) sign an MOU to improve financial management among SMEs.

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ACCA and the Zambia Chamber of Small and Medium Business Associations (ZCSMBA) sign an MOU to improve financial management among SMEs.

Figure 4.1: Building SME capabilities around the world
STAGE 2: COMPLIANCE AND CONTROL

As businesses begin to trade in earnest, management reporting, formal business plans and financially trained staff are engaged in order to allow the entrepreneurs to focus on the commercial direction of their business. Rapid growth tends to accelerate this process of formalisation and businesses typically leave this stage once they break even or once they have more than a handful of employees.

At this stage, the finance function is mostly concerned with aligning staff incentives with business objectives, putting internal controls into place and, in the case of newly incorporated businesses, helping the company live up to its statutory obligations. A professional financial manager is hired for the first time along with the adoption of management accounting practices and software as a “bundled pair”.

Good access to information makes it easier for founders to put their human capital to good use and this helps start-ups to reach break-even sooner. This is often the case for repeat entrepreneurs, whose presence in management teams is known to be associated with rapid growth.

STAGE 1: PRE-START-UP PLANNING

Entrepreneurs typically draw up business plans for finance providers either before start-up or at least before revenues are earned. Such business plans are often perfunctory and many are never used again after the initial round of funding. Nonetheless, business planning that sets specific objectives and is intended to be revisited in order to assess performance is an early finance function. This is typically carried out with the assistance of a professional accountant, typically an external practitioner. Small and medium-sized practices (SMPs) are key providers of support at this stage, combining technical competence and commercial awareness with a first-hand understanding of the challenges of running a small business and the ability to provide one-to-one support (Blackburn and Jarvis 2010).
STAGE 3: STANDARDISATION AND MONITORING

At this stage, the business has started to develop some diversified internal resources and to use financial information to optimise its internal processes. Moreover, it has become better at producing standardised information and feeding this into formal business plans and management decisions. Financially trained staff are hired to monitor cash flow and manage credit as well as to report on the progress and resource implications of improving business processes.

Many businesses at this stage also experience higher needs for financial skills if they are engaged in quality management or doing business online. More generally, external pressures from venture capitalists and/or supply-chain partners mean additional demand for management information. Businesses typically remain at this stage until they have roughly 20 to 30 members of staff, although in more labour-intensive sectors this threshold can be higher.

STAGE 4: ACCOUNTING FOR GROWTH

At this stage, businesses have distinct, specialised and professionally managed functions in place and are trying to balance the need for standardisation with that for responsiveness to market conditions and customer needs.

Management reporting, business planning and the use of trained finance staff are now tied to supporting growth. The finance function’s role expands substantially in more commercial and strategic directions. The focus tends to be on enabling businesses to access finance, make and assess the case for new products and services, monitor the business’s supply chains and manage its headcount.

ACCA’s research (ACCA 2012a) also shows that financial capabilities in SMEs are not just a consequence of growth, but one of its causes. Even after accounting for turnover, headcount, age and sector, SMEs with well-developed financial capabilities are much more likely than others to be growing rapidly (at over 30% a year over three years or more) and still retain a ‘low’ or ‘minimal’ risk rating (see Figure 5.1).
Figure 5.1: The case for financial capability in UK SMEs

Source: ONS Business Demography

Source: BDRC SME Finance Monitor

Source: BDRC SME Finance Monitor
BUSINESS ADVICE: CONTEST OR RELAY RACE?

As discussed earlier, SMEs do not start out with in-house finance staff and will tend to rely on external practitioners for a great deal of strategic and day-to-day advice in their early days. It is this record of service to growing businesses that has earned practitioners, especially SMPs, the title of ‘most trusted advisers to business’ in many parts of the world (Blackburn and Jarvis 2010). This will gradually change as SMEs build in-house capabilities and, in the short term, accountants in business may appear to be gaining at the expense of their colleagues in practice. This is a very limited view of the sector and, indeed, the profession.

ACCA does not see accountants in practice as being in competition with in-house finance staff, because SMEs’ demand for financial skills is not fixed. Rather, financial expertise and capabilities, correctly matched to the business’s changing needs, help SMEs grow and develop demand for more diverse, value-added advice.

This is demonstrated by ACCA-commissioned research (Schizas et al. 2012) among SMEs in a diverse group of six countries (Canada, China, Italy, South Africa, Singapore and the UK). As Figure 5.2 shows, SMEs with more than 50 employees progressively cease to rely on the expertise of external advisers as they build appropriate resources in-house. This process is more gradual than the headline figures make it appear – SMEs are likely to be swapping external resources for internal ones as they grow.

External accountants do not generally lose clients during this process, but rather progressively move towards higher value-added, non-compliance services on the basis of the trust and goodwill built up with clients over the years (see Figure 5.3). As Blackburn et al. (2010) and Jarvis and Ribgy (2011) explain, the most proactive practitioners organise this activity as a distinct service offering and either invest in additional human capital or use their professional networks to establish themselves as trusted brokers of professional services. Less proactive practitioners can still offer value-added non-compliance services in a profitable way for a while through a minimalist offering that bolsters their core services.

More often than not, larger SMEs use both external accountants and in-house finance staff, whose services are complementary. For instance, roundtables on SME access to finance held by the Federation of European Accountants (FEE) have found that, in negotiating short-term credit lines with lenders, practitioners have often relied on the support of in-house staff (FEE 2012). Similarly, ACCA and CBI (2010) have found an interesting distribution of labour in SMEs’ efforts to manage their cash flow, with external accountants almost always being involved in planning and managing cashflow but less frequently in setting up or monitoring the credit and collection processes.
6. The many roles of finance professionals

It is hard to over-emphasise how varied the role of the finance professional can be in a small business, where distinct business functions cannot be resourced and formalised. In fact, properly resourced and formalised business functions occur quite late in a business’s life – hence businesses’ innovation potential peaks at medium size (Forbes Insights 2011).

As a rule, four characteristics of finance professionals drive this diversity of roles.

- **The ‘regulated people’:** professional accountants in SMEs are often the only professionally qualified members of staff. Initially, this prompts employers to use them in a range of compliance tasks, as they are at ease with regulated environments that can frustrate entrepreneurs and purely commercial staff. In reality, though, a lot of truly commercial activity works in a similar way: applying for funding, tendering for contracts or for quality management certification are common examples.

- **The ‘numbers people’:** accountants in SMEs are accustomed to dealing with standardised information and producing templates for this. Moreover, by virtue of their positions, they have superior access to information about the business.

- **The jargon-busters:** because they are accustomed to technical and financial concepts and language, accountants make excellent liaison officers with third parties, such as funding providers and consultants, whose working language is different from that of entrepreneurs.

- **The true ‘networked workers’:** through their professional bodies, qualified accountants have access to a network of professionals that is much wider in both geographical and thematic scope than that of the business owner-manager. This is even more true of accountants holding a globally recognised qualification such as ACCA.

By combining ACCA’s four-stage model (see Chapter 5) and IFAC’s classification of finance functions (IFAC 2011), it is possible to map the many roles that accountants are required to fulfil in small businesses. Table 6.1 demonstrates the results of this exercise.
## Table 6.1: Roles of finance professionals (internal and external) working for SMEs by level of finance function development

<table>
<thead>
<tr>
<th>Broad roles</th>
<th>IFAC (2011)</th>
<th>Pre-start-up</th>
<th>Compliance and control</th>
<th>Standardisation and monitoring</th>
<th>Accounting for growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal advice to entrepreneur</td>
<td>Value enabler</td>
<td>Enterprise mentor</td>
<td>Enterprise mentor</td>
<td>Financial adviser</td>
<td>Enterprise mentor</td>
</tr>
<tr>
<td>Financing</td>
<td></td>
<td>Creditworthiness, Investment-readiness coach</td>
<td>Creditworthiness, Investment-readiness coach</td>
<td>Creditworthiness, Investment-readiness coach</td>
<td>Creditworthiness, Investment-readiness coach</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Finance provider liaison</td>
<td>Finance provider liaison</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance and governance</td>
<td>Value preserver</td>
<td>Corporate secretary</td>
<td>Corporate secretary</td>
<td>Corporate secretary, CSR adviser</td>
<td>Corporate secretary, CSR adviser</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tax &amp; payroll administration</td>
<td>Tax &amp; payroll administration</td>
<td>Shareholder liaison</td>
<td>Shareholder liaison</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Risk manager</td>
<td>Risk manager</td>
<td>Internal auditor</td>
<td>Internal auditor</td>
</tr>
<tr>
<td></td>
<td></td>
<td>HR manager</td>
<td>HR manager</td>
<td>Cashflow and credit manager</td>
<td>Cashflow and credit manager</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Book keeper</td>
<td>Book keeper</td>
<td>Compiler of statutory reports</td>
<td>Compiler of statutory reports</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Compiler of statutory reports</td>
<td>Compiler of statutory reports</td>
<td>Compiler of management reports</td>
<td>Compiler of management reports</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Compiler of management reports</td>
<td>Compiler of management reports</td>
<td>Auditor liaison</td>
<td>Auditor liaison</td>
</tr>
<tr>
<td>Reporting</td>
<td>Value reporter</td>
<td>Business development &amp; tendering manager</td>
<td>Business development &amp; tendering manager</td>
<td>Business analyst/planner</td>
<td>Business analyst/planner</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Business analyst/planner</td>
<td>Business analyst/planner</td>
<td>Change manager</td>
<td>Product / service innovation champion</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Intangible assets consultant</td>
<td>Intangible assets consultant</td>
<td>IT/ERP/CRM systems lead e-commerce consultant</td>
<td>Supply chain manager, client liaison</td>
</tr>
<tr>
<td>Strategic</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Within SMEs, a very small number of professionals (usually one) need to perform multiple roles, and the faster the business grows, the more rapidly the content of the finance professional’s role will change.

Not all SMEs are set up for massive growth but among those that are the pace is blistering: high-growth firms are most likely to reach their maximum growth rate just three years after registration (Delta Economics 2012). This means that entrepreneurs with substantial growth aspirations need to hire into their fledgling businesses finance professionals who can lead a large business in just a few years’ time.

The ACCA Qualification has been uniquely designed to develop the full range of competences finance professionals in business need to have today; this ensures that members will be able to respond to the needs of growing SMEs from day one (Table 6.2).

Table 6.2: A summary of the competences developed through the ACCA Qualification

<table>
<thead>
<tr>
<th>Competence Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate reporting</td>
<td>Preparing high-quality business reports to support stakeholder understanding and decision making.</td>
</tr>
<tr>
<td>Leadership and management</td>
<td>Managing resources and leading organisations effectively and ethically, understanding stakeholder needs and priorities.</td>
</tr>
<tr>
<td>Strategy and innovation</td>
<td>Assessing and evaluating strategic position and identifying imaginative options to improve performance and position; implementing strategies to ensure cost effective and innovative business process improvement and change management.</td>
</tr>
<tr>
<td>Financial management</td>
<td>Implementing effective investment and financing decisions within the business environment in areas such as investment appraisal, business reorganisations, tax and risk management, treasury and working capital management, to ensure value creation.</td>
</tr>
<tr>
<td>Sustainable management accounting</td>
<td>Assessing, evaluating and implementing management accounting and performance management systems for planning, measuring, controlling and monitoring business performance to ensure sustainable value creation.</td>
</tr>
<tr>
<td>Law and taxation</td>
<td>Understanding laws and regulation relating to business; understanding taxation, regulation and systems, to establish tax liabilities for individuals and companies, and minimising these liabilities by using tax planning.</td>
</tr>
<tr>
<td>Audit and assurance</td>
<td>Providing high-quality external audits; evaluating information systems and internal controls; and gathering evidence and performing procedures to meet the objectives of audit and assurance engagements.</td>
</tr>
<tr>
<td>Governance, risk and control</td>
<td>Ensuring effective and appropriate governance; evaluating, monitoring and implementing appropriate risk-identification procedures; designing and implementing appropriate and effective internal audit and control systems.</td>
</tr>
<tr>
<td>Stakeholder relationship management</td>
<td>Managing stakeholder expectations and needs; aligning the organisation to their requirements; engaging stakeholders effectively and communicating relevant information.</td>
</tr>
<tr>
<td>Professionalism and ethics</td>
<td>Understanding and behaving in accordance with fundamental principles of ethical behaviour and personal ethics; ensuring implementation of appropriate corporate ethical frameworks.</td>
</tr>
</tbody>
</table>
1. SMEs hire accountants to help them build or preserve capital, both tangible and intangible. Finance recruitment, capital spending, quality management and product/service innovation go hand in hand. SMEs let go of accountants less readily than larger organisations, usually when cash flow is tight and they are forced to lose productive capacity in other ways. When business confidence is dangerously low, some SMEs will try to reallocate excess finance staff rather than lose them.

2. Finance professionals in SMEs are crucial liaison staff for major customers and suppliers. Because of this, SMEs find it hardest to lose experienced finance staff when they are embedded in major supply chains that impose quality standards or when they are seeking to invest in quality management. In fact, in such cases, SMEs often find they have a strong incentive to invest in finance skills and the personal development of finance staff.

3. In SMEs, temporary recruitment is rare, but whereas large businesses may use temporary staff as a substitute for permanent staff, SMEs use temporary finance staff tactically, when testing the water in new markets or adapting to changes in customer preferences. Such appointments are often at a senior level – the use of an interim finance director, for instance, allows the business to tap into the expertise it needs without overextending itself.

4. Finance employment in SMEs can suffer under cost-cutting drives, but finance professionals are also frequently essential in achieving savings. This often means that finance functions are boosted by economic uncertainty as well as growth – but an actual recession will tend to reduce their headcount.

5. Finance is a source of competitive advantage, particularly for SMEs embedded in broader supply chains. Because of this, outsourcing of core finance functions is rare among SMEs, and many often end up bringing them back in-house after outsourcing, under pressure from customers and the process of quality management.

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2. This analysis is based on data from Q1 2009 to Q1 2011 in order to ensure direct comparability.
The link between the finance function and innovation is corroborated by Forbes Insights (2011), a pan-European study of entrepreneurial attitudes and innovation sponsored by ACCA. This study shows that SMEs are more likely to succeed in producing innovations if their finance functions are seen as having a good understanding of the needs of entrepreneurial firms. The study also shows that, all other things being equal, SMEs’ finance functions are seen as more adequately resourced by business executives engaged in product or service innovations as well as operational improvements than by executives who are not engaged in these. While most business executives in European SMEs claim to have adequately resourced finance functions with a good understanding of the business, about one in three does not (Figure 7.1).
1. Reduce distractions on the owner-manager at the earliest opportunity. Few business owner-managers are financially trained, and even those that are can rarely justify the opportunity cost of micro-managing even a very modest finance function. A common example of poor practice is credit management, for which even fairly mature businesses can over-rely on the business owner (Paul and Boden 2012).

2. Ensure the business can ‘grow into’ its financial systems. Businesses rarely grow smoothly, but in fits and starts as their plans and resources meet the right external conditions (Blackburn et al. 2008). Businesses need to allow for sharp increases in the information needs of management or important third parties and develop the systems they need ahead of time. Those embedded in major supply chains often invest in financial capabilities following pressure from buyers (ACCA and IMA 2013). Likewise, venture capitalists often require businesses in which they invest to overhaul their in-house financial capabilities (ACCA 2012a).

3. Avoid outsourcing functions that underpin competitive advantage. Many of the earliest accounting needs of enterprises, especially those related to regulatory obligations, can best be served by external accountants. Similarly, purely administrative tasks can be, and often are, outsourced to a third-party specialist. The production of management information underpinning commercial decisions, on the other hand, needs to be kept in-house in more mature businesses. The more the business relies on unique resources, the more finance tends to be part of its competitive advantage. In a rare test of this view, Kamyabi and Devi (2011) confirm that SMEs with more unusual assets tend to avoid outsourcing their finance functions.

INVESTING IN FINANCIAL CAPABILITY

Small but growing businesses have to manage scarce resources and juggle competing objectives. As a result they are faced with two dilemmas when considering investments in financial capability. First, why use these resources on finance when they could be spent on marketing, capital expenditures, or to pay the owners? Second, why build resources in-house when an external practitioner can provide good services? The following rules of thumb, based on ACCA’s research, can help navigate these dilemmas.
4. **Think beyond full-time and permanent staff.** Growing businesses may not always be able to afford to fill key financial roles on a permanent, full-time basis, but may find that they do not need to if all they need are the skills to see a particular growth-phase project through to completion. Recent years have seen a growing trend towards the employment of interim finance directors by SMEs; others might engage staff on a part-time basis or even hire an independent practitioner for a while as a virtual employee.

5. **Train to retain.** SMEs can rarely offer finance professionals the financial rewards larger companies will. The most secure way to retain staff in the SME finance function is to support them in becoming qualified and to provide continuous training and a clear career path aligned to the needs of the business.

6. **Weigh the value of more timely and/or detailed information against the cost of producing it.** Information is costly to produce, so SMEs often have to sacrifice timeliness (ACCA and CBI 2010). Using an external accountant may therefore not be cost-effective when information is needed on a very frequent and ad hoc basis. Investment in management information systems and/or e-commerce capabilities, however, can reduce the incremental cost of producing information in-house, thus increasing SMEs’ demand for financially trained staff.

7. **Avoid fire fighting through good day-to-day financial management.** Despite the well-documented benefits of external advice, business owners considering applying for external finance or seeking to improve cash flow often find that their chances of success are ‘locked in’ by the time they become aware that they need finance, owing to the way the business has been managed (BDRC 2012; Paul and Boden 2012). Solid business planning could help identify the timing of such needs and potential problems so that financial capabilities can be developed beforehand.

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**DID YOU KNOW?**

Of all ACCA students and affiliates:

- 81% plan to lead a finance team at some point in their careers.
- 66% plan to start their own business at some point in their careers

Source: ACCA (2012b)

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To find out more about the career aspirations and prospects of ACCA students, see ACCA Students and Affiliates Salary and Career Survey (ACCA 2012b), the largest survey of student accountants in the world.
8. Conclusions

The development of a professional finance function transforms small businesses and helps release their potential. Simply put, SMEs with well-developed finance teams achieve faster, more sustainable growth for longer.

To achieve this, finance professionals in SMEs need a broad skillset and growing businesses need to build financial capabilities that they can ‘grow-into’. This includes hiring or developing finance professionals who can run the large businesses that they may soon become.

This proactive approach is critical to the development of young businesses. From accessing finance and managing cashflow to managing employment relations and protecting intangible assets, early planning and capacity building in-house can achieve at a modest cost what no amount of last-minute advice can deliver later.

Policy-makers need to bear this in mind when targeting SMEs’ financial disclosures for deregulation. Regular financial reporting is just one of the outputs of day-to-day management reporting, which is not a burden, but a value-added service to the business.

To unlock the full potential of SMEs’ finance functions, the accountancy profession needs to build stronger partnerships with the wide range of service providers that shape their daily work.

The profession also needs to develop closer ties with governments around the world with the explicit purpose of accelerating capacity building and developing professionalism among small businesses. Increased business formalisation is a win-win proposition that can deliver faster and more resilient economic growth, more and better quality jobs and more sustainable public finances.

Finally, both governments and the accountancy profession need to encourage and contribute to further research and policy efforts aimed at raising awareness among business owners of the importance of developing internal finance functions and the business value they create.
References


