

ACCOUNTANTS FOR BUSINESS

Supporting enterprise globally

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 at all stages of their development. We seek to develop capacity in the profession and encourage the adoption of 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 seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

We support our 140,000 members and 404,000 students in 170 countries, helping them to develop successful careers in accounting and business, based on the skills required by employers. We work through a network of 83 offices and centres and more than 8,000 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

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.

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ACCA'S SME TEAM

The members of the ACCA SME Unit are:

Professor Robin Jarvis
Head of SME affairs
robin.jarvis@accaglobal.com

Rosana Mirkovic
rosana.mirkovic@accaglobal.com

Emmanouil Schizas
emmanouil.schizas@accaglobal.com

Foreword by Helen Brand

When ACCA published the first edition of *Supporting Enterprise Globally* in early 2009, the world was in the grips of an unprecedented global economic downturn, with small and medium-sized enterprises (SMEs) bearing the brunt of falling demand and tightening credit. Our intention was to highlight the importance of SMEs across the world, and showcase ACCA's significant experience of working with the sector – primarily through our members, most of whom work for or advise small firms.

At the institutional level, ACCA has over 100 years' experience of working with the SME sector. As a professional body we lobby governments, regulators and standard setters in the long-term interest of a healthy SME sector, and we support professional accountants so that they can continue to function as the sector's most trusted business advisers.

Policymakers often approach SME policy from a regional or national perspective. In fact, what we have found through our presence across many different markets is that small business issues and needs are remarkably similar everywhere. Governments and professionals around the world acknowledge the need to ensure a proportionate regulatory framework; to establish a level playing field in product and financial markets; and to provide appropriate business support where the limited resources of smaller businesses would otherwise present an insurmountable barrier.

It is to this global agenda that ACCA is particularly committed. We believe that policymakers in different jurisdictions have much to learn from one another and can benefit from proven best practices. We see it as our role to contribute to this learning process, through an active research and thought-leadership programme that feeds into evidence-based policy positions. This approach has helped us position ourselves as the accountancy body most closely affiliated to the small business sector.

This second edition of *Supporting Enterprise Globally* updates the evidence base on the importance of SMEs and their needs, and recalls ACCA's work on small business issues during the worst of the global downturn. It signals our continued commitment to the SME sector during these difficult times and celebrates the role of our members in helping small businesses around the world build a sustainable recovery.



Helen Brand
Chief Executive, ACCA



Why small business matters

There are no universally accepted definitions of small and medium-sized enterprises (SMEs). National definitions are usually based on turnover, employment and balance sheet thresholds, which often vary by sector. For the purposes of this document, the term will be assumed to include businesses with fewer than 300 employees and less than \$15m in turnover and/or assets, in line with the World Bank definition. Nonetheless, it should be noted that enterprises with fewer than 50 employees make up the large majority of the SME sector, and these are the primary group to which this document refers.

SMEs make a significant contribution to the global economy. ACCA estimates that they account for two-thirds of employment (67%) and more than half of all output (52%) in the private sector globally (ACCA 2010b). Among OECD countries, they are believed to account for 30% of exports and 10% of foreign direct investment (OECD 2006), and they are seen as the main source of new job creation (OECD 2005). Just as importantly, citizens around the world trust SMEs, more than large corporations, national governments or international organisations, to act according to universal values (World Economic Forum 2010).

For all these reasons, SMEs can make a positive contribution to development as drivers of economic growth and as 'civil society builders' (EP 2006). In turn, they benefit from development through improvements in governance and institutions, education, access to finance, and public infrastructure (Ayyagari et al. 2003). Therefore, a positive correlation exists between a country's per capita income and the number of SMEs per 1,000 people (Newberry 2006), and more developed countries tend to have larger SME sectors in employment and GDP terms (Ayyagari 2003). This virtuous cycle must not be taken for granted: in many major economies, the rate of enterprise creation fell and the rate of business exits rose in the boom years leading up to the global economic downturn of 2008–9 (OECD 2010). The recovery could be even less accommodating for entrepreneurs.

The SME agenda is at the heart of ACCA's activities, reflecting not only the profile of ACCA members worldwide, but also ACCA's recognition of the importance of the sector to economic development overall and the consequent social benefits that this brings. ACCA also recognises the sector's ability to adapt to rapid changes in the business environment, such as the increasing momentum of globalisation; its resilience and flexibility; and its potential for innovation. All these characteristics need to be fostered for the benefit of economic development across the world.

The nation is like a lush tree; the economy is the vessels transporting water and nutrients, while small businesses form the densely laid web-like root system – they tap deeply into the soil, working diligently to promote rapid but sound economic development, social harmony and stability.

LI ZIBIN, PRESIDENT, CHINA ASSOCIATION OF SMALL AND MEDIUM ENTERPRISES (CASME)

SMEs IN THE ECONOMIC DOWNTURN



In October 2009, the Economist Intelligence Unit published *Surviving the Drought*, a report into SMEs' growth prospects and access to finance during the global economic downturn (EIU 2009).

This research was commissioned by ACCA, CGA Canada and CPA Australia, who published their response to the EIU findings in *Access to Finance for the Small and Medium-sized Enterprise Sector: Evidence and Conclusions* (ACCA et al. 2009).



ACCA followed this research up with *Living Up to Expectations*, published in early 2010, which used findings from ACCA's Global Economic Conditions Survey to investigate the extent to which businesses and accountants were following the recommendations of the joint report (ACCA 2010a).



The key findings from this body of research are set out below.

- SMEs globally have been remarkably resilient throughout 2008 and 2009; they have grown, safeguarded and created jobs in the midst of a profound economic downturn.
- Their major asset in the recovery will be their relationships with customers – but as with all intangible assets there are doubts as to whether this one can be managed properly.
- There has been a painful tightening in the supply of finance to SMEs and other providers have not stepped in as banks have withdrawn. SMEs are learning the lessons of the downturn, with more of them becoming cash-positive. Nonetheless, over-zealous or poorly planned cost-cutting can jeopardise the recovery by leaving SMEs under-resourced – investment, in particular, is severely subdued.
- Although SMEs are still holding on to their relationships with their banks, increasingly formulaic lending procedures could alienate borrowers. Governments have a role to play here, but they must not lose sight of the growth agenda: growing SMEs have very different needs from the rest of the sector.
- Accountants are, on the whole, playing their part in supporting SMEs in the recovery, and their advice is aligned with what SME surveys say about the sector and its prospects – although advice on alternatives to bank lending is one area in need of further emphasis.
- Most accountants believe that SMEs must now look beyond mere survival and use the recovery to plan ahead, invest and build competitive advantage.

The role of governments

GOVERNMENT SUPPORT

Governments have a crucial role to play in supporting enterprise creation, ensuring a level playing field for smaller businesses and building capacity in the SME sector. Owing to their limited resources and, in many cases, strong reliance on local markets, small firms can be especially dependent on such external business support. More importantly, the development of the SME sector depends on a stable macroeconomic environment, supported by sound fiscal policy, efficient regulation, and appropriate legal systems.

ACTING ON MARKET FAILURE

To foster these supportive environments, governments can and do intervene in favour of SMEs, but can do so successfully only if there is genuine evidence of market failure. Governments should divert efforts from areas adequately served by the private sector to those where they can have a meaningful impact. The economic downturn of 2008–9 has exposed many opportunities for such interventions by exacerbating existing market imperfections. Nonetheless, governments must consider these soberly on the basis of evidence and bear in mind that improving macroeconomic conditions is more likely to make a difference to the SME sector's prospects than most types of micro-intervention (ACCA 2010a).

SETTING CLEAR OBJECTIVES

Before any new policy is introduced, a government should be clear on the objectives it is seeking to achieve by consulting widely before taking action. SMEs are a very diverse group of businesses and it is often hard for their views to reach policymakers, whereas the latter often maintain close relationships with large businesses, whose views may be very different. Governments should seek to redress this balance by consulting as widely as possible with small businesses and reporting on the impact of policy on them. They can improve the quality and variety of their insights by partnering with SME representative bodies as well as trusted intermediaries such as accountants, whose close relationships with small businesses give them invaluable influence and expertise.

REPRESENTING SME INTERESTS WITHIN GOVERNMENT

Governments need to ensure that SME interests are strongly and consistently represented in the machinery of government, providing the appropriate focus and a clear point of contact. This often requires the establishment of separate government agencies that will coordinate small business policy and manage government interventions. These agencies cannot, however, be expected to own all policies that are relevant to SMEs. Instead, they need to have adequate influence on other ministries whose policies affect the small business community, by reporting directly to the head of state.

OPENING UP GOVERNMENT PROCUREMENT

In most countries, government is the single largest buyer of goods and services. The government procurement market is vast, accounting for 15%–20% of GDP in most countries (Liang 2006). Governments have an obligation to spend money efficiently and in an accountable fashion, but the arduous pre-qualification and tendering processes used to ensure this often make it impossible for smaller suppliers without a dedicated tendering resource to win government contracts. As such, this market is neither as competitive nor as innovative as it could be. Although some governments try to overcome this by earmarking funds for small suppliers, this is no guarantee of competitiveness and innovation, or even a level playing field (HM Treasury 2008). To make a real difference, governments need to explore e-procurement, ensure that tendering requirements are proportionate to the work undertaken, guard against corruption, and educate suppliers in the tendering process.

ACCA POLICY INFLUENCE

ACCA's national offices maintain their own small business programmes and SME committees, in which the insights of locally based members combine with local ACCA resources to make a unique and important contribution to the SME agenda. This includes, where appropriate, engaging with policymakers to lobby effectively for the SME community.

ACCA organises SME events across the globe, working with key local stakeholders, other international bodies and national governments. SME conferences have taken place in Hong Kong, Mauritius, Poland, Vietnam, Barbados, Trinidad and Tobago, Malaysia, Zambia and Kenya, providing a useful platform for SME stakeholders and SME owners themselves to open up an important dialogue about the needs of the sector. Similarly, ACCA maintains or is in the process of setting up SME committees throughout its network of offices, from Hong Kong to the UK and from Pakistan to Botswana.

Recognising the importance of evidence-based policy, ACCA supports and widely disseminates high-quality research that aims to develop knowledge and promote debate on some of the most important issues facing SMEs. As a result, it has developed a strong body of knowledge on important areas in the sector, such as regulation, banking, succession and equal opportunities. In May 2007, ACCA issued an international call for research, seeking to broaden and bolster that body of knowledge with evidence and informed thinking about new and emerging issues for SMEs, such as mentoring, social enterprise, new business models and income composition.

The economic importance of small businesses must not be underestimated. Governments must understand and address the issues which affect small firms' competitiveness and work with stakeholders to create conducive environments in which they can prosper.

ANDREA BENASSI, SECRETARY GENERAL, EUROPEAN ASSOCIATION OF CRAFT SMALL AND MEDIUM-SIZED ENTERPRISES (UEAPME)

The role of ACCA and accountants

A KEY STAKEHOLDER

ACCA members are bound by ACCA's rules of professional conduct, ensuring that they meet the highest standards of professional competence and ethical behaviour. The consequent level of trust between accountants and their clients means that they are in an ideal position to offer a wide range of services or to direct businesses to other reliable sources of advice, as appropriate (Blackburn et al. 2010). For example, as has now been acknowledged in the UK, governments are reliant on accountants to conduct large amounts of essential regulatory and public policy work on behalf of government: such work actively promotes compliance (Better Regulation Executive 2007), by disseminating information on matters of law and best practice. This advice can range from working out tax liabilities, submitting tax returns, preparing and filing accounts and combating financial crime by deterring and reporting suspicious transactions.

WORKING IN PARTNERSHIP

In this context, government can benefit from working in partnership with the accountancy profession to raise awareness of the importance of proper financial controls for sound business management. More generally, because of their role as intermediaries between governments and the SME community, the accounting profession has a huge potential for achieving mutual objectives and this should be further exploited. For example, government business support services should be encouraged to recognise the key role that practising accountants can play in educating and informing their clients about regulatory issues, as well as directing them to government support schemes where appropriate.

ACCOUNTANTS' FINANCIAL AND BUSINESS SKILLS

Accountants' financial and business skills are crucial for small businesses' survival and growth. Independent research demonstrates that accountants are the primary business advisers of small firms and have the highest satisfaction rating for business support (Blackburn and Jarvis 2010). In total, over half of ACCA's members work in or service small businesses and they are well qualified to provide a range of business services, from business start-up, to advice on taxation, regulation and sources of finance. Practitioners are often themselves owners-managers of small businesses who know the concerns of entrepreneurs at first hand.

One example of the way in which qualified accountants play a key role in supporting the small business sector is employment law. Qualified accountants often leverage their understanding of payroll as well as their financial training and networks to provide advice on employment law and human resource management. In the UK they are more likely to be approached for this purpose by micro-enterprises than any other professional advisers (Jarvis and Rigby 2010).

As the global economy recovers from a severe downturn, many businesses will find themselves in unfamiliar territory – a world where credit is scarce and demand is weak or unreliable. In such conditions, the likes of which few owner-managers of SMEs have traded through before (ACCA 2009a), the skills and experience of professional accountants may be more valuable than ever.

SHARING EXPERIENCE AND KNOWLEDGE

ACCA's global presence and close relationship with the small business sector enables it to take a wide perspective on small business policy and engage with stakeholders and policymakers to share its experience of working closely with the sector on a global as well as local level. Through its network of national offices, ACCA partners with small business advocacy groups, government departments, regulators and enterprise support or development agencies globally.

Engaging with private sector stakeholders, such as accountants, is critical in ensuring that small firms receive the best advice and support when starting, managing and growing their business.

LYNETTE HOLDER, EXECUTIVE DIRECTOR, BARBADOS SMALL BUSINESS ASSOCIATION

HELPING NEW BUSINESSES GET OFF THE GROUND



ACCA Pakistan's *SME Survival Kit* was published in English and Urdu in February 2010 (ACCA Pakistan 2010). Aimed primarily at enterprising individuals who want to start a new business, the *SME Survival Kit* discusses issues of access to finance, working capital management, accounting records, succession planning and how obtaining professional advice can help a new business survive. The *SME Survival Kit* was also designed to be very helpful to SME owners who are already in the market, especially if their businesses are not doing well.



ESTABLISHING START-UP CAPITAL NEEDS IN HONG KONG

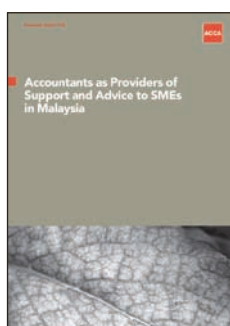
In discussion with the Trade and Industry Department (TID) of Hong Kong, the SME subcommittee of ACCA *Hong Kong* identified the need for business start-ups to work out a realistic budget. Subsequently, the subcommittee collaborated with the TID's Support and Consultation Centre for SMEs (SUCCESS) to compile a budget analysis template to help entrepreneurs to estimate the initial capital required and the financial position of their new business.

The template was made available online to members of the public through the ACCA and TID website, while SUCCESS helped to promote the template to its SME visitors and members. When the template was first developed, ACCA members were also invited to give seminars to SMEs at SUCCESS to teach them how to use the template. Following the good reception of this template, the SME Sub-committee again collaborated with SUCCESS to develop a business plan template for use by SMEs to help them to assess the viability of their business and the options and alternatives available for future business growth in 2010.

A SPRINGBOARD FOR ENTERPRISE IN THE UK

In 2010 ACCA UK worked with Barclays HMRC, NFEA and the Intellectual Property Office on a programme of ten 'Springboard' seminars across the UK to help entrepreneurs and owner managers looking to diversify or get new business ideas off the ground. The events offered free advice on issues ranging from business planning to finance, sales, marketing and IP. ACCA UK had a stand at all the events and this was manned by local practitioners, providing them with an opportunity to promote their services to potential clients.

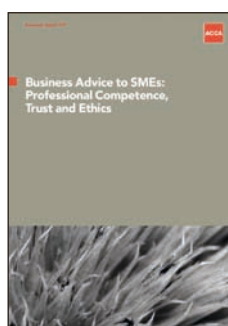
ACCOUNTANTS FOR BUSINESS: EXPLORING THE SME-SMP LINK



In June 2010, ACCA published *Accountants as Providers of Support and Advice to SMEs in Malaysia* (Devi and Samujh). This report covers research into the nature of and trends in accountants' offering to SMEs, and is based on a number of focus groups and one survey of small and medium-sized accountancy practices (SMPs) in Malaysia.

The report shows that although SMPs in Malaysia still spend 60% of their time providing compliance services, their offering is very broad, with 34 different services identified. These include business coaching, grant application, ISO certification and forensic accounting. Major obstacles for SMPs wishing to expand their offering include staff and skills shortages, the willingness of SME clients to pay for advice and competition from unqualified providers.

SMPs may benefit from outsourcing bookkeeping and other lower-value-added services. SMPs identify 'soft' advisory skills and pricing as areas where the need for training and development is substantial.



In July 2010, ACCA published *Business Advice to SMEs: Competence, Trust and Professional Ethics* (Blackburn et al.). This report, based on face-to-face interviews with SME owner-managers, accountants and other financial advisers in Australia and the UK, explores the provision of non-compliance services by accountants and the central role of trust in enabling this.

The findings show that accountants are increasingly providing non-compliance advice to SMEs. This is a trend driven by falling statutory requirements and will continue in the future. In order to provide this service in future, and to be effective business advisers, accountants need to build trust. They can do this by demonstrating competence in the provision of compliance services and building rapport, but trust can take many years to develop unless a critical lifecycle or regulatory event acts as a catalyst.

This research also shows that accountants are not always as proactive as they could be in marketing their non-compliance services and partnering with other service providers. There is a need to do these things without compromising their position as trusted advisers.

Better regulation

MANAGING THE BURDEN OF REGULATION

Creating the right environment for entrepreneurship and business to prosper is impossible without carefully crafted regulation. Research generally finds that countries with burdensome regulation have larger informal sectors, higher unemployment rates, and slower economic growth (World Bank 2010).

Regulation can have a disproportionate effect on small firms. Research has shown that complying with regulation can be between five and ten times as costly per employee for micro-enterprises as for larger firms (EC Expert Group 2007, Forum of Private Business 2009), and that it can deter individuals who want to start a new business from doing so (van der Zwan et al. 2010). This disproportionate burden arises because entrepreneurs, as well as owners and managers in established SMEs, lack the time, internal resources and specialist expertise to handle red tape, and are unable to spread the cost of compliance across large-scale operations or pass it on to their customers.

Governments must ensure that the design of regulation does not give rise to such effects, which constitute an implicit subsidy for larger firms. They should also consider using regulatory reforms to provide a 'regulatory stimulus' to small businesses, especially if their options for financial support are limited.

'THINK SMALL FIRST'

ACCA believes the 'think small first' approach should be adopted by governments when designing regulations. This does not mean exempting small businesses from all regulation or tolerating misconduct, but rather designing regulations from the bottom up. By creating rules that work for the smallest businesses and then scaling them up, rather than the opposite, regulators can improve outcomes and reduce the cost of compliance.

In order to achieve this, governments must seek to understand the many diverse effects that regulations have on small businesses, bearing in mind that it is the resources and behaviour of firms, rather than the actual contents of regulations, that most influence their cost and effectiveness (Anyadike-Danes et al. 2009). They should ensure also that appropriate incentives are in place for governments and the civil service to consider non-intervention or other alternatives to regulation where appropriate.

SUPPORTING BETTER REGULATION GLOBALLY

ACCA campaigns for better regulation around the world, promoting efforts to make regulators more efficient, accountable and more mindful of the concerns of small businesses. In the past two years, ACCA has contributed to large-scale reviews of the 'Better Regulation' agenda by the European Commission, the US Office for Information and Regulatory Affairs (OIRA) and the UK Parliament's Regulatory Reform Committee.

ACCA has consistently argued that a balanced view be taken on regulation. This balanced approach acknowledges that governments have a mandate to regulate, and concedes, as most small business owners do, that most regulations are justified in principle even if their implementation is flawed. Better regulation is not necessarily about *less* regulation but about simple rules that allow businesses to be productive, and that focus intervention where it counts in order to achieve value for money.

Burdensome regulation is a huge disincentive to entrepreneurship and owning and growing a business. This can affect small firms disproportionately and an appropriate regulatory environment, where small business can compete on the same playing field as large firms, is a key factor in enabling an entrepreneurial culture.

PROFESSOR FRANCIS CHITTENDEN, ACCA PROFESSOR OF SMALL BUSINESS FINANCE, MANCHESTER BUSINESS SCHOOL, ACCA COUNCIL MEMBER AND CHAIRMAN OF THE ACCA SME COMMITTEE

Tax

SIMPLE AND TRANSPARENT TAX SYSTEMS

Excessive tax burdens and complicated compliance procedures can stifle the SME sector and prevent it from generating employment and wealth or, in more extreme cases, discouraging participation in the formal economy (World Bank 2010). It is crucial for governments to work towards creating simple and transparent tax systems that encourage compliance in a way that allows small firms to contribute toward tax revenues. In developed economies, businesses remit the majority of public sector income (Shaw et al. 2008) and cash-strapped governments should recognise that the SME sector will generate more tax revenues if an enabling environment is created that allows the sector to grow, achieve profits and comply with tax rules in an efficient manner (ACCA 2009b).

SIMPLICITY

Tax policy should always aim for simplicity because that makes it easier for firms to pay taxes. Complying with administrative tax requirements remains a real burden for businesses. Globally, the average SME spends one and a half months (36 working days) a year complying with tax regulations (PwC and World Bank 2009) and research points to a rise in the volume of regulations and directives relating to tax administration in the last ten years (Chittenden 2008). The compliance burden of the tax system should be carefully monitored by governments, using a reliable method for estimating the costs in time and money that tax compliance imposes on SMEs.

NEUTRALITY

Small firms come in a variety of shapes, sizes, and legal forms and are influenced by the different motivations of owner managers, which ultimately affect the way businesses are structured and managed. Governments need to recognise the heterogeneity of the SME sector when devising tax policy and should strive towards neutrality, enabling small businesses to take decisions in the interest of the best commercial outcome rather than because of the tax savings that they are likely to make (Chittenden and Foster 2008). The tax system should strive to be neutral, especially in relation to legal forms, in order to avoid allowing taxation to become an influencing factor in the business decision to incorporate for tax rather than operational reasons.

LONG-TERM APPROACH TO TAX POLICY

Governments should take a long-term view on tax policy. Small firms rely on certainty in the tax system, as this allows them to feel confident in making long-term plans, including planning for future investment or exiting the business. Tax policy should therefore seek to provide a stable environment that allows small firms to plan with certainty. Tax policy should not be used as a political tool to generate 'quick wins' for political parties. This approach seriously harms small businesses and, more generally, affects the relationship between the tax payer and the tax system. There ought to be a greater level of transparency and stability in the tax system so that small businesses feel that it will support their competitiveness, regardless of the political environment in which they operate.

APPROPRIATE FISCAL MEASURES

Fiscal measures can provide an effective economic stimulus for encouraging SME innovation, investment and growth as well as, more generally, addressing market failures that may affect the sector. Fiscal measures such as research and development tax credits and tax depreciation measures should be used by governments where appropriate, making the administration of such schemes user friendly and seeking to achieve a high level of awareness among small business owners of the opportunities available. On the other hand, a proliferation of such schemes can complicate compliance and defeat governments' intentions: these must therefore be reviewed periodically in light of the overarching incentives that government wishes to provide (ACCA (UK) SME Committee 2010).

Tax policy is one of the main levers which governments can use to stimulate entrepreneurship. As such, it should be designed with small firms in mind, ensuring it promotes transparency and encourages business start-up, business growth, innovation, and business transfer.

HENRYKA BOCHNIARZ, PRESIDENT OF POLISH CONFEDERATION OF PRIVATE EMPLOYERS LEWIATAN

Access to finance

IMPORTANCE OF THE AVAILABILITY OF EXTERNAL FINANCE

Access to external finance has a positive effect on enterprise creation (van der Zwan et al. 2010) as well as innovation (Dabla-Norris et al. 2010) by ensuring that growth and investment opportunities are exploited. Improvements in access to finance could have a positive effect beyond the SME sector by promoting economic growth overall, as well as reducing income inequality and poverty. Hence, governments, financial institutions and other stakeholders should work together to create an environment where small firms that can use funds productively are able to access them through the formal financial systems. ACCA is pleased that the matter of SME access to finance has been taken up at the highest level, with the G20 adopting a set of Principles of Innovative Financial Inclusion and launching the global SME Finance Challenge in 2010.¹

ENSURING ACCESS TO A WIDE RANGE OF FINANCIAL PRODUCTS

A wide range of factors, such as different stages of the life cycle of the business as well as the socioeconomic context in which entrepreneurs seek funding, will all affect the financial needs of small firms and most importantly, the ability of financial markets to meet these needs.² This means that small firms can experience either difficulties accessing finance or gaps in the supply of funding, both of which ought to be thoroughly researched and addressed (OECD 2006). Moreover, many SMEs are not well placed to make their case to providers of finance or to consider objectively the business case for different types of finance, especially equity. Governments and stakeholders need to focus their effort at understanding the causes of these imperfections and move towards removing them. Their objective should be to make available to SMEs a wide range of financial products that fully meet the needs of this heterogeneous sector.

SAFER BANKS FOR STRONGER SMES

In 2008, the global banking system came under severe pressure and it has since become clear that capital requirements and banking regulation in general needed to be strengthened. ACCA believes that governments must not lose sight of this all-important goal. Nonetheless, with small business loans accounting for nearly half (46%) of the risk-adjusted assets of major retail banks (CapGemini et al. 2010), there is a possibility that poorly designed interventions could affect lending to small businesses and thus the growth prospects of the sector. Regulators need to consider carefully the effects of strengthened banking regulations and capital requirements on SMEs, as these effects are likely to be disproportionately large (BIS 2010), and to calibrate their interventions carefully in order to ensure that the sector does not end up paying for problems it did not cause.

IMPROVING FINANCIAL SKILLS OF BUSINESS OWNERS

The ability to access funding is also dependent on the business owner's ability to present a convincing business case and communicate business performance to financial institutions. This requires adequate financial literacy skills as well as transparency in bank institutions' SME lending criteria. Governments should support awareness raising and educational programmes that seek to improve the financial skills of business owners, encouraging a multi-stakeholder approach by involving key intermediaries, such as accountants, in order to ensure that the programmes reach a large number of small firms.

1. G-20, *Toronto Summit Declaration*, July 2010.

2. Portuguese Presidency of the EU Council, *The Estoril Declaration – Principles and good practice policies on the financing innovation supply chain* October 2007.

ADDRESSING FINANCIAL EXCLUSION

Financial exclusion is a prevalent factor that affects small firm finance, preventing small firms and would-be entrepreneurs from accessing financial services in many parts of the world. Research suggests that access to financial services such as current and savings accounts is currently limited to only 20–50% of the world population (World Bank 2008). Lack of awareness of how financial services can serve the needs of businesses, as well as more practical constraints, such as physical access,

documentation or financial requirements and weak legal frameworks can all have a negative impact on small firms' access to financial services. Microfinance has sought to close this gap by providing small loans to individuals and small businesses with no collateral from within the local community. If access to financial services is to reach a substantial number of small firms, however, the mainstream financial institutions ought to be encouraged to engage with the SME sector, and governments should ensure that a positive regulatory and legal environment facilitates this process.

SMEs are the backbone of our society and an important market for financial institutions; but the funds they need in order to grow and seize opportunities are going to be harder to obtain in the post-crisis economy. All stakeholders need to work together to ensure that finance providers are guided by solid information and a fair scorecard for the SME sector; that financial products are fit for purpose; and that government support is able to make a difference where it is needed.

GERRY MA – CHAIRMAN, TRADE & INDUSTRY DEPARTMENT (HONG KONG SAR) CUSTOMER LIAISON GROUP FOR SMES

The private sector, especially associations like ACCA, is playing a crucial role in capacity enhancement of the SME personnel. Of course we at State Bank of Pakistan look forward to building linkages with ACCA and similar organisations and are willing to strive together to enhance the overall credit environment for the SME sector.

RAZA HABIB RAJA, JR., JOINT DIRECTOR, DEVELOPMENT FINANCE SUPPORT UNIT, STATE BANK OF PAKISTAN

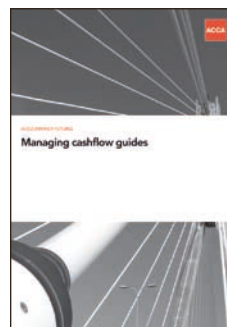
WORKING WITH GOVERNMENT TO IMPROVE CASH FLOW AND ACCESS TO FINANCE



In June 2010 the *Annual Report on the Business Angel Market in the United Kingdom 2008/09*, by C. M. Mason and R. T. Harrison was published (Mason and Harrison 2010). A business angel is an individual, acting alone or in a formal or informal syndicate, who invests his or her own money directly in unquoted businesses in which he or she has no family connection, in the hope of financial gain and who, after

making the investment, takes an active involvement in the business, as mentor, adviser or member of the board.

ACCA's SME Committee noted in June 2009 that little is known about this group of venture capitalists, whose work needs to be publicised and supported better. As a result, in that year ACCA joined the Business Angels Working Group, maintained by the Department for Business, Innovation and Skills (BIS), which works on improving the availability of data on the UK's Business Angels. Other members include the British Business Angels Association (BBAA), LINC Scotland, the British Venture Capital Association (BVCA) and HM Revenue and Customs (HMRC). The Working Group published its first report into the business angel market in 2010. It established that, despite adverse economic conditions, business angels still invested over £400m into the country's most promising growth businesses.



Recognising the pre-eminence of cash flow as a business concern, and the pressures heaped on small businesses by late payment and poor access to finance, ACCA has published a series of *Managing Cashflow Guides*, developed by the Institute of Credit Management (ICM) and endorsed by BIS (ACCA and ICM 2010).

The guides offer practical guidance to SMEs on the following topics:

- Knowing Your Customer
- Payment Terms
- Invoicing
- Treating Suppliers Fairly
- Credit Insurance
- Factoring and Financing
- Chasing Payment
- When Cash Runs Short
- When all else Fails
- When a Customer Goes Bust.

Innovation and growth

SMALL BUSINESS GROWTH OPPORTUNITIES THROUGH INNOVATION

The small business sector is often cited as an important source of innovation, and innovation, in turn, is recognised as an important component of economic growth. This highlights the importance of the SME sector in the development and international competitiveness of any economy. For example, a very small number of innovative small firms (ca. 4-6% of the population) are responsible for the majority of jobs created (Acs, 2008; NESTA, 2009). Although not all firms wish to innovate and grow, those that do, and have the potential to do so, should be enabled by a supportive policy framework to exploit growth opportunities through innovation.

Policymakers must not assume that they can predict which businesses will do well and which will not. Instead of trying to pick winners they must partner with proven intermediaries such as accountants and venture capitalists and provide an enabling environment in which innovative firms can fulfil their potential.

MOVING BEYOND BORDERS

Allowing innovative firms to move beyond borders is one of the key areas where governments have a direct role in improving the competitiveness of innovative SMEs. Innovative small firms may often find that domestic markets are too limited for their niche or highly technical product or service, and being able to access markets across borders enables them to commercialise their innovations and grow as a result. Governments should work towards removing barriers to cross-border trade to enable small firms to access international markets and by providing support to SMEs that wish to access the global supply chains of multinational enterprises. Initiatives by the European Union, the Caribbean Community, the Association of Southeast Asian Nations, and the Southern African Development Community already exist and have promising potential to broaden markets for the SME sector. These should be used as a policy vehicle to enable small businesses to take their products and services to wider markets.

IMPORTANCE OF INTANGIBLE ASSETS

The rise in the knowledge-based economy has led to an increase in the importance of intangible assets. These assets are particularly relevant for small businesses, over 90% of which are in the service sector (OECD 2005) and typically generate income from intangible assets. Small firms, however, find it costly to finance innovation (Sharma 2007) and, more generally, their lack of recognition of the value of intangible assets adversely affects SMEs' access to finance, particularly debt finance (EC 2005). Raising awareness among SMEs of the importance of intangible assets should be addressed by governments, accountants, banks and other relevant institutions that work with SMEs.

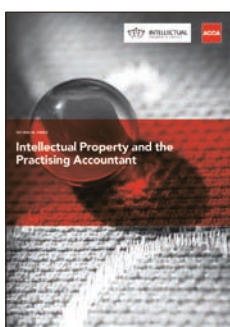
FACILITATING ENGAGEMENT WITH FORMAL PROTECTION METHODS

SMEs are generally reluctant to patent original ideas because of the cost both of registration and defence and because competitors can work round patents (Bannock 2005). Relatively few SMEs use formal means to protect their intellectual property (Blackburn 2003) preferring to rely on other means such as sustaining close customer relationships or using employment contracts. SMEs, however, need to understand the intellectual property system and, when appropriate, use it effectively in order to ensure their future competitiveness. Governments, as well as the accountancy and legal professions, should consider whether a need exists for new forms of protection of intellectual property to enhance the value of businesses, at the same time as encouraging more widespread use of formal protection methods.

Small firms are a key source of innovation and this potential needs to be nurtured by governments and other stakeholders for the benefit of the competitiveness of any country's economy.

SHAHID RASHID, CHIEF EXECUTIVE OF THE SMALL AND MEDIUM ENTERPRISE DEVELOPMENT AUTHORITY, PAKISTAN)

SUPPORTING INNOVATORS

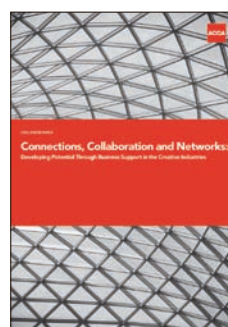


In January 2010, ACCA and the UK's Intellectual Property Office published a technical paper *Intellectual Property and the Practising Accountant* (ACCA and IP Office 2010). This paper explains why it is important for SMEs to think about and to protect their intangible assets. It is also a practical guide giving accountants (and SMEs) a basic understanding of the relevant law and principles that will help them

identify intellectual property (IP), and to make the most of the mechanisms designed to protect it. The paper identifies a number of issues.

First, although the protection of IP is of strategic importance to most businesses, small firms are largely unaware of the IP system and the relevance it has to their own business. Some SMEs cite the cost of arranging IP protection as a reason for avoiding this option but this cost needs to be considered in the context of the potential business benefits.

Accountants, as the most frequently used source of business advice for small firms, are uniquely placed to help identify opportunities for them to protect and exploit their IP. To achieve this, accountants need to become more aware of IP so that they can take a more holistic approach to their clients' business and offer a value-added service.



In March 2009, ACCA organised an Ideas Forum as part of the UK Economic and Social Research Council's (ESRC) Festival of Social Science. Chaired by Sir George Cox, it featured contributions by the National Endowment for Science, Technology and the Arts (NESTA), the Centre for Creative Business and the London Business School.

Connections, Collaboration and Networks: Developing Potential Through Business Support in the Creative Industries, a discussion paper based on the findings of this forum, was published in January 2010 and highlights the following themes (ACCA 2010c).

- Accountants hoping to provide support to business in the creative industries need strong communication skills and the ability to link businesses in different niche sectors
- The creative industries form a large and extremely diverse sector; it will suffer disproportionately in an economic downturn but also bounce back quicker in the recovery.
- Understanding how businesses in the creative industries operate, network and create value is crucial to providing support. These businesses are managed in a highly ad hoc fashion and are kept small by choice as much as any other reason.
- The challenges of complex value chains and the potential of technology to transform these requires 'free-flowing networks of intermediaries' into which accountants must embed themselves.
- The creative industries operate in a high-risk environment and rely on intangible assets that are hard to value. Returns on investment can take time to materialise. This means that investment in these industries requires a long-term view, which will require a re-thinking of intellectual property and may suggest a role for the government.

Sustainable, responsible SMEs

UNLEASHING THE POTENTIAL OF SMALL BUSINESS

Although corporate social responsibility (CSR) is usually associated with larger corporations, the economic importance of SMEs means that the sector also needs to be engaged in the unfolding debate on CSR and sustainability. SMEs' ability to innovate, their short decision chains and the strong links many have with local communities all contribute to their ability to manage social and environmental impacts and turn responsible practices into tangible business benefits.

RECOGNISING SMEs' EXISTING CONTRIBUTION

Owing to some SMEs' dependence on their local communities, there is an in-built tendency for such businesses to practice CSR, which is crucial to their local reputation. SMEs are well placed to make simple, low/no cost changes to operational processes and products to demonstrate accountability to stakeholders, as well as reaping the benefits of operating responsibly. Overall, if sustainability is to resonate well with SMEs, it needs to be framed positively – for instance, in terms of access to supply chain opportunities or efficiency savings. It need not be pursued under the banner of 'CSR', but rather as essential good practice. Regardless of their motivation, the contribution of SMEs to this agenda needs to be acknowledged, and rewarded where appropriate.

FACILITATING ENGAGEMENT WITH STANDARDS AND GOOD PRACTICE

Governments have a role to play in helping the SME sector to adopt sustainable practices, by developing or reviewing the incentives provided by corporate taxation and otherwise rewarding investment in sustainable practices. They also have a role to play in raising awareness of the benefits and encouraging small business owners to adopt a sustainable approach to their business operations. Such efforts will be more successful if governments commit to working with and through organisations that are already known and trusted by SMEs (Defra 2006), especially accountants.

Those SMEs involved in global supply chains are also under pressure from commercial partners to engage in sustainability practices, including CSR reporting. Thus it is increasingly important that the needs of SMEs (and not just those of multinationals) are understood better and taken into account in the development of global standards for sustainability and CSR. ACCA believes that SMEs should be considered within all voluntary sustainable development and CSR standards to the greatest extent possible (ACCA 2008). In particular, the 'think small first' principle needs to be integrated better at the global and local level when developing sustainability reporting policies that will affect SMEs.

No matter how big or small your business, corporate social responsibility will help identify new business opportunities, find ways to address any associated challenges, and ensure business profitability.

DATO' SAW CHOO BOON, PRESIDENT OF BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT IN MALAYSIA/CHAIRMAN OF SHELL MALAYSIA

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