# AB
ACCOUNTING AND BUSINESS
SMALL BUSINESS SPECIAL EDITION 2013


## RECIPE FOR GROWTH
WHY SMEs NEED A PROFESSIONAL FINANCE FUNCTION

## GOING GLOBAL
SMALL BUSINESS ACROSS BORDERS

**ACCESS TO FINANCE** CAPITAL MARKETS
**AFRICA** OPPORTUNITIES FOR SMPs

ACCA

# Gearing up for growth

**SMEs with well-developed finance teams achieve faster, more sustainable growth for longer and can attract investment to help them develop. The critical role an SME finance function plays at different stages of a business's growth, along with the complementary role played by accountants in practice, is discussed in the first article of this *Accounting and Business* magazine special edition.**

This role is not just about bookkeeping. Credit providers, supply chain partners and other stakeholders need a wealth of information from growing businesses. Finance professionals also have a vital role to play in providing the insights and knowledge that drive successful business planning and strategic decision-making.

Through its membership, activities and values, ACCA has long been involved in SME issues. On the pages that follow, we also explore some of the issues and challenges facing SMEs, including growth, internationalisation and sustainability. There is growing acknowledgment of the importance of SMEs across the world. They account for half of the world's private sector output and nearly two-thirds of jobs worldwide. It is critical for all of us that the potential of this crucial sector is properly nurtured.

**Helen Brand, ACCA chief executive**

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Find out about ACCA's new certificate on *IFRS for SMEs* at www.accaglobal.com/qualifications

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# The vital ingredient

The finance function – from shoeboxes of invoices to a fully-fledged department – can play a vital role in adding value and enabling growth in any firm. **Andrew Sawers** reports

**Over the years, the overwhelming volume of words written about the changing role of the finance director have been with the largest businesses in mind. Huge outsourcing projects, multimillion-pound ERP (enterprise resource planning) implementations and business information tools that look like Formula 1 telemetry screens are supposed to streamline finance function processes, freeing resources to concentrate on 'partnering the business', focus on strategy and drive value creation.**

But what about those smallest businesses where the finance function may be little more than a shoebox full of invoices and receipts? Actually, even on this almost micro scale, very similar lessons can be derived. It comes down to two critical learning points: first, an appropriately sized finance function can add value, helping to fulfil an entrepreneur's growth ambitions; and second, it is important to know how to grow that finance function as the enterprise itself grows.

Manos Schizas, senior economic analyst at ACCA, conducted research to try to discern the characteristics and capabilities of the finance function at various stages of an SME's development. 'What we found was quite shocking,' he says. 'The majority of small and medium-sized enterprises in the UK are really under-resourced when it comes to financial capability. Relatively few of them do any consistent and recurrent business planning. Relatively few of them produce regular management accounts. Surprisingly few of them have trained professionals in charge of their finances.'

**'HAVING A FULLY-FLEDGED FINANCE FUNCTION INHOUSE MEANS THAT THE SME IS MORE LIKELY TO GROW RAPIDLY AND SAFELY'**

At the pre-launch phase (stage zero, if you like), when entrepreneurs are trying to raise money or promote their idea, it's not untypical to have some sort of business plan prepared. The problem is, there often isn't any follow-through so, once the startup has got its launch money, the business plan is virtually useless. 'Venture capitalists often tell us that they look at business plans and they know that they are prepared just for them and that the business will never look at them again,' says Schizas. 'In fact, it's the recurring act of planning, setting targets, checking performance against targets that actually adds value to businesses.'

Schizas has the data to back that up. His research, *Driving SME growth through an evolving finance function*, shows that SMEs that engage in regular business planning are more likely to grow rapidly. So far, so good. But those that not only do business planning, but also produce regular management reports and employ financially trained staff, are more likely to grow quickly and without endangering their credit score. 'Having financial capability, a fully fledged finance function inhouse – even if it's not very big – means that the SME is more likely to grow rapidly and safely,' Schizas concludes. 'A developing finance function is not a symptom or a consequence of small business growth, it's actually one of its causes.'

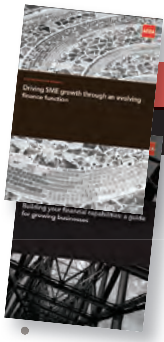
## Staged development

Schizas identifies three stages of finance function development (four, if you include stage zero above). They are loosely linked to the size of the business but are really more to do with its needs. In summary, they are:

**Stage one**
The most basic financial controls and reporting are introduced as owner-managers realise that they cannot do or control everything by themselves. Entrepreneurs take on professional finance managers and adopt management reporting practices as a 'bundled pair'; the one makes the other possible.

**Stage two**
Processes become more standardised and formalised, while financially trained staff are hired to monitor cashflow and manage credit.

**Stage three**
The finance team is stretched, but is involved in management reporting and business planning to support growth by enabling the business to get access to finance, assess the business case for new products or services, monitor supply chains and manage headcount.



### ACCA SMALL BUSINESS WEBSITE:

→ www.accaglobal.com/smallbusiness

**A range of resources to help small businesses thinking about investing in their finance function can be found at www.accaglobal.com/smallbusiness. This includes *Driving SME growth through an evolving finance function* and *Building your financial capabilities: a guide for growing businesses.***

Obviously businesses do not necessarily progress from one stage to the other; they may leapfrog or they may launch straight in at stage three. But the model provides a framework for thinking about how finance functions need to develop in line with the needs of the business.

## Insourcing the finance function

In its smallest incarnation, the finance function of a business may only have a part-time finance director, or may not even have any in-house resource at all, relying largely or entirely on services provided by an accountancy firm, in particular a small or medium-sized practice (SMP). When should it hire a finance professional?

Gabriel Low FCCA, CFO South East Asia for engineering group GEA Westfalia Separator SEA Pte, encourages any entrepreneur thinking of taking on their first accountant to 'go for it!' However, he sees two matching problems: 'The first problem being businesses not really appreciating what an accountant can do, the second being the fact that accountants sometimes short-change themselves by being very much beancounters. As a result, there is a mismatch between what the business needs and what the accountant can offer.'

But Low, a member of ACCA's Global Forum for SMEs, says that businesses taking on an accountant who is commercially-minded will find that they help to make decisions that take it in the right direction with the right financial results.

'I have seen some businesses that are growing very fast and being successful, working very hard to win customers, burn their profits and margins away through bad decisions and weak accounting. If they had employed an accountant who is commercially-minded, they would have found that the [extra] profitability of the organisation actually outweighs the cost of recruiting.'

Events company Hanson Wade, which runs business conferences across North and South America, Asia, Europe, Africa, the Middle East, is an example of a business that has benefited from hiring a finance director, Darren Francis FCCA, just over a year after it was founded. Financial management is a key part of the

*Gabriel Low, Westfalia Separator SEA*

### VIDEO: VIEW FROM AN ASIA CFO:

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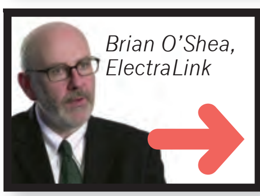

*Brian O'Shea, ElectraLink*

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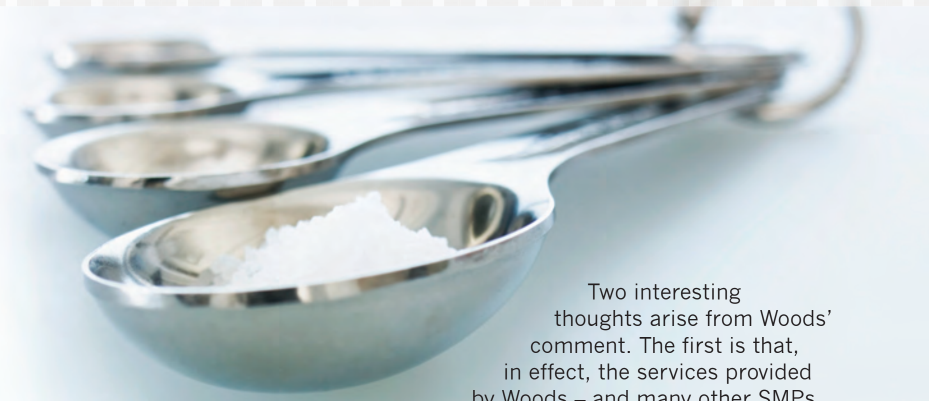

company's strategic decision-making, he says. 'It's a highly competitive industry, so pricing is critical. We regularly benchmark ourselves against the competition.'

Modelling is also important. 'I'm doing three- and five-year projections, but also financial modelling and evaluation as and when an opportunity arises. If someone approaches us about a joint venture, for example, I'll assess the proposal and make recommendations.'

Perhaps most intriguing is the way financial data is used to help decide how quickly the company should be growing. 'We have a capacity model that tells us what the business could do – with our existing resources – and compares that with the revenue we are actually generating. That helps us understand when it's time to invest in further growth.'

## Working with SMPs

Alan Woods FCCA is director at Woods Squared, a UK SMP. Woods has been working with owner-managed businesses for over 16 years, providing services ranging from bookkeeping to advice on strategy. For the smallest businesses, he says, 'We try to encourage them to operate without us, to a large degree – to be able to do their own finances, be able to manage their own bookkeeping, payroll and management account information.'

The idea is that the client then relies on their SMP 'more from a strategic point of view with us being able to give that overview and input'. Woods believes that, as businesses grow, 'they need those operational, tactical decisions to be taken inhouse so that they can make quicker decisions, based on more up-to-date and more relevant financial information'.

## VIEW FROM: DR NG BOON BENG FCCA

Finance director, Oracle, Malaysia and Indonesia

'The key predicaments of surrounding SMEs are mostly operational matters. The owners are in need of accountants to guide them holistically in their business in a way that goes beyond finance, auditing and taxation matters. They need assistance in good management practices and on how to avoid pitfalls in business dealings.

'Recent statistics published by the Department of Statistics Malaysia show that 79.5% of SMEs in Malaysia are either proprietorships or partnerships and only 18.4% are registered private limited companies. The balance of 2.1% business establishments are not registered entities.

'Various government incentives and programmes did not depart significantly from providing finance and subsidies, and there has been nothing major in the areas of building up SMEs to venture into the international business environment.

'The statistics show that only 2.5% (484) of medium-sized SMEs regularly participate in overseas expositions and exhibitions, only 5% (968) use social networking websites and 5.8% (1,123) have incorporated search engines into their websites. In total, 86.6% of SMEs have never promoted nor advertised their business. The statistics indicate that accountants need to assume a greater role in educating SME owners on managing business based on strategic insights and capturing reliable external economic information to put businesses on the right track.'

**Member of ACCA Global Forum for SMEs**

Two interesting thoughts arise from Woods' comment. The first is that, in effect, the services provided by Woods – and many other SMPs – are complementary to those of the in-house finance staff, not in competition with them. The second is that the earliest stages of SME finance function development are about insourcing resource and skills rather than outsourcing – something that companies may do when they're considerably larger.

## Challenging role

SME finance directors point that the breadth of the role really is enormous. It's not just the demands placed on the CFO as such, but the fact that the CFO often also takes on responsibility for things such as property, HR and training, risk management and IT.

Brian O'Shea FCCA is CFO of ElectraLink, a data services company. He says that a real challenge is simply the breadth of the role: 'SMEs are much more fluid in respect of who does what. Finance normally ends up doing those bits of the corporate environment that don't fall neatly into, say, operations or engineering or research and development.'

He adds that what makes the role interesting is that 'as a CFO in an SME you are pretty much involved in every significant material decision in the organisation because every decision will have a capital or resource requirement – so your input is absolutely critical to that'.

O'Shea has been with ElectraLink since 1999 and so has driven a lot of change in the finance function to match the growth of the company. 'Finance has to deliver and meet the needs of an evolving organisation and, to some degree, drive that initiative, coming up with more sophisticated information to make better decision-making within the organisation,' he says. 'It needs to flex and grow as the business changes.' He relies a lot on contractors when he needs specialist finance skills such as data analytics. 'That has relieved the burden on me from the day-to-day financial management to allow me to be more involved in setting the strategy of the organisation – not just the financial strategy but the corporate strategy, the HR strategy, our partnering strategy, our business development strategy – and ensure that that all comes together to meet the overall objectives.'

O'Shea sets out the choice facing newly qualified accountants: 'Do you want to go down a classic finance route or do you want to be a businessperson? Do you want to be involved in a business and contribute to the growth of the company? Sometimes it will feel like you're overwhelmed,' he says. 'But it is an enormously rewarding career working in an SME.'

**Andrew Sawers is a freelance journalist and a former editor of *Financial Director* magazine**

## VIEW FROM: KEN LEE FCCA

Lee & Lee Associates, China

'Despite some of the incentives that SMEs in China are already enjoying, such as a reduced corporate income tax for companies with smaller profits as well as fewer reporting burdens under the new accounting standards for SMEs, if this sector is to reach its full potential, more support is needed, such as further decreases in tax and surcharges and more business support. Professional support from SMPs on accounting, tax, financial planning and business advice will all be extremely relevant in this process and will aid business growth – providing opportunities for SMPs and indeed their clients.'

**Member of ACCA Global Forum for SMEs**

## * 'TRUSTED ADVISER AND CONFIDANT'

**Quasi-FD, proactive adviser, first port of call. These are the roles that small and medium-sized practices (SMPs) can play to add value for their SME clients.**

SMPs are ideally placed to meet the needs of SMEs, providing a wide range of services to help businesses grow. The smallest clients, right down to the sole trader, may in fact be totally reliant on their SMP for everything: basic bookkeeping, VAT, tax returns. That, in a sense, is the practical side of the role and certainly isn't to be underrated. Without those sorts of SMP services, the small business simply wouldn't be able to concentrate on what it does best.

But there's another side of the role played by the SMP and that's the 'quasi-finance director' role, where the SMP is there to act as a sounding board for that client, becoming their trusted adviser and confidant. It's an important role and it's one that the SMP continues to fulfil as the client SME grows, taking more and more of the routine process and functions inhouse.

In fact, in my view, SMPs should be advising their SME clients to take on board their own finance people as soon as they can. It's the best way for them to know how they are doing at any moment and to be completely on top of their cashflow. The SMP will still have an ongoing relationship with the SME, providing essential, higher-level advice, even helping evaluate their strategy – being, in a sense, not only part of the client's finance department but of the board of management. That side of the relationship never goes away; it lasts the whole lifetime of the SME.

But SMPs have to truly understand their clients' needs and be ahead of the game so that they can proactively advise about developments they need to be aware of and what they can do about them. Tax planning is one example. Raising funds is another. We always impress on clients the importance of raising funds when they don't need them – because come the day they need money, it's much harder to find. Odd as it may seem these days, bank managers tell us that they have money to lend. The problem is in ensuring that borrowers meet the banks' criteria. SMPs can help their clients, therefore, by connecting them with the right bank, and the right bank manager, at the right time.

Client SMEs should see their SMP as a one-stop shop. That doesn't mean that the SMP does everything; it means that they know where to go to do anything. We have even helped a client in the media world find an architect for a new studio. Having an excellent network of connections is part of the value that an SMP can offer so that it becomes a client's first port of call for almost any issue, cementing a valuable relationship.

**Mark Gold FCCA is a senior partner in Silver Levene. He is a past president of ACCA and chairman of the ACCA Global Forum for SMEs**

# Competing on a global stage

Malawian practitioner **Dorothy Ngwira** FCCA senses growing optimism among Africa's SMPs and sees opportunities ahead, but warns there will also be challenges to be faced

**There can be little doubt that small and medium-sized accountancy practices (SMPs) are a growing and increasingly significant force in Africa's economic future. With demand growing for accountancy, advisory and tax services from the continent's burgeoning small business sector, together with new investors who need additional levels of assurance, today's SMPs in Africa face great opportunities. But there will be challenges along the way as well.**

In Malawi in recent years we have seen the number of SMPs double. Employing the majority of accountants working in practice, these SMPs provide a broad range of professional services, such as traditional audit, accounting and tax services. But they also provide value-adding business advice to clients.

These clients, typically SMEs, are critically important to the health and stability of the global economy, accounting for the majority of private sector GDP, employment and growth. But they face challenges as well – according to a recent International Federation of Accountants survey (*IFAC SMP Quick Poll: 2012 Round-up*), challenges in Africa include the burden of regulation, economic uncertainty and difficulties accessing finance. So who is best placed to help them? Accountants in SMPs.

However, these SMPs face their own challenges. In the same survey, African SMPs cite keeping up with new regulations and standards, attracting and retaining clients, and a pressure to lower fees as the top three challenges. And in the future, the biggest concern will be the reputation of the profession, alongside the difficult global financial climate and increased regulation.

Technology and communications can also prove difficult to access. In a global economy, businesses expect to be able to contact their advisers easily. This often proves the opposite, though investment on the ground is improving this.

## Opportunity knocks

But as SMPs overcome these challenges, they can see a world of opportunity ahead of them. The services they can offer their clients will grow and evolve. The IFAC study shows that while audit and assurance remain the fastest-growing services offered by SMPs, advisory and consulting services come a close second.

For instance, offering sustainability services to SMEs is proving a rich seam for firms. SMPs will also have the opportunity to merge with similar-sized practices and compete with larger firms. Economies of scale will also come as a result of such mergers.

SMPs can support their SME clients when they do business internationally. Often joining an international network of accountancy firms can enhance this. And through such membership they can benefit from work referred to them from clients based in other countries.

I sense a growing optimism among SMPs in Africa. Last year 42% reported their performance was better than the year before, while only 22% said it had been worse. Some 44% believe that 2013 will prove to be better than 2012, and only 14% believe it will be worse.

The challenges faced by SMPs mainly arise from limited in-house resources, but they can turn to their professional body (in my case, ACCA and the Society of Accountants in Malawi) or International Federation of Accountants (IFAC) through its SMP Committee for much needed help and advice. The resources are there, and can be used to ensure that Africa's SMEs get the services they deserve to compete on the global stage in the future.

**Dorothy Ngwira is managing partner for Graham Carr, the Malawi member firm of international accountancy network Nexia International, and a member of the SMP Committee of IFAC**

ACCESS TO FINANCE FOR SMEs: A GLOBAL AGENDA:

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## VIEW FROM: PATIENCE SAKURINGWA

Executive secretary, Zambia Chamber of Small and Medium Business Associations

'Operating a successful SME requires the ability to see the road ahead; more specifically, "the money road ahead". Many businesses in Africa have failed because they simply didn't know how to read the signs, hence the need for professionals who can. It's a big relief that SMPs have taken up the mantle in bridging the financial management gap of SMEs. Once regarded as a profession useful mainly to large corporates, the accounting practitioner is now being regarded as a much-needed service provider and SMPs fit the bill. They are user-friendly in terms of specialisation, they know their clients' needs and, more especially, they are affordable. SMPs are allowing SMEs to demonstrate good financial practice to potential funders and investors and are, therefore, opening the doors of opportunity that are available for SMEs to compete favourably in a world of competitiveness. So, to SMPs out there who have taken the path of supporting SMEs through their provision of professional accounting services, it's a definite heads up. We hope you're here to stay.'

## VIEW FROM: ANNE KIMARI FCCA

General manager (CEO), Jabali Microserve Limited, Kenya

'In East Africa, virtually all private businesses can be classified as SMEs. They contribute to the national income through income-generating activities and the provision of employment to far more citizens than government or large organisations do collectively. Governments need to promote SMEs by creating enabling environments for access of capital or credit, creating market linkages for products, access to information and through tax and business incentives. The means for the provision of all of the above needs to be sustainable in the long run for it to fully benefit SMEs and avoid a dependence culture.'

**Member of ACCA Global Forum for SMEs**

*Top left: The new Bingu International Conference Centre in Lilongwe will help boost the Malawi's international credentials*

## VIEW FROM: DARREL SCOTT

Board member, International Accounting Standards Board

'SMEs have a particularly important role to play in Africa's near-term future. Ours is a continent with a limited number of large companies, but a vibrant, entrepreneurial culture where growth, assisted by new technologies, is exploding. With that growth, investment and transparency become increasingly important. Many African countries don't yet have stock exchanges, so there's limited need for full IFRS, but the vast majority of African businesses qualify to use *IFRS for SMEs*. This is a space where the IASB can make a contribution to development in Africa.'

**Chair of *IFRS for SMEs* Implementation Group**

## VIEW FROM: GIANCARLO ATTOLINI

Chair, SMP Committee of the International Federation of Accountants (IFAC)

'The beauty of being a professional accountant, especially for those like me working in SMPs, is that the opportunities are never-ending; we are limited only by the extent of our own ambition. The same can be said of the global accountancy profession, particularly in Africa. Africa is one of the fastest-growing and most dynamic regions in the world. According to the year-end *IFAC SMP Quick Poll: 2012 Round-up*, African SMPs were optimistic about the outlook for 2013 and expect the public's perception of the profession to improve. But to realise the opportunities, we need to identify and act upon them, and to proactively shape the environment in which we operate.'

**Founding partner, Attolini Spaggiari & Associati Studio Legale e Tributario, Italy**

## VIEW FROM: BRIAN HODZA ACCA

Manager, Grant Thornton, Zimbabwe

'There is no doubt that SMEs are an important element of any dynamic economy and Zimbabwe is no exception. Their importance is exemplified by the creation of a dedicated Ministry of Small and Medium Enterprises Development. However, because there is little clarity on what exactly constitutes an SME, the concept is fluid. No clear benchmarks, such as net assets, revenue or employment, have been set in the Companies Act (Chapter 24:03) to define SMEs. As a result, a whole range of disparate organisations perceive themselves to be SMEs.'

**Member of ACCA Global Forum for SMEs**

# Green unseen

In the great sustainability debate, small businesses are misunderstood, marginalised and generally missing. ACCA's **Rosana Mirkovic** explains why and how this must change

**Despite the economic woes of recent years, the debate about the need for the world's business community to do everything it can to develop and improve sustainable business practices has not gone away.**

But SMEs are largely absent from this debate. They have a strong voice in many areas of regulatory and policy development, but their record on sustainability is still largely unknown. Estimates of the pollution caused by SMEs vary, but the consensus puts it between 60% and 70% of all industrial pollution. The impact of individual SMEs may be small, but collectively they can make serious inroads into emissions and energy use targets.

However, while the importance of involving SMEs in the sustainability discussion has been on the wider business agenda for decades, , nothing significant has happened. SMEs remain marginalised and the question is, why?

If we're honest, scepticism has a lot to do with it – scepticism that sustainability is important. SMEs are businesses with a natural propensity towards scepticism. SME owners are at the coalface of business, with many competing demands on their time. For many of them, sustainability reporting is just another burden imposed from above. An added complication for policymakers is that SMEs tend to be run by owner-managers with no shareholders or boards to answer to, so they have more freedom to implement sustainability practices – or to ignore them altogether.

There are many reasons why the SME sector has yet to engage in the sustainability debate. Part of the problem is oversimplification. SMEs tend to be discussed as a single homogeneous group, yet the spectrum runs from businesses with no employees to those with 250 or more in some economies. Each is unique, with different motivations, form and specialisms, so their reasons for embracing sustainability (or otherwise) will be starkly different.

Another problem is that there are many faces to sustainability. Some sustainable practices may be so ingrained in SMEs' everyday activities – a lights-out policy, for example – that they do not think to place them in the sustainability box.

So what can be done? This is the question we address in our report, *Embedding sustainability in SMEs*, which outlines a series of recommendations by the ACCA Global Forum for SMEs. The report points out that there are signs that SMEs' role in sustainability and the potential benefits for them are at last being acknowledged and promoted, but it is vital that we do not let this opportunity pass. The problems that have dissuaded SMEs from embracing sustainability have to be tackled by everyone involved – regulators, policymakers and finance professionals as well as SMEs.

First, we need to stop treating SMEs as scaled-down versions of larger companies. We must also take into account the differences between micro, small and medium-sized enterprises.

Second, the motivations of the owner-manager must be the starting point of the sustainability debate. We know that owner-managers' personal motivations for taking socially responsible initiatives tend to be more important than those of managers in large corporations, who may prefer

## VIEW FROM: TATJANA DE KERROS

Adviser, SME and entrepreneurship policy, MIddle East

'It is no longer a question of whether SMEs should invest in sustainability, but how to ensure sustainability is embedded within their strategy to spur competitiveness. Sustainability can be a cost advantage to SMEs if it focuses on the organisational capabilities and emulates the core competencies of the firm. SMEs are inherently more flexible and adaptive than their larger counterparts, and their size enables them to operationalise sustainability with no radical or costly transformation. They can implement new operating models, technology and managerial practices, creating difficult-to-trade assets that increase the productivity and performance of the firm.'

**Member of ACCA Global Forum for SMEs and founder, theentrepreneurialist.net**

## VIEW FROM: ROSANNA CHOI FCCA

Partner, CWCC, Certified Public Accountants, Hong Kong

'Good environmental governance is increasingly important to the SME sector as a means to strengthen customer loyalty and enhance a company's image. In fact, it could lead to competitive advantage and sustainability for the SMEs themselves. Professional advisers could play an important role in such areas as adoption of an environmental management system, supply chain management, accreditation with regard to environmental performance, engagement with stakeholders and sustainability reporting.'

**Member of ACCA Global Forum for SMEs**

The many faces of sustainability issues: campaigners covered the head of this statue in Mexico City with a gas mask to highlight the problem of pollution

**EMBEDDING SUSTAINABILITY IN SMEs:**
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the strategic or PR approach.

ACCA's own research shows that many high-growth entrepreneurs (47%) are primarily motivated by the desire to make a difference in the world. These are the businesses that are making a disproportionate impact on employment and economic growth and which can do the same when it comes to leading the sustainability agenda from a SME perspective.

But while the will is there, SMEs' sustainability strategy tends to be informal, which suggests that they may not yet fully appreciate the strategic advantages of sustainable activities. Cost is most frequently advanced as the most compelling argument for adopting sustainable business practices, along with corporate reputation. But while the potential for savings can rouse an interest, they are not always large enough, or come soon enough, to make a solid case for long-term investment by SMEs.

It is for this reason that we need to develop more sophisticated arguments for business owners; ones that go beyond efficiency savings as we have to accept that the cost argument will not always be there for SMEs. In fact, the potential for sustainable practices to overcome barriers to entry into large supply chains, including those of government itself, to trigger innovation and to help further engage the workforce will matter more to forward-looking owner-managers.

Accountants are ideally placed to explain the business case for sustainability and the advantages of building it into business practices. There is limited evidence that accountants in industry or practice are currently moving in this direction: in a large international survey in 2011, Forbes Insights found that only about 12% of all SMEs using accountants for financial management advice also used them for advice on their operations.

Nonetheless, the changing landscape of business support and the ever-increasing focus on business sustainability, on the part of both governments and customers, make it in many ways inevitable that SMEs' demand for sustainability-related skills and advice will increase.

We now need to ensure that accountants in business and practice are not only ready to advise SMEs when the tide shifts, but are very much leading business owners in this direction.

**Rosana Mirkovic is ACCA's head of SME policy**

**An EU publication, *Tips and Tricks for Advisors*, is available at http://tinyurl.com/btwg9h5**

## VIEW FROM: GUIDO LENA

Director for sustainable development, UEAPME

'SMEs represent 99% of EU companies and provide 67% of jobs. Therefore, they are key players in the transition towards a green economy. The main EU sustainability programmes should acknowledge this central role of SMEs and provide a favourable support framework. It should enable SMEs to become greener without being pushed out of the market, thus ensuring the high level of employment and growth that has always been their fundamental contribution to the EU economy.'

**UEAPME is the European Association of Craft, Small and Medium-sized Enterprises**

# Small business: the big picture

Edinburgh Group chair **Roberto D'Imperio** looks at the difficulties SMEs face accessing finance and at the need to support their internationalisation

**SMEs play a vital role in generating national wealth across all regions. Estimates suggest that more than 95% of enterprises globally are SMEs, and they account for around 60% of private sector employment.**

The Edinburgh Group, a coalition of 14 accountancy bodies from across the world, aims to further understanding of the needs of and challenges faced by SMEs. A recent report commissioned by the group (see box on page 15), confirms that while SMEs play key roles in high-income countries – contributing some 51% of gross domestic product – they are also important to low-income countries. Although GDP contributions may be lower (around 16%), SME operations tend to be more labour intensive than their larger competitors and smaller businesses therefore make a major contribution to sustaining employment.

It is clear, however, that the global financial crisis worsened the performance of SMEs worldwide. Many faced challenges in accessing finance due to the banking system's tightening of lending criteria. In many countries worldwide, demand for credit fell and/or businesses reported finding it harder to borrow. Smaller businesses do appear to have been harder hit than larger corporates in terms of suffering a lending squeeze alongside rising lending costs.

However, recent studies have highlighted that in many countries – particularly high-income ones – a significant portion of SMEs have performed remarkably well, despite the tough macro-economic conditions.

Because of the important role that SMEs play in sustaining employment and contributing to GDP, governments have given substantial attention to developing policies to support them. The main focus of intervention has been towards the provision of stimulus packages to strengthen cashflow, to sustain SME investment, and to

## VIEW FROM: CHRIS CATTO

Director, Putney Breeze Business Advisors, Australia

'The business landscape for SMEs has never been more dynamic. The advancements in technology coupled with disappearing borders for trade have created exciting new opportunities for business owners. The challenge for SMEs is to leverage the new environment for agile decision making and to maximise marketing, staffing, training, supply chain and asset investments to stay ahead of competitors.'

**Member of ACCA Global Forum for SMEs**

## VIEW FROM: VALERIE VEIRA

Chief executive, Jamaica Business Development Corporation

'One of the most encouraging developments in recent months has been the increasing recognition that the SME sector has opportunities in the international market. The big question is "how", and what is the support framework required for effective entry and sustainability? For Jamaica, evidence suggests that coaching from plant to market is critical. This includes guidance on documentation, standards and packaging, and skills in market analysis. It is when these skills are at their sharpest that the SME entrepreneur will be confident and prepared to realise their full potential in the global marketplace.'

**Member of ACCA Global Forum for SMEs**

## VIEW FROM: PAUL DRUCKMAN

Chief executive, International Integrated Reporting Council

'Integrated reporting can help businesses access capital by concisely communicating their value. Given that for an SME, providers of capital can be the owners, family and friends, banks and other instruments of credit, any one of these will want to understand the strategy of the business to create value over time.'

HIGH-GROWTH SMEs – UNDERSTANDING THE LEADERS OF THE RECOVERY:

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*Cross-border trade: SMEs face barriers*

facilitate their access to credit. To support cashflow, for example, Germany and France allowed accelerated depreciation on all or specific assets, thus reducing the tax burden on SMEs. To encourage access to lending, developed economies have enhanced credit guarantee schemes, or resorted to direct lending to SMEs through public institutions, as in Belgium. A range of measures have been developed to encourage SME investment, such as a special research assistance fund available for innovative SMEs in Canada.

Even so, SMEs continue to face difficulties resulting from reduced bank lending. Many SMEs are also reluctant to expand credit lines due to persistent weak demand. Calls for further government intervention are likely to remain high.

Policy measures focused on supporting the internationalisation of SMEs are particularly crucial. SMEs with international activities tend to perform better and support higher employment than domestically focused businesses, but SMEs face a number of barriers to cross-border trade, such as limited financial resources, difficulty in identifying foreign opportunities and information shortages.

Regional and national governments around the world have accordingly introduced a range of measures aimed at supporting SMEs in their efforts to become more international. These include export market development grants (Australia), business development loans (Germany), the clustering together of appropriate businesses to support innovation and economic growth (Romania), provision of foreign market analysis (Belgium) and tailored insurance for exporter SMEs (Czech Republic).

Nevertheless, much of the potential of the internationalisation process remains untapped. SMEs need further support. The Edinburgh Group believes there are real opportunities, not only for governments, but also for accountancy and professional services firms, to provide further support and help SMEs overcome any barriers to their internationalisation ambitions.

## VIEW FROM: OLIVIER BOUTELLIS-TAFT

Chief executive, Federation of European Accountants (FEE)

‘SMEs must overcome borders and barriers. Barriers, like differences in regulations, can be reduced with extra resources, but SMEs may lack resources or need them for more productive purposes. International standards can overcome such barriers. For decades, Incoterms or ISO have worked well. International Financial Reporting Standards (and *IFRS for SMEs*) are younger but, given the importance of reliable financial information for SMEs going international, are even more important.’

## VIEW FROM: PETER CALLAGHAN

Director-general, Commonwealth Business Council

‘The Commonwealth Business Council strongly believes a flourishing SME sector is a cornerstone of a healthy economy. It is particularly important that foreign investors in rapidly developing nations are persuaded the capacity exists to service their supply chains from SMEs. Supporting the development of the SME sector is an important CBC priority in which the empowerment of women traders and entrepreneurs is an essential element. This support goes to the heart of CBC’s purpose as we consolidate our programmes to support the Post-2015 Development Agenda.’

**Roberto D’Imperio is professor at Amedeo Avogadro University, Novara, chair of the Edinburgh Group and a chartered accountant**

# Going global

What can and should SMPs do to support the international activities of SMEs, asks ACCA's **Stephen Heathcote**

## VIEW FROM: EILIS QUINLAN FCCA

Principal, Quinlan Accountants, Ireland

'In an ever-globalising world, companies need to explore now, more than ever, their capacity and opportunities to export. Living on an island as we do, in order to achieve growth in market and in sales, companies need to develop an export strategy as part of their overall strategic plan for expansion. I see the accountant's role changing in this sphere, from that of the traditional auditor to one of a trusted adviser to our clients. This means that as accountants we need to keep abreast of the needs of our clients, in terms of legislation and tax laws in other jurisdictions to our own.'

**Member of ACCA Global Forum for SMEs; president, North Kildare Chamber of Commerce; and outgoing chairman of Irish Small and Medium Enterprise**

## VIEW FROM: MONICA STEFAN FCCA

Audit partner, Soter & Partners, Romania

'For SMEs, the harsh times we live in now, the speed of information, the globalisation and the resource awareness, leave a very narrow route to successful internationalisation. To be the same is not a way to profit. To be cheaper may threaten your long-term financial position. To be the most expensive may narrow your client market share. However, better quality in what you do, a differentiation of work, an ambition for results and a good "practitioner" as backup, will all help you grow globally.'

**Member of ACCA Global Forum for SMEs**

**Business is now global – and not only big business. Many SMEs have an international element to their operations, as found in a recent survey of small and medium-sized accountancy practices (SMPs) conducted by the Edinburgh Group. Yet, given the right support, substantial scope exists for SMEs to expand the nature and range of their international activities.**

Seven out of 10 SMPs surveyed have clients undertaking some type of international activity, most often the buying or selling of goods or services abroad. Internationally active SMEs are open to the potential offered by developing markets: for example, around four in 10 SMPs already have clients doing business in China.

Nevertheless, most SMEs running international businesses generally focus on foreign markets relatively close to home – typically confining themselves to the continents in which they are based. For SMEs located in Asian and Latin American countries, surrounded by other fast-growing economies, this should not restrict their growth potential. But SMEs in more developed and slower-growing regions, such as Western Europe, could miss out on opportunities elsewhere.

SMEs may be willing to trade across borders, but they face barriers. In the view of SMPs, these are finding reliable business partners abroad and the competitive challenge posed by similar businesses. Regulation is often seen as an issue, but a more minor one. But the desire for governments to reduce red tape is still strong.

In accessing export finance, SMPs in Africa are most likely to see this as a major problem for clients. In contrast, most firms in Europe do not consider it a challenge at all. The survey finds that banks are the single most important source of financial support. SMEs appear to rarely use government funding or international agencies.

Although almost a third of SMPs have clients dealing in foreign currencies, few of these firms (30%) provide any related services. Support in buying and selling currency is the most common activity, but firms are generally failing to advise on areas where they could offer value-adding expertise, such as foreign exchange risks, hedging and forecasting.

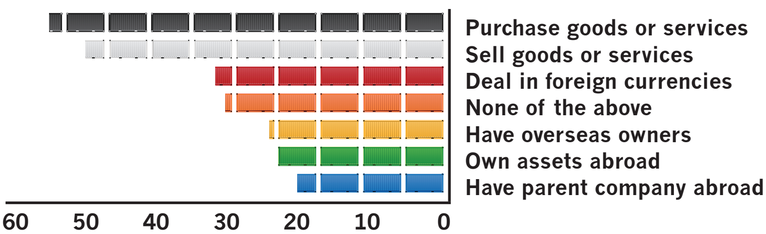
In fact, the majority of SMPs do not provide any specific support to SMEs in relation to their international activity. Those that do, typically act in relation to overseas owners' suppliers and parent companies. This suggests there is huge scope for SMPs to become more proactive in terms of offering support to SMEs in areas where they face particular challenges. It is also striking that, when advising SMEs, the vast majority of SMPs rely on their own internal resources. By doing so they could be cutting themselves off from the information and support available through other networks.

Reading the survey findings, it's clear that many SMPs could become more proactive in supporting SMEs' international activity. The majority appear to react to client needs, rather than seeing it as a strategic act to generate practice growth. Though some firms may associate international business with increased risk, there are rewards to be gained. Given that international businesses tend to be more successful, and successful clients tend to require more services from their advisers, SMPs could be missing out.

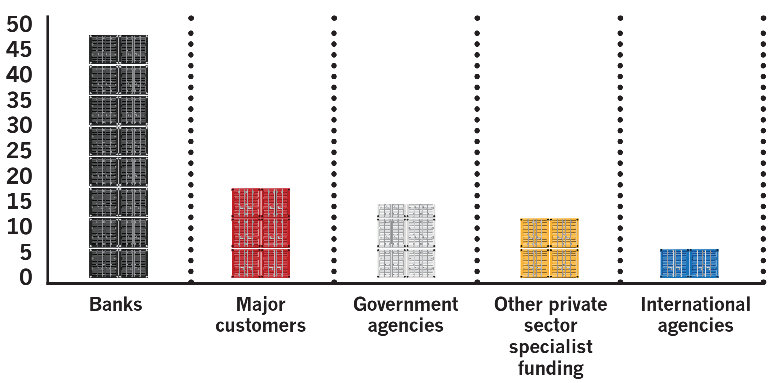
## *SMP SURVEY

**Some 1,350 accountancy practices from over 70 countries in all continents were surveyed in early 2013, of which 952 had clients undertaking international activities. The findings are reported in *SMEs in the post-crisis world: internationalisation challenges and opportunities*, which can be accessed at www.edinburgh-group.org. Some graphics from the report are show below.**

### Types of SME international activity




### Sources of finance for international activity




**Top: Around half of SMEs engage in export activity, with slightly more importing**
**Above: Banks are by far the most common source of export finance support**

## Call to action

So what could SMPs do to encourage international activity by SMEs? They could help them identify the most attractive, fast-growing international markets. They could develop knowledge and information resources to guide SMEs through the red tape, and help them access sources of funding. Building relationships with banks and other key financiers of international investment and trade could also facilitate introductions between these funding sources and SME clients. SMPs could identify clients dealing in foreign currency and investigate opportunities to provide value-adding advice in areas such as managing foreign exchange risks and forecasting currency needs.

For smaller, one-country firms it may also be valuable to consider developing the international resources available to the practice. This could involve participating in an international network of accountancy firms or building more direct relationships with firms in other countries. Strengthening the international focus of the firm in such ways could benefit both the practice and its SME clients.

**Stephen Heathcote is ACCA's executive director – markets, and ACCA's representative on the Edinburgh Group**

# Capital quandary

Only a fraction of the world's SMEs are funded by public equity. ACCA's **Manos Schizas** considers whether the world's capital markets can do more for small issuers

**Xavier Rolet, CEO of the London Stock Exchange Group, has been making the rounds recently, drumming up support for Europe's SMEs as the most reliable job creators in the region. He's right, of course, in identifying the sector as a powerful engine of employment, but can the capital markets supply SMEs' funding needs?**

The dotcom boom of the late 1990s ended badly – or so I was taught in university. But more than a decade later it seems to me that it was a fantastically benign episode compared to the credit bubble that followed it. Though it had to end some time, it was the dotcom era that made today's digital economy possible, bequeathing a digital and social infrastructure that we couldn't live without today.

But perhaps the period's most lasting legacy may be the stereotype of the twentysomething internet billionaire: starting a game-changing business in his or her basement, then taking it public a few years later, still in jeans, as the prospectus is presented to the world. It's a great story, but also a desperately rare one.

To this day, only a very small percentage of the world's SMEs are funded by public equity. The figure varies by country but is typically in the low single digits. Because the total population of SMEs is so massive, this relatively small share still means that micro-caps and small-caps (with a market capitalisation of less than \$65m and \$200m respectively) made up 64% of the world's listed companies in 2011. But they accounted for only 14% of individual stock market trades and 4% of share trading volume, according to figures from the World Federation of Exchanges.

Illiquidity is a market-killer. It scares away investors looking for reliable exit opportunities as much as it does entrepreneurs looking for a fair valuation. It also endangers the social mission of markets. Stock exchanges serve society by channelling funds to productive investment through price discovery; this, however, means that liquidity is most crucial in those segments of the market in which issuers' most critical future finance needs are still ahead of them.

## Tax incentives

Appropriately, a recent report by UK think-tank CentreForum singled out stamp duty on sales of shares for criticism as an effective tax on liquidity. In the era of high-frequency trading, some policymakers may even welcome this outcome. But even if there is such a thing as excess liquidity in capital markets – which is a subject of fierce debate – when it comes to small listings, there is no liquidity to waste, no froth to skim.

Governments have used other tax incentives extensively to promote equity finance; after all, the interest on debt is tax-deductible, which creates an uneven playing field. Emerging markets, from Jamaica and Trinidad and Tobago to frontiers such as Cambodia, offer substantial tax breaks to listed firms, subject to clawbacks, as long as they remain listed for some years. Many governments also extend these breaks to investors. In the UK, for example, investments in the AIM exchange are now eligible for inclusion in stocks and shares ISAs.

### VIEW FROM: ARJUMAND MINAI FCCA

CEO, Standard Chartered Leasing, Pakistan

'Family firms must appreciate that an IPO provides access to cheaper funds, better credit rating and transparency, increases employee motivation as they see a level playing field for growth, attracts talent and innovative ideas, and could generate stable revenue streams for all stakeholders. Successful listed companies use reporting requirements as an opportunity to create goodwill by disclosing community initiatives in their CSR programmes. Examples of family companies achieving phenomenal growth after IPO – a classic case is ICI – clearly demonstrate the benefits that accrue from an IPO.'

**Member for ACCA Global Forum for SMEs**

### VIEW FROM: FRANCIS CHITTENDEN FCCA

Professor of small business finance, Manchester Business School, UK

'Access to finance is critical for many SMEs and the lack of funding is acting as a brake on economic recovery. While the costs of raising funds and buying and selling the relatively low volumes of shares that SMEs might issue to the public have been proportionately much higher for SMEs, crowdfunding platforms have shown that the internet provides the infrastructure for transactions to be automated. This fact could make small-cap listings much more attractive for businesses as well as for investors. Governments have a role to play in encouraging innovation through tax breaks and regulatory support for these potential emerging markets.'

**Member of ACCA Council and Global Forum for SMEs**


While tax relief may encourage investors to hold on to more of their gains, the ears of tax and wealth advisers everywhere also prick up at the mere mention of a tax incentive.

Tax relief may increase returns, but it is only one side of the equation. Small issuers are seen as riskier – and not without cause. Students of accounting are routinely taught from seminal studies that use business size as a proxy for risk. The lack of analyst following compounds this problem: analysts' incentives are to generate recommendations for the sell-side, and micro-caps simply cannot generate enough sales to justify their time. It is not impossible to develop alternatives, but they won't come for free either.

Back in the UK, Centre Forum correctly identified the need for a new listing culture in which all stakeholders collaborate to encourage the financing of SMEs through public equity. Ironically, this is precisely the reality in less developed markets – where government, business associations, exchanges and the accountancy profession work hand in hand to groom prospective issuers.

Why not take a leaf out of their book? After all, secondary boards aimed at SMEs, however established the main exchange boards they are allied to, are perpetually in frontier market territory.

Meanwhile, the tiny but rapidly growing crowdfunding industry, which allows retail investors to put small amounts of equity towards promising startups, could introduce a whole new generation of potential investors to the concepts and risks of equity investment.

Policymakers and exchanges have yet to see the link between crowdfunding and the capital markets, but they should.

**Manos Schizas is senior economic analyst at ACCA**

*Give us a tax break: (clockwise from top) a market in Port of Spain, harvesting coffee in Kingston, and a food vendor in Phnom Penh – Trinidad and Tobago, Jamaica and Cambodia are three emerging markets that provide specific tax breaks to encourage businesses to list, creating an uneven playing field for SMEs*

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→ www.accaglobal.com/access

# Growing pains

Maria Pinelli, Ernst & Young's global vice chair of strategic growth markets, talks about the funding and growth challenges faced by SMEs around the world

**It's tough being an SME. There's the sea of red tape, the volatile economic climate and the reluctance of banks to lend money, yet everyone is looking to the sector to generate growth.**

According to Ernst & Young, SMEs in the G20 receive just 6% of investment funding yet account for 50% of jobs in those countries. Of young global entrepreneurs surveyed by EY in June 2012, 62% said they found access to funding difficult to come by. No wonder Maria Pinelli, EY's global vice chair of strategic growth markets, believes more needs to be done.

'We talk a lot about regulation and large business, but we don't talk about the engine that actually drives the economy,' she says. 'How can a community that creates jobs and builds economies not be the subject of a G20 summit?'

Despite the absence of a coordinated international effort, there are some individual examples of entrepreneurs getting effective support, says Pinelli. She cites Start-up Britain and Start-Up America as good initiatives that support small businesses. She also points out that emerging markets such as Russia and Indonesia are looking to create junior exchanges and governments generally are attempting 'to allow for more lending by banks and other financial institutions to this sector'. Meanwhile, Israel, Denmark, China and Canada are well-recognised centres of entrepreneurship and India has emerged as a leader in private equity and venture capital activity.

According to Pinelli, five pillars need to be present in an economy to uphold SME growth: government advocacy on behalf of entrepreneurs (creating an entrepreneurial culture), access to capital, appropriate regulation and taxation, coordinated support, and education and training.

'WE TALK A LOT ABOUT LARGE BUSINESS BUT NOT ABOUT THE ENGINE THAT ACTUALLY DRIVES THE ECONOMY'

The financial crisis has been both an opportunity and a threat, Pinelli believes. The biggest concern has been the sharp fall in bank lending, which is a very economical form of financing for smaller companies. 'To be left without that kind of funding can hurt because businesses need capital to grow, particularly businesses that are on a growth trajectory,' says Pinelli.

As banks have come under pressure to reduce risk to meet regulatory demands, SMEs have fallen foul of lending guidelines. 'This is a sector that requires a little faith,' says Pinelli. 'You don't see a 100-year-old company. You see more innovative companies – a new product, a new service. So the lending guidelines don't necessarily match the profile of the company. I'm not necessarily convinced that this is the sector that has the risk because if you look at the banks' problems, this isn't the sector that created the risk.'

Managing growth is also a major challenge for entrepreneurial businesses. 'They want to sustain their growth but they also want to continue to be innovative and maintain their entrepreneurial spirit. The hard thing is, they need to do all of that while growing up, while building processes, systems, controls and governance.'

Despite the obstacles, the future for SMEs looks bright. Pinelli says the decline in bank lending has opened up more innovative forms of financing, such as crowdfunding platforms, angel networks, private equity and venture capital, and an expansion in the number of junior markets around the world from under 20 to over 160.

By 2030, the global middle class will have expanded by three billion people with a combined spending power rising to over \$50 trillion from around \$20 trillion today. These statistics alone, which come from *Innovating for the next three billion*, an EY paper written by Pinelli, indicate the tremendous economic potential for SMEs.

**Sally Percy, journalist**

# SME.

## THE BIG PICTURE
A GLOBAL VIEW OF SMEs

**GREEN UNSEEN** SUSTAINABILITY
**ERNST & YOUNG** INTERVIEW

ACCA