

Think Ahead

ACCA

The Global SMP Business Model Survey: Understanding a Changing Profession



About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. It offers 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.

ACCA supports its **178,000** members and **455,000** students in **181** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **92** offices and centres and more than **7,110** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. It believes that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. ACCA's core values are aligned to the needs of employers in all sectors and it ensures that through its range of qualifications, it prepares accountants for business. ACCA seeks to open up the profession to people of all backgrounds and remove artificial barriers, innovating its qualifications and delivery to meet the diverse needs of trainee professionals and their employers. More information is available at: www.accaglobal.com



The Global SMP Business Model Survey provides a unique insight into how the SMP business model is changing. It is the first study to provide a detailed map of the sector's service offering, its growth prospects and the source and value of its diverse skills.



As I prepare to take on the ACCA Presidency, I am reflecting on all the opportunities that my career in accountancy has afforded me, including setting up my own practice in 2006 in the East Malaysian state of Sabah. Here is where I see, on a daily basis, how accountants add value to their small and medium-sized enterprise (SME) clients and where my training and experience have allowed me to service this extremely important segment of our economy, helping business owners succeed and realise their economic potential.

The environment in which we are working is, however, constantly evolving and how we are able to serve our SME clients is changing too. The accountancy profession is becoming more regulated and, coupled with increasing competition, it is easy to forget about all the other skills that we need to have to ensure that small businesses continue to turn to us for advice. Technical and professional skills, as well as experience, are of course all necessary, regardless of the changes in our professional environment, but these days

professionals also need networks, people skills and an ability to take a long-term view.

This is why this piece of research is particularly pertinent as it allows us to gain an important insight into exactly this issue: how are practitioners out there adapting to this changing landscape and how do they see their practices evolving in the medium to long term? ACCA is particularly grateful to all the national bodies that have partnered with us to help us reach more SMPs and thereby gain a better understanding of the regional influences.

I see my own practice in much of the findings: while pressures from deregulation, technology and competition are felt acutely by practices from around the world, we also see that this sector's technical skills are highly transferable and adaptable. The added value we offer to our SME clients is multiplied when such expertise is coupled with the right communication skills and networks. It is this unique combination that will help us rise to the challenge and ensure that we remain SMEs' most trusted advisers.

Datuk Alexandra Chin JP

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Supporting the offering of value-added services to SMEs by professional accountants has been on the agenda of the accountancy profession for a long time (Blackburn and Jarvis 2010). Deregulation and rising audit thresholds in some parts of the world, and greater automation provided by software and cloud-based solutions, have all had a significant impact on the demand for traditional services on which small and medium-sized practices (SMPs) relied for their income. This trend is likely to continue, with more SMPs affected across the world.

Research supported by ACCA (eg Devi and Samujh 2008; Jarvis and Rigby 2012) and anecdotal evidence from ACCA members both suggest that SMPs offer a wide range of formal and informal services to their clients, extending beyond financial reporting and assurance. SMPs are able to provide this broad offering for two reasons: because of the trust they have earned from their SME clients through technical competence and social rapport (Blackburn et al. 2010) and because of their reputation as experts in areas such as tax, financial management and business financing (Schizas et al. 2012). As a result, international surveys regularly confirm that accountants are the SME sector's advisers of choice (Berry 2006; Forbes Insights 2010.)

In recent years, studies such as Pitkethly (2009), Jarvis and Rigby (2011), and Spence et al. (2012) have started to shed light into why some practices develop an offering in specific service areas while others do not, and why some services are marketed more readily or

more successfully by SMPs than others. Such studies have identified constraints, such as the need to focus on proven service lines, maintain control of the practice and protect it from legal risks. They also demonstrated that accountants' service offerings respond to the structure and segmentation of the SME market most accessible to them, and that these vary not only according to location but also according to the services in question.

Nonetheless, there is still limited understanding of how SMPs' business models are adapting to the challenge of value-added services at the global level, and of how well the SMP narrative that has been developed mostly through research in the West can be generalised to other countries. In Western countries deregulation is substantially advanced and the accountant's knowledge is now understood to be broad, extending to less traditional competences such as regulation, IT and operations. In emerging markets, however, financial reporting and assurance are still mandatory for a greater share of the business population and the accountancy profession's role is seen as being narrower and more focused (Schizas et al. 2012).

To help overcome these limitations, ACCA partnered with six other accountancy bodies (IACPA, ISCA, CECCAR, MIA, CICPA and VACPA¹) to conduct a major international survey of SMPs' business models and how they are changing. The Global SMP Business Model Survey is the first in what ACCA hopes will become an established programme of studies into the development of the profession.

1 Iranian Association of Certified Public Accountants (IACPA), Institute of Singapore Chartered Accountants (ISCA), Corpul Expertilor Contabili si Contabililor Autorizati din Romania (CECCAR), Malaysian Institute of Accountants (MIA), Chinese Institute of Certified Public Accountants (CICPA), Vietnam Association of Certified Public Accountants (VACPA).

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At the global level, the SMP sector's offering remains highly focused, with the 'core' SMP offering still based on assurance, tax and compliance. These services, with predictable demand and prices, cross-subsidise other offerings that support client growth, but practices also depend on them to ensure their own future growth. Where deregulation has taken hold SMPs are still relying on the traditional SMP offering; rather than moving to growth orientated services, deregulation has produced a shift away from reliance on assurance services towards compliance, owing to its more predictable revenue.

- Tax- and compliance-related services form the largest element of the SMP skill set, and account for 42% of SMP income. SMPs' reliance on the compliance skill set was greatest in countries without compulsory audit for smaller companies.
- Assurance (including internal audit) is the second major income stream for SMPs, accounting for another 40% of income. The contribution of assurance to practice income varies by country, from 4% in Romania and 12% in the UK and Ireland, to 39% in Malaysia, and 70% or more in countries such as China or Iran.
- Services outside the 'core' offering accounted for 16% of practice income across the sample. The highest earning were risk management and the design of management controls, growth-related services and financial management. The share of non-core services was highest in the UK and Ireland (21%), ranging between 10% and 14% in countries such as Malaysia, Singapore, Romania and Iran, but just 5% in China.

The sector's offering is set to change even further, because SMPs' core technical skill set is highly adaptable and transferable. A number of routes exist to higher value-added offerings – some beginning with tax and compliance services, others with assurance, and others still with operations, or HR compliance. There is growing interest across markets in helping clients design and monitor internal controls as global supply chains demand accountability and transparency.

In emerging markets, SMPs are increasingly hoping to advise clients on internal audit and financial management, budgeting, forensic accounting and wealth management. In more mature markets, SMPs are exploring alternatives to the audit as well as transaction-related services involving due diligence.

Overall, it is a testament to the SMP sector's resilience and adaptability that practices in countries where the impact of deregulation has been the greatest have responded to this with innovation, radically expanding their service offering and exploring partnerships with other organisations. Nonetheless, deregulation is testing the cross-subsidies between growth-orientated services and the more traditional SMP offering, which has by and large benefited clients by aligning advisers' incentives with their own. As the sector adjusts to a new equilibrium, it may be hard pressed to maintain its investment in quality and skills.

SMPs around the world remain vulnerable to a host of competitive and technological pressures, not least the threat from unqualified and unregulated advisers. Rigorous pricing and costing appears to be one key to resilience; reliance on regular retainers exposes SMPs to risk, while practices with a good grasp of costs are best equipped to deal with new competition. A practice's service offering appears to be the other key: assurance and other service sector specialists have suffered substantially from deregulation, and some of the SMP sector's tax and compliance offering is vulnerable to competition from other professions, government guidance and built-in modules of accounting software.

Most importantly, the sector's strategy and growth offering depends on the 'gateway' services of audit and financial reporting, and is thus threatened by reduced regulatory requirements in those areas that reduce SMPs' access to client insights. Other service offerings appear more insulated from competition and resilient SMPs might instead develop services related to financial management, risk management and the design of financial controls.

There are a variety of ways in which practices can balance resilience and growth, but it is possible to identify four major segments of the SMP population that each take a distinct approach to this question.

- **Static specialists (36%):** these relatively small and insular practices, particularly common in Iran, have grown organically and are very likely to be specialised in either a specific service area or a specific sector, relying substantially on assurance services for their incomes.
- **Static generalists (22%):** these very small practices, most common in the UK and Ireland, have very modest growth plans and are unusually dependent on compilation activities, book-keeping and tax returns for their income. They service almost exclusively SME and individual clients.
- **Dynamic specialists (23%):** most common in the Asia-Pacific region, these practices have a high-cost, hands-on, consulting-inspired business model that exposes them to significant risks but promises rapid growth if it succeeds.
- **Hungry generalists (19%):** their drive to expand in size and breadth of offering distinguishes these practices from the others. They are hungry for new skills as well as new business, and are very keen to join forces with other practices – including through mergers and acquisitions.

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In some ways, the survey confirmed how difficult it is to generalise findings on the SMP business model on a truly global scale, and how widely SMPs' concerns vary from one country to the next. In markets such as Iran, Malaysia and Singapore, practices are locked in a war for talent. In China, practices are trying to come to terms with commercial reality as once-comfortable profit margins are squeezed by competition. In the UK, fee pressures and compliance requirements are top concerns. SMPs' competition sometimes includes the Big Four (eg in Iran or Romania), while sometimes (eg in the case of Malaysia) accountants compete with evermore powerful software. While the threat of unqualified accountants was reported across the sample, it was muted in some markets, most notably China.

On the other hand, SMPs are subject to many similar business fundamentals across borders. The four major segments of the SMP population identified in this study are distributed uniformly across countries: the underlying notions of dynamism, specialism, and risk-taking are the sector's universal languages. Perhaps most importantly, the relationship between deregulation and a shift to broader service offerings and more collaborative business models is likely to apply across countries in the same way as it has in the UK and Ireland.

About the ACCA Global SMP Business Model Survey

Fieldwork for the first Global SMP Business Model Survey was carried out in May- June 2015 as a collaborative effort between ACCA and partner professional bodies: IACPA, ISCA, CECCAR, MIA, CICPA and VACPA. It attracted 531 responses from around the world.

While there is no formal definition of an SMP, the survey accepted responses from professionals who worked in practice; whose practices were not Big Four firms, had fewer than 250 professional employees, and made at least 25% of their income from individuals or SME clients. In practice, the majority of the sample were very small practices highly dependent on income from SMEs (see Annexe 1).

Respondents were asked to discuss:

- the services offered by their practices now and likely to be offered in the future
- the contribution of different services to their practices' income
- the way in which their practices provided their services, and the challenges they faced in doing so
- whether their practices were specialists of any kind
- the ways in which they developed in-house skills or accessed complementary skills and resources in order to expand their offering
- their approach to costing and pricing.

The discussion in this report is guided by eight key questions, reflecting hypotheses sourced from the SMP research literature.

1. Do SMPs still depend on assurance and compliance for their income? If not, then on which services are they relying?

2. To what extent are the core skills of SMPs transferable to new types of services?
3. Are SMPs adapting constructively to the impact of deregulation and increasing competition (eg by broadening their service offering or investing in quality)?
4. Which behaviours and capabilities make SMPs more resilient or more adaptable? Do commercial disciplines such as costing, pricing, and management matter in this respect?
5. Is it meaningful to generalise research findings focused on SMPs in Western countries such as the UK to other parts of the world, and particularly to emerging markets?
6. Is it possible to group SMPs in a meaningful way on the basis of how they are reacting to the changes and opportunities for growth?

For the purposes of this survey, ACCA drew a distinction between specialist and non-specialist practices, as well as between mature markets (UK, Ireland, Singapore and Hong Kong) and emerging ones (eg mainland China, Romania, Iran, Malaysia, Vietnam). This last distinction reflects how saturated different markets are, and the extent to which the profession is still able to rely on a fast-growing/modernising domestic market for growth. Unless otherwise stated, all reference to findings in China exclude Hong Kong SAR.

1. Assurance, tax and compliance are cash cows for a flexible SMP sector

At the global level, the SMP sector's offering is highly focused, with the 'core' offering being based on assurance, tax and regulatory compliance.

At the global level, the SMP sector's offering is highly focused, with the 'core' offering being based on assurance, tax and regulatory compliance. Most of the sector's income (80%) comes from the 10 most common services, and the level of concentration among the top 10 services was similar in all the countries and regions examined.² The concentration becomes more obvious when services are grouped into themes, as in Figure 1.1.

Tax and regulatory compliance in the broadest sense is the element of the SMP skill set that generates the largest share of income; 11 of the 54 services examined formed a coherent group related to compliance functions, where the skill is knowing the relevant laws, standards and guidance, being able to assess how these apply to individual clients, and navigating the authorities' information templates and processes. Delving deeper into the data suggested that much of SMPs' work in helping clients prepare management accounts draws on the same compliance skill set, possibly as a result of the influence of tax authorities on businesses' demand for information.

This broad set of tax and compliance services accounted for 42% of SMP income, with tax-related activities accounting for just under 12%. SMPs' reliance on the compliance skill set was greatest in countries without compulsory audit for smaller companies – in the UK and Ireland, for example, it accounted for two-thirds (66%) of all practice income, almost twice as much as it did in the Asia-Pacific region (34%), and its share of income was highest in Romania (84%), out of all the countries with large enough samples.

Assurance (including internal audit) is the second major earner for SMPs, accounting for another 40% of income. Four of the top 10

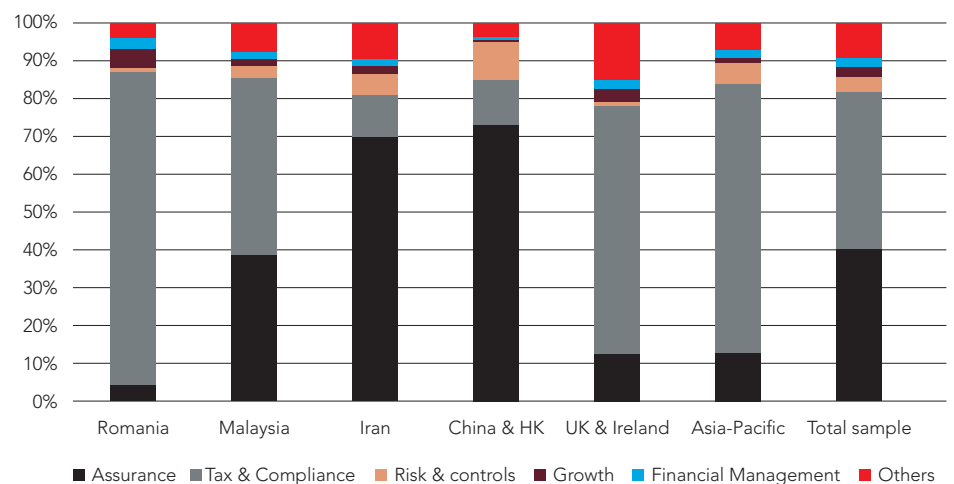
services by income share are assurance- or internal-audit related. Even so, the contribution of assurance to practice income varies substantially by country, from 4% in Romania and 12% in the UK and Ireland, to 39% in Malaysia and 70% or more in China or Iran. This variation is clearly driven by government policy.

In Europe, the loss of assurance fees through deregulation has been substantial. For example, comparing the UK and Ireland with the Asia-Pacific region, audit contributes a much smaller share of SMPs' income (12% v 50%); instead, SMPs in the UK and Ireland rely much more on compilation engagements, which make up 29% of their fees, as opposed to 7% in Asia-Pacific. In the UK and Ireland, practices compensate for the loss of assurance income by earning more of their income from tax-related services (20% v 12% in Asia-Pacific), statutory financial reporting (12% v 5%), payroll and HR (5% v 1%), and strategy and business planning (1.6% v 0.3%).

Services outside the 'core' SMP offering of tax, compliance and assurance accounted for 16% of practice income across the sample. This share was highest in the UK and Ireland (21%) and lowest in China (5%). The highest-earning non-core services were risk and controls (4% of income), growth-related services (3% of income) and financial management (2% of income). **Business growth-related services** account for the significant proportion of the diversity in SMP services (14 of 54 services examined), and this is despite their small share of income.

Comparing these figures with those of audit and compliance reveals **how substantial the cross-subsidies are** between the different types of service offered by SMPs to SMEs. At the global level, SMPs are primarily in the business of selling compliance and assurance,

Figure 1.1: Sources of SMP income by country/region



2 See Annex 1 for an explanation of how these income shares were calculated.

and use other services to help their clients grow, or keep their satisfaction levels high enough to provide references to potential new clients. This in turn generates more demand for compliance and assurance services and perpetuates the SMP business model. The fact that SMPs in countries with substantially relaxed audit rules have mostly turned to tax and compliance, as opposed to other, more directly growth-related services, to balance the loss of income suggests that

there are tight limits to what clients, especially SMEs, are willing to pay without the added impetus of regulation or demand from dominant users of information such as lenders.

Nonetheless, practitioners are well aware of the contribution of 'non-core' services to demand for their core offering in the long run: the proportion of SMPs providing such services, and their prominence in the profession's agenda, are far greater than what

one would infer from their share of practice income. Payroll services, for instance, are offered by 46% of practices (and nearly all in the UK and Ireland), even though they make up less than 6% of the income of the average practice that offers them. Access to finance has for years been a key consideration of the SMP sector globally, both at the practice level and at the highest level of the profession. Its direct share of the sector's income (c. 1%) would never, on its own, justify this treatment.

Table 1.1: SMP skill sets, as inferred from service offering

THEME	RELEVANT SERVICES	SERVICES OUTSIDE THIS THEME TO WHICH SKILLS MAY BE TRANSFERABLE
Tax and compliance (42% of fees)	Sales tax administration, dealing with tax authorities, incorporation, tax returns, tax planning, management accounts, company law, compilation engagements, bookkeeping, payroll, statutory financial reporting	Business planning, cash flow management/forecasting, succession planning, administrative services
Assurance (40% of fees)	Audit, review, assurance other than audit or review, internal audit	Financial management, statutory reporting, preparation of management accounts, internal audit, ad hoc financial reporting, budgeting, IPO and capital market activity, forensic accounting, internal controls design/review, restructuring and change management, credit management, risk management
Risk and internal controls (3.6% of fees)	Design/review of internal controls, admin services, internal audit, risk management and continuity services	Tax compliance, securing equity investors, CSR reporting, strategy formation and implementation, forensic accounting
Strategy and growth (3% of fees)	Strategy formation and implementation, business financing options, management consulting, business planning, restructuring and change management, succession planning and business transfers, obtaining government grants, efficiency/profit improvement, credit applications, building the in-house finance function, bidding for public sector contracts, pensions advice, business valuation, internationalisation, finding equity investors	None
Financial management (2% of fees)	Financial management, budgeting, personal finance/wealth management, cash flow management/forecasting	Tax compliance, ad hoc financial reporting, restructuring and change management, building the in-house finance function.
Supply chain management (0.1% of fees)	Procurement, purchasing and SCM, quality management and operations, credit management	Business financing options, internal controls design/review, sustainability reporting
Corporate finance (0.8% of fees)	IPOs and capital markets activity, securing equity investors, mergers and acquisitions, due diligence on major transactions	Building the in-house finance function, IT systems design and implementation, business formation/incorporation.
Intangibles (0.7% of fees)	IP and other intangibles, insolvency and related services, licensing and permits	Risk management, disaster recovery and business continuity; marketing and market research.
HR compliance (0.4% of fees)	Employment Law, recruitment, pensions advice	Personal financial advice/wealth management
IT (<0.2% of fees)	IT systems design and implementation	None
CSR (<0.1% of fees)	Sustainability measuring and reporting, CRS statements and reporting	Insolvency and recovery, quality and operations, employment law, succession planning and business transfers, recruitment, incorporation, IT systems design and implementation, risk management, bidding for public sector contracts, internationalisation support
Marketing (<0.1 of fees %)	Marketing, advertising and market research	Restructuring and change management, payroll, due diligence on major transactions, strategy formation and implementation, business financing options, licensing and permits.

2. As markets mature, SMPs' focus shifts from specialisms to partnerships

While many SMPs are simple businesses, with a limited service offering based entirely on in-house skills and resources, a substantial share of SMPs across markets pursue more complex business models.

While many SMPs are simple businesses, with a limited service offering based entirely on in-house skills and resources, a substantial share of SMPs across markets pursue more complex business models. Across the sample, 60% of SMPs were specialists of some sort – the majority of which (48% of SMPs) specialising in a specific service area. Sector specialism was rarer, with only 14% of SMPs reporting this, while another 9% had a compliance-related specialism.

These figures, however, vary widely by region and country (see Table 2.1). SMPs in mature markets tended to be almost evenly split between generalists and specialists, while those in developing markets were more likely to see themselves as specialists (65%). While service area specialism was more common in emerging markets, the difference between these and mature markets was much more pronounced when it came to specialisms in compliance with specific regulations or dealing commercially with the public sector. SMPs in mature markets, on the other hand, were more likely to develop sector niches (11% v 2% in emerging markets).

In countries where audit is not mandatory for smaller companies, service specialists are fewer in number. In fact, in the UK, sector specialism was marginally more common than service specialism. In other countries, such as China and Iran, it was very common for SMPs to specialise in dealing with particular regulators or government agencies.

Interestingly, not all practices interpret specialism as having a narrow offering; in China, for instance, the sector's offering was narrower, but practices were no more likely to describe themselves as specialists than their counterparts elsewhere.

Table 2.2 summarises the ways in which practices around the world access and certify complementary skill sets. The most common means of bringing complementary skills into practices is to have partners who hold qualifications with multiple professional accountancy bodies. The majority of SMPs across the sample (54%)³ had such partners. Multi-qualified partners were rarest in Romania and China, and most common in Iran, Malaysia and Singapore. Generalists, however, were almost half as likely (27% v 52%) as specialists of any kind to have partners with multiple memberships.

At the global level a substantial share (43%) of all SMPs had partners with qualifications or formal training in areas other than accounting. The most common complementary skill sets at the global level were financial advice (13%), business management (12%) and law (10%). Nonetheless, there were significant variations by region, practice specialism and market maturity in the range of complementary skills used by practices. Business consulting and legal qualifications, for example, were more common in emerging markets – so were second qualifications more generally. Specialist practices were more likely to have

Table 2.1: Practice specialisms

PRACTICE SPECIALISMS	MARKET MATURITY		TOTAL
	Emerging	Mature	
Specific service area (eg audit, insolvency)	54%	30%	48%
Supporting specific types of transaction (eg M&A, MBOs)	8%	4%	5%
Raising specific sources of finance (eg factoring, peer-to-peer lending)	3%	2%	3%
Serving specific industries/sectors	12%	19%	14%
Dealing with specific assets (eg patents, licences)	3%	2%	3%
Dealing commercially with specific government agencies	4%	0%	3%
Compliance with specific government regulations/ agency requirements	11%	2%	9%
Doing business in particular foreign countries/Clients from particular foreign countries	4%	4%	4%
Other	1%	4%	2%
Generalist/No specialism	35%	53%	40%

³ All percentages provided in this section omit cases in which the respondent could not provide an answer.

partners qualified in business management (including MBAs), IT, financial advice and financial analysis. In Romania, IT and HR qualifications were relatively common; in Iran it was MBAs; and in China it was legal and financial advice qualifications. Finally, in countries such as Malaysia, Singapore and the UK, cross-disciplinary qualifications were relatively rare – less than a third of these countries' SMPs had partners with qualifications in multiple skill sets. Financial analysis and management qualifications were most common in Malaysia and Singapore, whereas financial advice and legal qualifications were most common in the UK.

A less common means of offering clients access to complementary skills was for practices to put in place formal agreements with other organisations whereby they referred clients to a third party for expert advice. Fewer than one-third (28%) of SMPs in the sample had such agreements in place, but this share varied across markets. In the UK and Ireland, more than half of all practices (58%) had referral systems in place, and the practice was also reasonably common in

Malaysia (30%), but in other markets the uptake was very low. Generally speaking, SMPs in mature markets were almost twice as likely as their peers in emerging markets (49% v 21%) to have partnerships in place – and in the UK and Ireland a clear majority (58%) had such agreements in place – an arrangement necessary to provide the wider range of services on offer there.

The most common type of referrals, used by 37% of SMPs with such agreements in place, were reciprocal referrals, in which no money changed hands but practices agreed with other organisations to direct business each other's way. Also common were referrals on a commercial basis, with practices charging a fee or commission (26%), as well as free referrals to organisations run by friends and family members (23%).

Reciprocal referrals were very much a mature-market phenomenon. SMPs with partnerships in mature markets were twice as likely (48% v 27%) to have such agreements in place. Formal joint ventures were almost exclusive to emerging markets, although

even there they remained relatively rare (18%). Specialists and generalists were equally likely to use partnerships with third parties in providing services (24% v 27% respectively), but specialists were more likely to refer clients to businesses they had a financial interest in, or to use costed referral models as opposed to reciprocal referrals.

Mergers and acquisitions (M&A) are a more drastic way of acquiring new skills – nevertheless they were surprisingly common among SMPs. Of the practices that were at least three years old, 15% had experienced at least some M&A activity over the last three years. Regional variation was limited, although the UK, Malaysia and Singapore stood out significantly, with over one in six practices over three years of age reporting some M&A activities.

Finally, practices did not only use complementary technical skills and knowledge in order to expand their offering; the vast majority of SMPs (82%) also relied on management and quality-control skills certified through a quality standard of some

Table 2.2: How SMPs bring new skills into their practices

Complementary Skills	Practice Management Standards	Multiple Memberships	Complementary Qualifications	M&A Activity	Succession Plans	Referrals
Romania	87%	30%	58%	9%	61%	8%
Malaysia	87%	67%	32%	16%	76%	30%
Iran	79%	82%	48%	3%	68%	5%
China (incl Hong Kong)	78%	42%	44%	8%	75%	23%
UK	69%	49%	24%	24%	64%	59%
UK and Ireland	75%	50%	30%	22%	62%	58%
Asia-Pacific	85%	58%	42%	17%	78%	30%
Emerging	83%	60%	48%	12%	72%	21%
Mature	77%	56%	27%	22%	66%	49%
Specialists	88%	66%	52%	16%	78%	27%
Service area specialists	89%	69%	51%	14%	64%	25%
Generalists	73%	47%	27%	14%	59%	30%
Total	81.7%	58.5%	42.4%	15.0%	70.7%	28.2%

29%

across the markets studied
had no succession planning
arrangements whatsoever

kind. With the exception of the UK, where about 30% of SMPs reported not adhering to any practice management standards, this practice was uniformly very common across countries – perhaps most of all in Romania, Malaysia and Singapore. In addition to local/regional factors, practice specialisation also contributed to this – generalists were less likely to be certified. The standards adhered to typically originated either from a professional body (which was much more common in Europe), or from a national regulator – this was much more common in the Asia-Pacific region and particularly in China.

Like many of the small businesses with which they work, SMPs are usually owner-managed businesses in which key skills reside with the principals and may be lost to the business when they retire. The survey looked into the succession planning arrangements of SMPs and found that, alarmingly, 29% across the markets studied had no succession planning arrangements whatsoever. It appears that the shift away from a 'core' technical service offering towards a wider, business growth- or

compliance-orientated offering is partly to blame for disrupting succession planning among SMPs: technical skills are easier to pass on, and learning is easier to certify. Softer skills, clients' trust and sector expertise and contacts, on the other hand, are more difficult to pass on. This may explain why a lack of succession arrangements was particularly common in generalist practices (41%) and more common in markets such as the UK and Ireland where there has been a loss of business due to deregulation (38%).

Succession planning arrangements varied across markets – most common was informal training, including coaching and mentoring (21%), while formal training was also offered by almost one in five practices – with professionals just below partner level almost equally likely to receive this as more junior professionals. Only 18% of SMPs had formal succession planning policies. Informal training was more common in emerging markets, and generalist practices found it more difficult to put formal training in place as part of their succession planning arrangements.

3. SMPs are innovating in response to competition and deregulation

Most of the SMPs surveyed did not provide anywhere near the full range of services examined in this study.

3.1 THE RANGE OF SMPs' SERVICES

Most of the SMPs surveyed did not provide anywhere near the full range of services examined in this study. Out of 55 potential service areas, the typical (ie. median) SMP across the sample offered just 10, and the average offering included only 13. Nonetheless, regional differences were very significant (see Table 3.1). In China and Iran, the typical practice was much more focused on its core offering, with about half the range of services on offer compared with their peers elsewhere. In China, this was mostly because SMPs were much less likely than their peers elsewhere to be involved in tax administration, business planning, business transfers, payroll, or credit and cash flow management. In Iran, it was mostly because SMPs were much less likely than their peers elsewhere to be involved in incorporation, business financing, business planning, business transfers or pensions.

In the UK and Ireland, on the other hand, the SMP service offering was twice as broad as the sample average, with the typical practice offering more than 20 distinct services. In particular, UK and Irish SMPs were more likely than others to offer services related to business financing (including government funding), strategy and business planning, succession planning and business transfers, marketing, pensions advice, and efficiency improvement.

Regional influences appear to be the dominant factor behind the differences in the breadth of the SMP offering: SMPs that claimed to be specialists in a particular service area, for example, had narrower service offerings, but the difference between these and their generalist colleagues was much less pronounced than that between SMPs in the UK and Ireland and those in other parts of the world.

Another key determinant of the breadth of services offered was competition from other practices. On average, practices that

experienced competition from other SMPs as a threat to their business (however minor) offered five more types of service than those that did not.

3.2 PRICING AND COSTING

Practices differed in their pricing strategies as well as in their service offering, and different services tended to be paid for in different ways (see Table 3.2). The most common way for fees to be determined was either on the basis of individual ad hoc negotiations (particularly common in the Asia-Pacific region) or on the basis of a standard fee reflecting a mark-up over the standard cost of servicing a client. Regional differences were substantial: standard hourly fees were uniquely popular in the UK and Ireland, whereas Romania stood out for the dominance of the retainer model, and in China it was much more common than elsewhere for SMPs to be paid a share of the proceeds when helping businesses raise funds. Value-based pricing was generally less common among practices with a better understanding of the costs of servicing individual clients, which accounts for some of its popularity in parts of Asia (see Figure 3.1).

3.3 WHERE IS SMP GROWTH COMING FROM?

In addition to the services they already provided, SMPs were asked which of the services they did not already provide but were thinking of moving into over the next two years. About one in four were not planning to introduce any new services at all, but the majority were actively considering an expanded offering. Across the sample, the most likely areas of expansion were internal audit (13%), design of internal controls (12%) and financial management (11%). In practice, there was a lot of variation between markets, not just because SMPs in some markets (such as those in the UK and Ireland) already had a fairly broad offering, but also because more mature markets offered practices fewer opportunities for growth.

Table 3.1: Number of services (out of possible 55) offered by SMPs, by country/region/competitive pressure

COUNTRY	AVERAGE	TYPICAL
Romania	10	9
Malaysia	10	9
Iran	8	6
China (incl Hong Kong)	7	5
UK	21	20
UK and Ireland	23	21
Asia-Pacific	10	8
Total	13	10
No threat from other SMPs	9.7	6
Threat from other SMPs	13.7	11
Service area specialists	13	9.5
No service area specialism	13	12

4 In reality this figure is likely to be an overestimate because respondents who were not partners tended to underestimate their practices' chances of creating new service offerings. Adjusting for this, only about one in five SMPs were not planning to develop new services. See Annexe 2 for details of testing for non-partner bias.

62%
of SMPs were not thinking of expanding their product offering into services they did not already provide

In the most mature markets in the sample (Ireland, Hong Kong, Singapore, and the UK), a majority of SMPs (62%) were not thinking of expanding their product offering into services they did not already provide (see Figure 3.2). In the rest of the world, however, only 18% responded in this way – the rest were planning to expand their offering. Finally, because of differences in the transferability of their skills, it was clearly specialists, not generalists, that were more likely to provide additional services.

The divide between mature and emerging markets persists when looking at the particular services SMPs were *planning* to introduce (see Table 3.3). In emerging markets, the services receiving the most interest were internal audit, the design and review of internal controls and financial management, followed by budgeting, forensic accounting and wealth management. At least 10% of the SMP population was planning to branch out into each of these in the next two years. In more mature markets, on the other hand, the emphasis was on new assurance services, due diligence for major transactions, and internal controls – with 4–5% of the SMP sample exploring each of these.

Ultimately, though, most of the medium-term growth in SMPs' income must come from the services they already provide. Within SMPs' existing service portfolios, substantial growth is still coming from audit and review in emerging markets, and more than a quarter of SMPs that offer audit services in mature markets say that this is one of their top three growth areas (See Table 3.4). This is mirrored by growth in compilation services in mature markets. Internal audit once again emerges as a strong source of growth across markets, and is bound to become a much more crowded market over the next few years. Comparing mature and emerging markets directly, mature markets are more likely to see income growth in the preparation of management accounts, payroll and compilation engagements, while in emerging markets growth is more likely to be coming from sales tax (or VAT) administration, review engagements and assurance services other than the full audit.

3.4 TRANSFERABILITY OF SKILLS

The interaction between the types of service currently offered by SMPs and the types of service they intended to offer in the coming

Table 3.2: Pricing methods used by practices

	Romania	Malaysia	Iran	China (incl Hong Kong)	UK	UK and Ireland	Asia-Pacific	TOTAL
Standard fee per hour	10%	36%	35%	12%	79%	76%	27%	41.0%
Per transaction, cost-based	25%	71%	40%	44%	66%	60%	59%	50.4%
Per transaction, value-based	17%	43%	32%	28%	22%	23%	38%	30.5%
Individually negotiated	44%	64%	47%	64%	47%	49%	64%	53.1%
Share of proceeds	13%	4%	5%	24%	6%	5%	14%	9.4%
Regular retainer	62%	26%	10%	8%	18%	17%	18%	22.7%
Commission	2%	1%	1%	1%	4%	5%	2%	2.3%
Government	0%	0%	2%	3%	0%	1%	2%	1.3%
Other	2%	1%	2%	8%	5%	4%	4%	3.6%
Free	17%	4%	5%	0%	7%	9%	2%	5.9%

Figure 3.1: Self-assessed understanding of costs of servicing clients (1: very limited – 5 excellent)

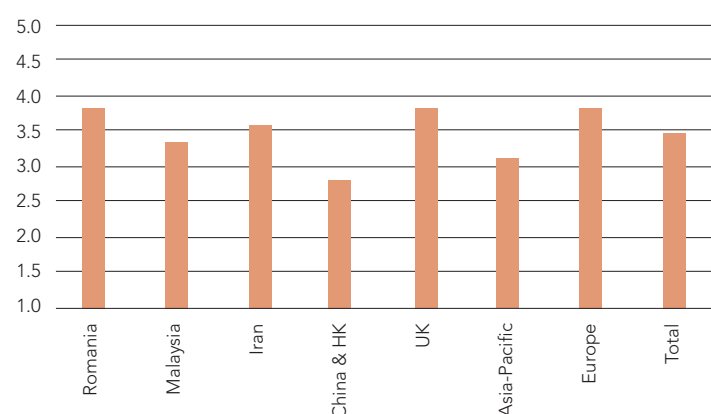
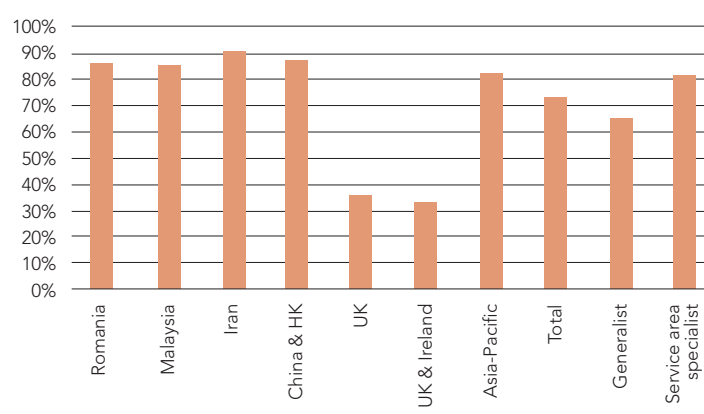


Figure 3.2: Percentage of practices planning to introduce new services over the next two years



years demonstrates the **transferability of skills** between services. As a result, we see **technical expertise being more transferable** across services than experience and networks. Hence assurance and sustainability reporting skills appeared to be highly transferable; business management and consulting skills less so. The findings of this analysis are summarised in Table 1.1.

Assuming that SMP service offerings are more likely to expand by moving from more common services to less common ones, there are two major skills transfer routes available to the profession. The first is likely to be from tax and compliance to financial management and business planning and then on to reporting, change management and building clients' finance functions. Once a practice is able to provide business planning services, the key question is whether this will expand

into a 'strategy and growth' proposition or not, and from the survey there is no evidence that this happens automatically.

The second skills transfer route runs from assurance to risk management, change management and the design or implementation of internal controls. Some practices will be able to build further on these new skill sets to develop an offering based on strategy formation and implementation.

Other promising skills transfer routes might run from operations, risk, internal controls and the supply chain into financing expertise (a business partnering element of access to finance has already been highlighted by ACCA research in our State of Business Finance series), or from HR compliance to pensions advice and through to personal wealth management.

Table 3.3: Services SMPs were planning to introduce in the next two years

SERVICE	Mature (UK, IE, HK, SG)	Emerging	TOTAL
Internal audit	3%	16%	13%
Internal controls design/review	4%	14%	12%
Financial management	4%	14%	11%
Personal financial advice/wealth management	4%	10%	8%
Budgeting	2%	10%	8%
Forensic accounting, fraud prevention, anti- money laundering checks	1%	10%	8%
Other assurance (not audit or review)	5%	9%	8%*
Tax planning	1%	9%	7%
Preparation of management accounts	1%	9%	7%
Business valuation	2%	8%	7%*
Cash flow management/forecasting	3%	7%	6%
Due diligence on major transactions	4%	7%	6%
Efficiency/profit improvement	4%	7%	6%

*Estimates are influenced by the more limited information available to non-partners. See Annexe 2.

Table 3.4: Fastest-growing service areas (among businesses currently offering these services)

% of SMPs offering each service that rank it among 3 fastest-growing	Emerging	Mature (UK, IE, HK, SG)	TOTAL
Statutory/voluntary audit	75%	28%	62%
Bookkeeping	53%	24%	43%
Compilation (accounts preparation) engagements	31%	51%	39%
Tax returns and other compliance paperwork	37%	30%	34%
Internal audit	33%	33%	33%
Tax planning	30%	28%	29%
IPO and other capital markets activity	24%	36%	28%
Other assurance	30%	11%	25%
Statutory financial reporting	25%	21%	23%
Payroll	17%	29%	23%
Administration of GST/VAT/other sales taxes	38%	5%	22%
Review	28%	6%	22%
Preparation of management accounts	12%	23%	17%

4. SMPs are vulnerable, but shrewd commercial practices can protect them

To give a better illustration of the context in which the SMP service offering is evolving, respondents to the survey were asked to indicate the top three challenges facing their businesses.

To give a better illustration of the context in which the SMP service offering is evolving, respondents to the survey were asked to indicate the top three challenges facing their businesses. The diversity of the global SMP population is reflected in these responses (see Table 4.1). In markets such as Iran, Malaysia and Singapore, shortages of suitably skilled staff are a leading constraint. In China, a difficult environment for small business development and strengthening competition are combining into a very challenging environment for SMPs. In the UK, fee pressures and compliance requirements are top concerns. As expected, service area specialists are more likely to struggle with skills shortages and competition, while generalists are more likely to be worrying about regulatory burdens and pressure on their fees.

To complement these insights, respondents were also asked to assess the threat to their practices from a range of sources – from free advice and government guidance to

automation, unqualified business advisers, mid-tier firms or the Big Four. By looking at the relationships between such threats and the characteristics of the business, it may be possible to identify weaknesses in the sector's offering and skill set, but also clues as to which business models are more robust.

As expected, direct competition from other SMPs was the threat reported as most acute by practices, and competition was particularly intense in more saturated markets such as the UK and Ireland (See Table 4.2). Following on from this, unqualified/unregulated business advisers were cited as the second greatest threat to SMPs' business models – and the greatest threat in mature markets. The problem was particularly acute in the UK and Ireland as well as Malaysia, and only China stood out for the lack of competition from unqualified advisers. Deregulation was cited as the second most significant threat to specialist practices, most of which focus on assurance, but it also threatens generalists to a substantial degree.

Table 4.1: Challenges that practices rank among their top three concerns

	Romania	Malaysia	Iran	China (incl Hong Kong)	UK	TOTAL	Not service area specialist	Service area specialist
Difficulty finding and engaging clients	61%	26%	62%	66%	27%	46.1%	43%	49%
Intensifying competition	33%	17%	48%	80%	35%	42.7%	39%	46%
Rising cost of doing business	24%	49%	21%	34%	33%	33.2%	33%	33%
Difficulty attracting suitable professional staff	33%	75%	67%	32%	44%	52.3%	48%	57%
Difficulty coping with regulatory / compliance requirements	49%	36%	21%	6%	45%	29.3%	36%	23%
Difficulty meeting professional /practice management standards	8%	20%	14%	3%	15%	13.7%	15%	13%
Difficulty finding/ attracting business partners	16%	6%	24%	5%	12%	12.0%	11%	13%
Difficulty accessing finance	12%	6%	5%	5%	4%	5.6%	5%	6%
Fee pressures	51%	61%	33%	68%	54%	53.3%	57%	49%
Other	4%	3%	1%	0%	9%	3.5%	3%	4%

Further analysis of practice vulnerability revealed that pressures on SMPs were not uniform around the world, and some were in fact highly concentrated in specific parts of the world.

Interpreting some of these findings is not straightforward. The case of China is particularly puzzling as, despite citing competition as a top concern (more so than SMPs in any other market), China's SMPs also indicated the lowest level of threat to their businesses from other SMPs, and indeed from almost every other source. It is possible that practices in China have been exposed to very little competition in the past and have been able to maintain significant profit margins without much commercial discipline owing to the relatively low earnings of professional staff. New competition is squeezing profit margins severely because a narrow service offering does not allow SMPs in China to differentiate themselves sufficiently. The resulting fall in profitability will be a first-order concern to accountants, but not a threat to the viability of their practices in the medium-term. This is only one of many possible explanations, but it is reinforced by the fact that SMPs in China report the lowest level of confidence in their practices' ability to understand their costs.

Further analysis of practice vulnerability revealed that pressures on SMPs were not uniform around the world, and some were in fact highly concentrated in specific parts of the world. While practices in Europe have had time to cope with the impact of deregulation, its current impact was greatest in Iran (with regard to assurance requirements) and Malaysia (with regard to reporting requirements).

In China, Vietnam and Iran, online resources (including the cloud in Iran and Vietnam) did not constitute a substantial source of competition for SMPs, whereas Malaysia's SMPs were particularly susceptible to competition from automation. Practices in China and Vietnam also did not appear to be threatened to the same extent as their counterparts elsewhere by competition from unqualified advisers. Larger firms did not always present the same level of threat to SMPs: in China, mid-tier firms did not compete as strongly as elsewhere with the sector; the Big Four compete with SMPs most intensely in Iran, Romania and Vietnam.

Table 4.2: Level of threat to SMPs (scale of 1 – no threat to 5 – severe threat)

	Emerging markets	Mature markets	Service area specialism	No service area specialism	TOTAL
Free informal advice available online	2.4	2.7	2.4	2.5	2.45
Free/subsidised advice or guidance from government and regulators	2.3	2.6	2.4	2.4	2.36
Business or trade associations	2.3	2.5	2.4	2.3	2.36
Business advisers/consultants that are unregulated and/or have no professional qualifications	3.2	3.7	3.3	3.4	3.35
Qualified practitioners in other professions	2.7	2.9	2.8	2.8	2.79
Small and medium-sized accountancy practices	3.3	3.6	3.4	3.4	3.42
Mid-tier accountancy firms	3.3	3.2	3.4	3.2	3.27
The Big Four accountancy firms	3.0	2.6	3.1	2.8	2.94
Automated services provided by accounting software or online service providers.	2.6	3.1	2.6	2.8	2.71
Reduced financial reporting requirements for smaller companies	3.1	3.1	3.3	3.0	3.12
Reduced assurance requirements for smaller companies	3.3	3.1	3.4	3.0	3.23

A practice's service offering is a major influence on the level of competitive threat experienced. Assurance, for example, is a crowded service sector.

Across markets, those SMPs that have incurred the greatest and least recoverable costs in building their service offering also report the greatest competitive threats. Those that had invested in succession planning experienced more pressure from automation, free advice and deregulation. Those that had invested in multiple qualifications experienced more pressure from unqualified advisers, larger firms, and automation. The costs associated with building a sector specialism increase practices' vulnerability to deregulation, automation, and competition from large firms. Finally, those SMPs that had invested in quality assurance from government or through an international standard reported greater competitive pressure from deregulation, competition from the Big Four and trade associations. In light of these findings, the profession may need to guard against contradictory incentives to reduce its investment in skills and quality in the face of competitive pressure.

A practice's service offering is a major influence on the level of competitive threat experienced. **Assurance**, for example, is a crowded service sector. SMPs focusing on assurance faced stronger competition than others from the mid-tier firms but also from other SMPs. Competition from the Big Four was also elevated for assurance-focused firms, though only marginally. Naturally, assurance specialists (and service sector specialists in general) were more likely to cite reduced statutory assurance requirements as a threat to their business, but they were also marginally more threatened than others by reduced reporting requirements. Intriguingly, the availability of online advice may be increasing demand for assurance in the same way that it does for internal controls and risk management; practices relying on such offerings were less likely than others to see the presence of free community-based advice as a threat because it appears to create greater demand for due diligence.

As indicated by ACCA research (Schizas et al. 2012), some of the SMP sector's **tax and compliance** offering is vulnerable to competition from other professions, or competes with government guidance and modules built into accounting software. Similarly, those SMPs offering services focusing on **marketing** (some presumably focusing on selling to government buyers) are more likely to be threatened by free government guidance (eg on public procurement). SMPs' **supply chain management** and **HR compliance** offerings

face a similar competitive landscape, with unqualified advisers and free resources often competing successfully with SMPs.

The sector's **strategy and growth** offering depends on the 'gateway' services of audit and financial reporting, and is thus threatened by reduced regulatory requirements in those areas that reduce SMPs' access to client insights. This is also true of the sector's niche **corporate social responsibility (CSR)** offering, which is tied to reporting requirements.

Other service offerings appear more insulated from competition. This appears to be true of the SMP sector's offering for **financial management and intangibles**, as well as the sector's offering for **internal controls and risk management**, which in fact benefits from complementary free online advice as well as complementary features of accounting software. Additionally, SMPs specialising in helping SMEs **source particular types of finance** are insulated against pressure from automation, free government advice and competition from mid-tier firms.

Finally, **pricing structures** are highly relevant to the competitive pressure reported by SMPs. SMPs that worked on the basis of a regular retainer were more likely to fear competition from unqualified advisers, whereas being able to charge per service or transaction on the basis of average cost appeared to insulate some SMPs from competition from the Big Four and mid-tier firms, as well as from automation, and to reduce the impact of deregulation. There was no evidence that value-based charges had a similar effect; in fact, SMPs that used them seemed to be more exposed to the Big Four. Costing clearly matters in this context: SMPs that were best at measuring cost were also most resistant to competition from other professionals.

At the other end of the scale, those SMPs that rely substantially on distributing government-subsidised services were more likely to be threatened by free government advice, but also more likely to benefit from recommendations from trade associations. At the same time, SMPs that relied on free (cross-subsidised) services to win customers were more likely to be threatened by trade associations. This suggests that it is more efficient for practices to recruit trade bodies as a source of references than to try to compete with their signposting function by offering free services. Figure 4.1 summarises the areas where SMPs report vulnerabilities.

Figure 4.1: A map of SMP vulnerabilities

	Free online advice	Government / regulator guidance	Trade associations	Unqualifieds	Other professions	SMPs	Mid-tier	Big 4	Automated or online accountancy	Reduced financial reporting	Reduced assurance requirements
Tax and compliance		Red			Red				Red		
Strategy and growth										Red	Red
Financial management											
Assurance	Green					Red	Red			Red	Red
Supply chain management	Red			Red							
HR Compliance	Red			Red							
Internal controls and risk management	Green								Green		
Corporate finance			Green				Red				
Intangibles											
CSR										Green	
Marketing		Red									
IT								Green		Green	
Standard fee per hour											
Standard fee per transaction, Cost based							Green	Green	Green	Green	Green
Standard fee per transaction, value based								Red			
Individually negotiated fee											
Share of proceeds		Red									
Regular retainer				Red							
Commission											
Government subsidy		Red	Green					Red			
Free			Red						Red		
Service area specialism										Red	Red
Transaction specialism									Red		
Finance sources specialism	Green	Green					Green		Green		
Sector specialism					Red	Red		Red	Red		Red
Asset specialism	Red				Red						
Government agency		Red						Red			
Compliance specialism					Green	Green					
Foreign specialism											
Other specialism											

All shaded boxes represent relationships statistically significant at the 0.1 level. Red boxes represent positive relationships – ie the variable on the right increases the threat from the source on the top row. Green boxes represent negative relationships, ie the variable on the right reduces the threat from the source on the top row. Some control variables included in the analysis have been omitted in this summary.

5. Dynamism, specialism and risk are universal languages for SMPs

Most of the analysis in this report has focused on SMPs' country of operation. In reality, the behaviour and priorities of practices across countries can be quite similar if they have similar origins and resources, and are faced with similar objectives.

Most of the analysis in this report has focused on SMPs' country of operation. In reality, the behaviour and priorities of practices across countries can be quite similar if they have similar origins and resources, and are faced with similar objectives. To examine SMPs in an alternative, and more natural, manner, the researchers carried out a market segmentation based on the insights from preceding sections, broadly grouping practices around the degree of specialisation, presence of M&A activity, and the level of commercial pressure faced by the practices.

The following four practice profiles emerged from this analysis:

- static specialists
- static generalists
- dynamic specialists, and
- hungry generalists.

Table 5.1 shows how these categories are distributed according to country.

5.1 STATIC SPECIALISTS (36%)

These practices have grown organically and are very likely to be specialised in either a specific service area or a specific sector – almost half of their income comes from assurance services, on which they are more dependent than any other group. In part, this is because they were more likely than any other group to be auditing a listed company or public interest entity. Static Specialists also make more of their fees from advising on financing, payroll and forensic accounting than any other group. They rely on in-house skills and are the least likely to have referral

agreements in place with external organisations. This comes at a price, however, as they face the greatest problems in finding suitable staff. Owing to their focus and expertise, Static Specialists have predictable and safe business models: they are the most confident in their ability to estimate the cost of servicing clients, and they operate in less competitive environments, generally safe from automation and free advice. Static specialists make up the majority of SMPs in Iran, but are common everywhere, making up at least 30% of the sample in other countries and emerging as the most numerous of the four groups.

5.2 STATIC GENERALISTS (22%)

These practices, most common in the UK and Ireland, have no specialism but their offering is greatly dependent on compilation, bookkeeping and tax returns – which together make up about one-third of their income. They are more dependent on compliance work than any other cluster and are the most likely to report keeping up with regulation as a top challenge. These are the smallest practices in the sample: two-thirds have 10 or fewer professional staff and almost all have no more than five partners. They are also the most dependent on SME and individuals' business, with nearly three-quarters of them depending on such clients for at least three-quarters of their income. These constraints are shaped by, and in turn reinforce, their rather defensive business model. Static Generalists have significantly lower growth aspirations than the other clusters, with only about one in six of those

Table 5.1: Segmenting the SMP sector

Country/region	Static Generalists	Hungry Generalists	Dynamic Specialists	Static Specialists
Romania	29%	16%	18%	37%
Malaysia	22%	17%	29%	32%
Iran	14%	16%	18%	53%
China (incl Hong Kong)	20%	18%	29%	33%
UK	35%	24%	14%	27%
UK and Ireland	35%	22%	14%	30%
Asia-Pacific	19%	20%	29%	32%
Generalist	56%	22%	22%	0%
Specialist	0%	18%	23%	59%
Emerging	19%	19%	25%	38%
Mature	33%	21%	15%	31%
Total	22.3%	19.2%	22.7%	35.8%

surveyed hoping to hire more than five new professional staff in the next three years, and they show the least interest in developing new services. Their demand for complementary skills is very limited as a result; they are the least likely to have partners with multiple accountancy qualifications or indeed any complementary qualifications, or to adhere to quality standards of any sort. They are also less likely than most to have referral agreements in place. Their business models involve substantial unobserved cross-subsidies; they are more likely than other segments to offer at least some of their services free of charge and to offer free referrals to professional practices run by friends and family.

5.3 DYNAMIC SPECIALISTS (23%)

These practices, most common in the Asia-Pacific region, take more risks than any other segment of the SMP population – they are more likely than others to risk their growth prospects or their very survival. These risks are a feature of their high-cost, hands-on, consulting-inspired business model. They rely on an uncertain source of revenue (ad hoc or high-value-added services), for which they must compete with a variety of other advisers (unqualifieds, SMPs and mid-tier firms) and which they can only maintain through significant investment (hence they face greater problems in accessing finance). Dynamic specialists rely more than other SMPs on income from managing cash flow, dealing with insolvency, implementing internal controls, dealing directly with regulators and other authorities, or providing ad hoc services reporting and assurance services. The Dynamic Specialist business model relies on investment in skills as much as capital investment. Partners at Dynamic Specialist SMPs are more likely than others to have consulting-related qualifications, MBAs or financial analyst qualifications (including CFAs). These are also the largest SMPs out of the four groups, with nearly one-third of those surveyed having more than 20 professional staff, and they appear to have the largest ratio of staff to partners. About one in six of those surveyed have been involved in some M&A activity, most of them by being acquired or merging with other practices. Similarly Dynamic Specialists are more likely than any other segment to be involved in formal joint ventures.

5.4 HUNGRY GENERALISTS (19%)

The least numerous of the four segments among those surveyed, Hungry Generalists are so named because of their drive to expand in size and breadth of offering and to move 'upmarket' to higher-value-added services. Among the sample surveyed, almost half of these practices were younger than three years old. Alongside dynamic specialists, the hungry generalists in the sample were the most likely practices to predict that their professional headcount would rise by at least six in the next three years. Such practices made just one-quarter of their income from audit and less than 30% of it from assurance other than internal audit. If anything, Hungry Generalists are more likely than other segments to specialise in financing options and corporate finance as opposed to a service area, such as audit. Their offering is often tailored or of sufficiently high quality that it is insulated from competition from free sources. Looking to the future, those sampled were more likely than any other segment to plan expanding their offering with high-value-added services – corporate finance and equity funding, valuation and due diligence, wealth management, tax planning, management consulting, internal audit and forensic accounting. This level of ambition depends on access to a broad range of skills both within and outside the practice – hence such practices are more likely than others to report challenges in finding business partners and meeting professional standards. Partners at Hungry Generalists tended to have the widest range of complementary (i.e. non-accountancy) skills, and the practices themselves were more likely than any other segment to have referral agreements in place with other organisations. In fact, their pursuit of complementary skills means that Hungry Generalists that are not start-ups are very often the products of mergers and acquisitions – about one-third of those in the survey had acquired another business in the last three years, and another one in six had merged or been acquired. Hungry generalists are almost equally common everywhere, although slightly more so in the UK.

The global SMP business model survey provides a unique insight into how the SMP business model has changed and is still changing to adapt to a new reality.

The global SMP business model survey provides a unique insight into how the SMP business model has changed and is still changing to adapt to a new reality. It is the first study to provide such a detailed map of the sector's service offering, its growth prospects and the source and value of its diverse skills.

SMPs' incentives are strongly aligned to those of clients through the implicit cross-subsidies between assurance and compliance work and activities encouraging client growth or satisfaction. While the sector's core offering still accounts for the vast majority of SMP income, it has come under pressure from technology, competition and deregulation. The growing competitive pressure on practices that rely on a regular retainer is also worth noting – lack of a predictable income stream may be particularly damaging to investment and innovation. So far, practices exposed to these pressures appear to have responded through innovation, by radically expanding their service offering. If this new, broader offering proves to be sustainable, then both the sector and its clients stand to gain substantially.

Two things make such adaptation possible. First, the fact that the sector's core technical skill set is highly adaptable and transferable; a number of routes exist to higher-value-added offerings that SMPs are busily exploring. One is likely to be a progression from tax and compliance to financial management and business planning and then on to a 'strategy and growth' proposition. Another route runs from assurance to risk management, change management and the design of internal controls through to developing and implementing strategy. Other routes might run from operations, risk, internal controls and the supply chain into business financing, or from HR compliance to pensions advice and through to personal wealth management.

The second element that has helped practices adapt is the ability to form partnerships with other organisations – giving the practice and its clients access to a far wider range of skills than what is available in-house. Partnerships are very common in more saturated markets, particularly the UK and Ireland, and appear to

be one of the ways in which practices have responded to deregulation.

Despite the sector's flexibility and resilience, the impact of deregulation on the SMP sector cannot be dismissed out of hand. Deregulation is testing the cross-subsidies between growth-orientated services and the more traditional, core offering of assurance and compliance, which have by and large benefited clients by aligning advisers' incentives with their own. This study demonstrates two ways in which these incentives can become misaligned in a deregulated environment. First, generalist practices with a diverse offering may find it harder to invest in skills, quality and succession planning. Second, specialist practices may find it harder to compete not only with other SMPs but also with unqualified business advisers. Either way, commercial pressures will make it more challenging to provide clients with a consistently high level of service in the future.

Even where deregulation has not provided an impetus for change, commercial realities have. The sector's growing interest in internal audit and the development of financial controls for clients, driven primarily by emerging markets, probably reflects a demand from supply chains around the world for higher standards and greater accountability in business. The profession should monitor this trend and ensure it adapts its skills to the task correctly.

Alongside these sector-wide trends, specific markets face their own individual challenges. In countries such as Iran, Malaysia and Singapore, the sector faces an acute skills shortage. In China, it is adapting to commercial reality and starting to focus on understanding and allocating costs. In the UK, it is facing tighter operating margins and the need to keep up with a wider range of regulatory requirements on practices and their clients. Professional bodies at the national level are engaging with such issues – but solutions to problems at the national level may well have been tested elsewhere in the world; the profession has much to gain from sharing insights and best practice across borders.

Recommendations for practices

- SMPs need to build broad but sustainable service offerings. A broad service offering can make practices more resilient against competition. However, a practice needs 'cash cow' services to cross-subsidise the rest – services with predictable demand and prices.
- SMPs must focus on their transferable skills to build a value added offering. This need not mean building entirely new skillsets, as the profession's technical skills are highly transferable. But it does require planning and commercial discipline.
- Practices need to be mindful of what services their competitors are thinking of offering. Services that appear extremely promising today – e.g. advising on internal audit or developing financial controls for clients – may be too competitive in future to be significantly profitable.
- SMPs must close the loop that makes value-added services sustainable. Value-added services rarely make money in themselves – they are an investment towards greater, more regular income in the future. SMPs need a strong emphasis on generating client growth, referrals and repeat business to benefit from them.
- Practices need a strong understanding of costs and must think beyond a regular retainer. Rigorous and flexible costing can help shield a practice from competition.
- Specialisation in a particular sector is a winner-take-all contest, and is unlikely to be a viable strategy for very many practices at one time – SMPs need to think hard on whether they truly have the resources to develop a sector niche.
- SMPs must not compete with business associations, but join them; access to their networks and signposting services is a very efficient means of attracting new business.
- Practices need to develop succession plans; although a minority, too many SMPs don't have these in place. Yet this is not simply a good precaution. It can also spur partners to seek out and nurture talent, formalise processes and professionalise the business.

Recommendations for professional bodies

- Deregulation is challenging the cross-subsidies that make the sector's product offering viable and provides disincentives to invest in quality. Professional bodies must support such investments through cost-effective quality assurance or practice management certification programmes, and should particularly consider cross-subsidising these where necessary.
- Deregulation may be more advanced in Europe, but it is underway around the world. Accountancy bodies in Asia and beyond should note European SMPs' increasing reliance on the compliance skillset, including compilations engagements, as well as the specific types of services they have turned to in order to replace the income lost to deregulation. No two SMP markets are entirely alike – but the profession should not ignore lessons that have been learnt at great cost elsewhere.
- Professional bodies need to emphasise costing and commercial discipline in their CPD offering, and underline the link between this and service innovation.
- In more mature markets, service innovation can be a daunting task. Professional bodies need to develop guidance for members developing new services, drawing where possible from the experience of members that have done so successfully.
- Professional bodies should also take note of the specific service areas that practices see as sources of future growth. In mature markets these include new assurance services, due diligence for major transactions, and internal controls, while in emerging markets they include internal audit, the design and review of internal controls and financial management, followed by budgeting, forensic accounting and wealth management. CPD products need to be introduced and tailored around these ambitions.
- Low levels of succession planning are not a problem that individual practices should be left to solve on their own. Professional bodies need to explore the perceived or actual difficulties associated with transferring softer skills as opposed to the profession's core 'technical' skills, and raise

awareness among SMPs of the value of succession planning. They need to support SMP succession planning through advice and guidance, as well as mentoring and networking schemes.

- Professional bodies need to better segment their SMP memberships according to dynamism, specialism and vulnerability in order to deliver a truly targeted offering.
- In particular, our survey reveals a somewhat surprisingly high level of M&A activity in the SMP sector. Little is known about the experiences of these practices, which should be more carefully studied by the profession.

Recommendations for governments and regulators

- Deregulation of assurance and financial reporting may be an appropriate policy in some cases – the evidence suggests that SMPs react to it with innovation, not resignation. However deregulation must be pursued with an eye to its impact on business advisers' offering and the resulting impact on the quality of business support.
- Governments need to be particularly alive to the risks of unregulated and uninsured business advisers.
- Governments in emerging markets should take note of the SMP sector's increasing interest in internal audit, internal controls and due diligence. A sector with such emerging interests can prove to be a powerful ally in professionalising and formalising the SME sector, as well as encouraging it to access international markets.

Annexe 1: Identity of the sample and methodological notes

The Global SMP Business Model Survey attracted 531 responses from SMPs around the world.

The Global SMP Business Model Survey attracted 531 responses from SMPs⁵ around the world. Iran, the UK, China (including Hong Kong SAR), Malaysia, Romania, Ireland, Singapore and Vietnam provided the largest national samples, accounting for 86% of responses between them. About two-thirds of all respondents were partners in their respective practices. The analysis in this report takes into account the differences between partner- and non-partner responses (see Annexe 2), but these have generally been minor.

Owing to a lack of information on the worldwide SMP population, the survey sample of SMPs is not perfectly representative, and survey findings could not be weighted. Appropriately, smaller practices dependent

on small clients are very well represented. The majority (61%) of respondents worked in practices that a) were less than 20 years old, b) had up to five partners and up to 50 professional staff, and c) made at least 75% of their fee income from working with individuals and SME clients.

Respondents to the SME Business Model Survey were asked to indicate which of 54 services (see A1.2) they offered, and given an additional option of suggesting services that had not been listed. They were also asked to estimate what share of their income came from each of the services offered. This information made it possible to calculate unweighted estimates of what each service contributed to practice income.⁶

Table A1.1: Sample characteristics

		N	%
Number of professional staff	0	18	3.4
	1–5	159	29.9
	6–10	95	17.9
	11–20	109	20.5
	21–50	96	18.1
	51–100	42	7.9
	101–249	12	2.3
Number of partners	One partner only	111	20.9
	2–5 partners	361	68.0
	6–10 partners	36	6.8
	11–20 partners	17	3.2
	Over 20 partners	6	1.1
Year when practice was established	Less than 3 years ago	63	11.9
	3–9 years ago	144	27.1
	10–19 years ago	173	32.6
	20–49 years ago	113	21.3
	50 years ago or longer	38	7.2
Country	Romania	52	9.8
	Malaysia	70	13.2
	Iran	102	19.2
	China (incl Hong Kong)	79	14.9
	Ireland	26	4.9
	Singapore	22	4.1
	UK	85	16.0
	Vietnam	20	3.8
	Other	75	14.1
Total number of practices		531	100

⁵ There is no consensus on the definition of an SMP. The survey screened out professionals who did not work in practice, practitioners who worked for the Big Four firms and those whose practices made less than 25% of their income from individual or SME clients or had 250 or more full-time equivalent professional staff. This will have included some accountants working in mid-tier firms.

⁶ Sector income was inferred by multiplying the percentage of SMPs offering a service with the service's average estimated share of income among those SMPs that offered it. To produce cross-sample estimates, each service's raw income share was multiplied with the same adjustment factor to ensure that they added up to 100%.

Factor analysis⁷ was then carried out to distil 12 broad themes out of these 55 detailed options, and the score assigned to each respondent was based on how much of its offering fell into each theme. The 12 themes, and the services most related to them, are summarised in Table 1.1. Each theme indicates not merely a set of related services but most importantly the knowledge, skills and experience that are common to these services.

Because each service generally fell into only one theme, it is possible to estimate each theme's contribution to fee income. Furthermore, by looking at the correlation between their theme scores and the services SMPs were *planning to introduce* over the next two years, it was possible to test the transferability of skills between service areas. The results of this analysis are summarised on Table 1.2.

Table A1.2: Which of the following areas does your practice offer services to clients in? Please choose all that apply, even if the services in question are offered only rarely, or only to a very small range of clients, or even free of charge.

1. Statutory/voluntary audit	20. Payroll	39. Credit management (including design of policies and debt recovery)
2. Review	21. Recruitment	40. Building the business's in-house finance function
3. Compilation (accounts, preparation) engagements	22. Employment law	41. Organisational restructuring and change management
4. Other assurance	23. Pensions advice and planning	42. IT systems design and implementation (including vendor selection and liaison)
5. Bookkeeping	24. Strategy formation and implementation	43. Quality and operations (including standards compliance, eg ISO)
6. Statutory financial reporting	25. Business or management consulting (including coaching/mentoring)	44. Procurement, purchasing and supply chain management
7. Ad hoc financial reporting (other than statutory filing of accounts)	26. Business planning	45. Efficiency / profit improvement
8. Preparation of management accounts	27. Marketing/advertising /market research	46. Bidding for public sector contracts
9. Business formation/registration/ incorporation	28. Internationalisation support	47. Sustainability/environmental impact measurement and reporting (eg ACCA's <i>Carbon Accounting for Small Businesses guidance</i> : bit.ly/1nPiqqg)
10. Tax planning	29. IPO and other capital markets activity	48. Corporate social responsibility statements and reporting
11. Administration of GST/VAT/other sales taxes	30. Due diligence on major transactions	49. Internal audit
12. Tax returns and other compliance paperwork	31. Mergers and acquisitions	50. Forensic accounting, fraud prevention, anti money laundering checks
13. Dealing/negotiating with tax authorities and regulators	32. Business valuation	51. Risk management, disaster recovery and continuity planning
14. Licensing/permits/registration of business assets	33. Intellectual property, patents and other intangible assets	52. Internal controls design / review
15. Company law and Company Secretarial Services	34. Succession planning and business transfers	53. Insolvency/receivership/corporate recovery/liquidation
16. Business financing options	35. Personal financial advice/wealth management	54. Secretarial/managed office/ administrative services
17. Finding and securing equity investors	36. Financial management	55. Other (please specify)
18. Bank applications and other formal credit applications	37. Budgeting	
19. Applications for government grants	38. Cash flow management/forecasting	

⁷ Factor analysis is a statistical technique that allows the grouping of possibly correlated variables into a narrower set of uncorrelated ones called principal components. The analysis used Varimax rotation in order to ensure that the resulting factors are as distinct as possible. Services were considered to 'belong' to a theme if the relevant factor loading was 0.4 or greater. With the exception of internal audit, which was allocated to two themes, each service corresponded to one theme only.

Roughly two-thirds of the SMP business model survey's sample were partners in their respective practices.

Roughly two-thirds of the SMP business model survey's sample were partners in their respective practices. Since non-partners may not have access to all commercially sensitive information about their practices, it is necessary to test for differences between their responses and those of partners. Such tests were carried out on a selection of three key questions.

The analysis of **practice vulnerability** controlled for partner status across all dimensions of vulnerability. Partner status never emerged as a significant determinant, even at the $p=0.1$ level. This suggests that partners assess the commercial challenges facing their organisations very similarly to the qualified employees at their practices.

The analysis of SMPs' **partnerships** with other organisations revealed that non-partners were much less likely to report that their practices were involved in such arrangements ($p=0.032$). After discarding 'don't know' responses (which were much more common among non-partners), however, the difference between partners' and non-partners' responses was not statistically significant ($p=0.737$). In light of this, the analysis of this and other similar questions has generally

excluded 'don't know' answers and the resulting figures should not be unduly biased by the responses of non-partners.

Regarding **plans for future expansion**, non-partners gave significantly different answers only with regard to assurance (audit, review and other assurance), business valuation, internationalisation support, and recruitment – ie 6 out of 55 services. Compared with partners, non-partners were likely to overestimate the potential for expansion in assurance but under-estimate growth in valuation, internationalisation and recruitment services – and the chances that the practice's service offering will expand in general. Adjusting for non-partner bias, the share of SMPs with plans to widen their offering over the next few years would rise from 73% to 81%.

In all the above cases, the analysis was based on binary regression analyses that controlled for a wide range of factors, including the practices' location, number of partners, age, sources of income and pricing methods, and their history of mergers and acquisitions. Overall, it is unlikely that non-partner responses have significantly biased the findings cited in this report.

Table A2.1: Adjusted likelihood that SMPs will introduce new services

	Partner	Non-partner	All	Bias factor from regression	Non-partners (adjusted)	All (adjusted)
Business valuation	8%	4%	7%	0.3	14%	10%
Internationalisation support	5%	2%	4%	0.2	8%	6%
Statutory/voluntary audit	4%	3%	4%	11.5	0%	3%
Other assurance	7%	9%	8%	2.9	3%	6%
Recruitment	4%	2%	3%	0.2	10%	6%
Review	4%	5%	4%	4.0	1%	3%
Any new services	78%	63%	73%	2.7	86%	81%

The bias factor represents the degree by which non-partners are likely to overestimate the likelihood that a new service will be contemplated, after controlling for other influences. A factor of more than 1 means that, other things being equal, non-partners overestimate this; a factor of less than 1 means non-partners underestimate it. Adjusted estimates for non-partners were prepared by dividing non-partners' responses by the bias factor.

Annexe 3: National and regional figures

Table A3.1: Services' share of practice income by country/region (including the top 10 services in each country/region)

	Romania	Malaysia	Iran	China (incl Hong Kong)	UK	UK and Ireland	Asia-Pacific	TOTAL SAMPLE
Statutory/voluntary audit	2%	36%	56%	47%	6%	10%	39%	31.8%
Bookkeeping	60%	11%	1%	2%	7%	7%	8%	12.8%
Compilation (accounts, preparation) engagements	2%	6%	4%	5%	30%	29%	7%	9.5%
Statutory financial reporting	1%	4%	9%	7%	13%	12%	5%	6.7%
Tax returns and other compliance paperwork	9%	10%	1%	2%	12%	10%	7%	6.3%
Review	1%	2%	6%	7%	2%	2%	4%	3.6%
Tax planning	1%	3%	1%	2%	6%	6%	2%	2.8%
Other assurance	2%	1%	3%	9%	1%	1%	4%	2.5%
Internal audit	0%	0%	4%	9%	0%	0%	4%	2.3%
Payroll	7%	1%	0%	0%	5%	5%	1%	2.3%
Preparation of management accounts	2%	6%	1%	0%	3%	3%	3%	2.2%
Administration of GST/VAT/ other sales taxes	1%	4%	0%	0%	3%	3%	2%	1.8%
Company law and company secretarial services	0%	3%	1%	0%	1%	1%	2%	1.7%
Ad hoc financial reporting	1%	1%	2%	2%	1%	1%	2%	1.6%
Business formation/ registration/incorporation	0%	2%	0%	1%	2%	1%	2%	1.3%
Dealing/negotiating with tax authorities and regulators	1%	1%	1%	0%	2%	2%	1%	1.0%
Business valuation	3%	0%	1%	1%	0%	0%	1%	0.9%
Financial management	1%	1%	1%	1%	1%	1%	1%	0.9%
Secretarial/managed office/ administrative services	1%	3%	0%	0%	0%	0%	2%	0.8%
Cash flow management/ forecasting	1%	1%	0%	0%	1%	1%	1%	0.6%
Business or management consulting	2%	0%	1%	0%	0%	0%	0%	0.5%

Estimates are unweighted.

Table A3.2: Skill sets' share of practice income by country/region

	Romania	Malaysia	Iran	China (incl Hong Kong)	UK	UK and Ireland	Asia-Pacific	TOTAL SAMPLE
Assurance	4%	39%	70%	73%	9%	12%	50%	40.2%
Tax and compliance	84%	47%	12%	12%	70%	66%	34%	41.8%
Risk and controls	1%	4%	5%	10%	1%	1%	5%	3.6%
Growth	5%	1%	2%	1%	3%	3%	2%	3.2%
Financial management	3%	2%	1%	1%	2%	2%	2%	2.2%
Corporate finance	0%	1%	0%	1%	1%	1%	1%	0.8%
Intangibles	0%	1%	0%	2%	0%	1%	1%	0.7%
HR compliance	1%	0%	0%	0%	0%	0%	0%	0.4%
IT	0%	0%	0%	0%	0%	0%	0%	0.2%
SCM	0%	0%	0%	0%	0%	0%	0%	0.1%
Marketing	0%	0%	0%	0%	0%	0%	0%	0.0%
CSR	0%	0%	0%	0%	0%	0%	0%	0.0%

Estimates are unweighted.

Table A3.3: Percentage of SMPs ranking each service among their three fastest growing services (including top 10 in each region)

	Romania	Malaysia	Iran	China (incl Hong Kong)	UK	UK and Ireland	Asia-Pacific	TOTAL
Statutory/voluntary audit	5%	56%	79%	52%	9%	14%	54%	46.5%
Bookkeeping	89%	36%	4%	13%	24%	22%	26%	26.5%
Compilation (accounts, preparation) engagements	9%	14%	16%	8%	45%	48%	16%	23.3%
Tax returns and other compliance paperwork	41%	34%	5%	6%	36%	32%	20%	21.5%
Tax planning	5%	19%	4%	15%	30%	28%	16%	14.6%
Statutory financial reporting	14%	14%	15%	10%	19%	18%	13%	13.5%
Review	7%	5%	32%	13%	1%	1%	11%	11.9%
Internal audit	0%	5%	22%	21%	0%	2%	13%	11.2%
Other assurance	5%	5%	14%	40%	0%	2%	18%	11.0%
Payroll	34%	2%	0%	0%	37%	30%	1%	10.3%
Administration of GST/VAT/ other sales taxes	2%	39%	5%	0%	6%	4%	19%	9.8%
Preparation of management accounts	5%	8%	4%	2%	19%	21%	6%	8.5%
Company law and company secretarial services	0%	6%	2%	2%	1%	2%	5%	4.3%
Dealing/negotiating with tax authorities and regulators	2%	6%	1%	2%	6%	8%	3%	3.9%
Business formation/ registration /incorporation	2%	3%	0%	4%	10%	8%	3%	3.4%
Due diligence on major transactions	2%	3%	1%	6%	1%	1%	6%	3.0%
Forensic accounting, fraud prevention, anti money laundering checks	2%	2%	7%	0%	1%	1%	1%	2.7%
Ad hoc financial reporting (other than statutory filing of accounts)	2%	2%	5%	2%	0%	1%	2%	2.5%
Business valuation	2%	2%	2%	4%	1%	1%	2%	2.3%
Financial management	0%	3%	0%	4%	1%	2%	3%	1.8%
Internal controls design/ review	0%	2%	6%	0%	0%	0%	1%	1.8%
Insolvency/receivership/ corporate recovery/ liquidation	0%	0%	1%	8%	0%	0%	3%	1.8%
Business or management consulting (including coaching/mentoring)	5%	0%	2%	0%	3%	2%	0%	1.6%
Business planning	0%	2%	0%	0%	7%	6%	1%	1.6%
Mergers and acquisitions	2%	0%	0%	2%	3%	3%	1%	1.4%
Succession planning and business transfers	0%	0%	0%	0%	3%	4%	1%	1.4%
Personal financial advice / wealth management	2%	0%	2%	0%	1%	1%	1%	1.4%
Bank applications and other formal credit applications	0%	0%	1%	4%	1%	2%	1%	1.1%
Applications for government grants	0%	0%	0%	6%	0%	0%	3%	1.1%

Table A3.4: Services SMPs are planning to introduce over the next two years

	Romania	Malaysia	Iran	China (incl Hong Kong)	UK	UK and Ireland
Internal audit	15%	14%	28%	13%	4%	3%
Internal controls design/review	10%	13%	21%	11%	2%	3%
Financial management	10%	13%	25%	11%	2%	2%
Personal financial advice/wealth management	15%	13%	12%	1%	5%	4%
Budgeting	10%	9%	16%	6%	1%	1%
Forensic accounting, fraud prevention, anti money laundering checks	6%	13%	16%	3%	2%	2%
Other assurance (not audit or review)	10%	6%	10%	9%	5%	5%
Tax planning	6%	6%	8%	16%	0%	0%
Preparation of management accounts	4%	1%	17%	9%	0%	0%
Business valuation	13%	11%	2%	6%	1%	1%
Cash flow management/forecasting	6%	11%	10%	3%	4%	4%
Due diligence on major transactions	4%	9%	4%	6%	2%	3%
Efficiency/profit improvement	4%	9%	9%	4%	4%	3%
Risk management, disaster recovery and continuity planning	0%	11%	11%	4%	1%	2%
Mergers and acquisitions	15%	7%	9%	3%	2%	2%
Statutory financial reporting	8%	0%	14%	9%	0%	0%
Compilation (accounts, preparation) engagements	8%	6%	8%	8%	1%	1%
Ad hoc financial reporting (other than statutory filing of accounts)	6%	1%	17%	1%	1%	1%
Administration of GST/VAT/other sales taxes	2%	13%	10%	5%	0%	0%
Business planning	10%	14%	4%	3%	1%	1%
Insolvency/receivership/corporate Recovery/liquidation	10%	6%	7%	3%	2%	2%
Business or management consulting (including coaching/mentoring)	6%	9%	5%	1%	2%	2%
IPO and other capital markets activity	0%	7%	5%	10%	0%	0%
Tax returns and other compliance paperwork	2%	7%	12%	4%	0%	0%

Table A3.5: Percentage of SMPs offering services

	Romania	Malaysia	Iran	China (incl Hong Kong)	UK	UK and Ireland	Asia-Pacific	TOTAL
Statutory/voluntary audit	12%	76%	95%	77%	72%	76%	77%	74.2%
Tax returns and other compliance paperwork	83%	73%	27%	25%	98%	98%	51%	63.1%
Bookkeeping	100%	67%	23%	38%	88%	91%	56%	62.1%
Compilation (accounts, preparation) engagements	19%	60%	54%	35%	93%	95%	53%	60.3%
Statutory financial reporting	37%	57%	52%	32%	89%	92%	46%	57.6%
Review	21%	40%	79%	44%	59%	61%	45%	54.4%
Preparation of management accounts	38%	63%	35%	15%	91%	91%	40%	50.8%
Tax planning	21%	60%	18%	30%	94%	93%	45%	50.8%
Payroll	87%	26%	9%	6%	94%	95%	24%	46.3%
Administration of GST/ VAT/other sales taxes	17%	66%	10%	8%	93%	94%	40%	44.4%
Other assurance	15%	23%	63%	70%	38%	41%	44%	43.7%
Dealing/Negotiating with tax authorities and regulators	27%	46%	15%	6%	91%	90%	27%	41.6%
Ad hoc financial reporting	29%	33%	37%	15%	74%	77%	27%	39.7%
Business formation/registration / incorporation	12%	39%	1%	28%	91%	90%	37%	39.7%
Company law and company secretarial services	8%	46%	25%	6%	78%	81%	27%	38.6%
Internal audit	8%	24%	50%	53%	11%	14%	40%	34.1%
Cash flow management/forecasting	31%	20%	9%	5%	76%	77%	14%	31.1%
Business valuation	15%	10%	14%	24%	56%	58%	21%	27.9%
Financial management	25%	13%	20%	24%	41%	47%	19%	27.1%
Budgeting	31%	11%	18%	8%	58%	62%	11%	26.9%
Internal controls design/review	6%	19%	21%	23%	21%	26%	22%	23.9%
Business planning	8%	10%	2%	3%	58%	63%	9%	22.2%
Due diligence on major transactions	8%	20%	7%	13%	35%	38%	22%	22.0%
Bank applications and other formal credit applications	37%	6%	7%	6%	39%	50%	6%	20.2%
Secretarial/managed office/ administrative services	21%	39%	4%	3%	26%	28%	21%	19.4%
Personal financial advice /wealth management	27%	3%	23%	5%	26%	34%	6%	18.8%
Succession planning and business transfers	4%	1%	2%	3%	58%	60%	5%	16.8%
Business or management consulting (including coaching/ mentoring)	23%	9%	8%	6%	27%	35%	9%	16.4%
Mergers and acquisitions	17%	1%	3%	16%	27%	29%	13%	15.6%
Applications for government grants	10%	6%	1%	11%	33%	44%	10%	15.4%
Business financing options	15%	3%	2%	6%	35%	43%	7%	15.3%

	Romania	Malaysia	Iran	China (incl Hong Kong)	UK	UK and Ireland	Asia-Pacific	TOTAL
Forensic accounting, fraud prevention, anti money laundering checks	17%	3%	22%	5%	19%	23%	6%	15.1%
Insolvency /receivership /corporate recovery/liquidation	8%	13%	13%	16%	6%	13%	15%	13.9%
Employment Law	38%	4%	8%	%	9%	14%	5%	11.9%
Efficiency/profit improvement	25%	1%	5%	4%	27%	32%	3%	11.9%
Licensing/permits/registration of business assets	12%	9%	%	8%	2%	12%	12%	11.5%
Strategy formation and implementation	8%	3%	4%	3%	29%	34%	4%	11.5%
IT systems design and implementation (including vendor selection and liaison)	15%	7%	7%	%	16%	18%	6%	10.0%
Building the business's in-house finance function	8%	3%	3%	8%	21%	26%	5%	9.6%
Recruitment	13%	6%	3%	3%	6%	10%	7%	9.0%
Organisational restructuring and change management	6%	4%	5%	1%	12%	18%	4%	8.1%
Risk management, disaster recovery and continuity planning	4%	3%	11%	3%	6%	8%	5%	7.3%
Credit management (including design of policies and debt recovery)	17%	1%	4%	1%	8%	14%	3%	7.0%
Pensions advice and planning	6%	1%	1%	1%	21%	23%	2%	6.6%
Finding and securing equity investors	2%	%	1%	1%	13%	15%	5%	6.4%
Internationalisation support	4%	%	3%	1%	7%	10%	1%	4.5%
Intellectual property, patents and other intangible assets	6%	1%	1%	9%	6%	7%	5%	4.5%
IPO and other capital markets activity	%	3%	5%	4%	%	1%	6%	4.1%
Bidding for public sector contracts	6%	1%	%	4%	1%	8%	4%	4.0%
Corporate social responsibility statements and reporting	8%	%	2%	5%	%	%	3%	3.0%
Other (please specify)	2%	%	6%	1%	%	1%	1%	2.4%
Marketing/advertising /market research	%	%	1%	%	5%	5%	1%	2.1%
Procurement, purchasing and supply chain management	6%	%	1%	3%	%	3%	2%	2.1%
Quality and operations (including standards compliance, eg ISO)	%	%	3%	1%	1%	3%	1%	1.5%
Sustainability/environmental impact measurement and reporting	%	%	3%	4%	%	%	2%	1.1%

Table A3.6: Practice specialism per country/region

	Romania	Malaysia	Iran	China (incl Hong Kong)	UK	UK and Ireland	Asia-Pacific	TOTAL
Specific service area (eg audit, insolvency)	33%	51%	75%	41%	24%	26%	49%	47.8%
Supporting specific types of transactions (eg M&A, MBOs)	0%	7%	9%	4%	4%	3%	7%	5.3%
Raising specific sources of finance (eg factoring, peer to peer lending)	2%	0%	6%	3%	2%	3%	2%	2.6%
Serving specific industries/sectors	15%	11%	18%	1%	25%	23%	6%	13.6%
Specific types of assets (eg patents, licences)	2%	1%	3%	4%	2%	2%	3%	2.6%
Dealing commercially with specific government agencies	2%	1%	7%	5%	0%	0%	3%	2.6%
Compliance with specific government regulations/ agency requirements	6%	7%	14%	14%	1%	1%	11%	8.9%
Doing business in particular foreign countries /Clients from particular foreign countries	6%	3%	6%	0%	5%	5%	3%	4.0%
Other (please specify)	4%	1%	1%	0%	4%	5%	1%	2.3%
No particular specialism	52%	39%	17%	46%	56%	55%	40%	39.7%

Table A3.7: Rating of threat (1 – no threat; 5 – severe threat)

	Romania	Malaysia	Iran	China (incl Hong Kong)	UK	UK and Ireland	Asia-Pacific
Free informal advice available online	2.5	2.7	2.1	2.0	2.7	2.68	2.44
Free/subsidised advice or guidance from government and regulators	2.2	2.7	2.0	2.1	2.6	2.61	2.41
Business or trade associations	2.5	2.6	2.2	2.0	2.4	2.47	2.36
Unregulated/unqualified business advisers/ consultants	3.6	3.7	3.2	2.5	3.7	3.74	3.11
Qualified practitioners in other professions	3.0	3.0	2.5	2.4	2.8	2.87	2.76
Other SMPs	3.0	3.5	3.3	3.2	3.5	3.61	3.40
Mid-tier accountancy firms	3.1	3.5	3.4	2.7	3.0	3.19	3.20
The Big Four accountancy firms	3.3	3.0	3.1	2.4	2.4	2.56	2.82
Accounting software or online service providers.	2.8	3.0	2.2	2.4	3.1	3.14	2.66
Reduced financial reporting requirements for smaller companies	2.9	3.4	3.5	2.9	3.0	3.03	3.11
Reduced assurance requirements for smaller companies	2.8	3.6	3.6	2.9	3.0	3.04	3.25

Table A3.8: Complementary qualifications held by practice partners

	Romania	Malaysia	Iran	China (incl Hong Kong)	UK	UK and Ireland	Asia-Pacific	Emerging markets	Mature markets	Non service specialist	Service area specialist	TOTAL
Financial advice, planning or pensions	2%	7%	13%	14%	14%	18%	12%	10%	15%	9%	14%	11.3%
Financial analysis (incl. CFA)	6%	13%	10%	5%	1%	5%	10%	9%	5%	4%	12%	8.1%
Actuarial	0%	1%	3%	3%	0%	0%	2%	2%	0%	0%	2%	1.1%
Legal	12%	7%	7%	6%	7%	6%	9%	9%	6%	8%	9%	8.5%
Human resource management	23%	0%	2%	3%	5%	4%	1%	5%	3%	5%	3%	4.3%
Quality and operations	0%	1%	1%	3%	0%	0%	2%	1%	0%	0%	1%	.8%
Procurement and purchasing	0%	0%	0%	1%	0%	0%	2%	1%	0%	0%	1%	.8%
IT or IT vendor related	19%	0%	5%	1%	6%	6%	4%	7%	7%	6%	8%	7.2%
Project management	0%	0%	1%	3%	1%	1%	2%	1%	1%	0%	2%	1.1%
Business management (including MBA)	8%	7%	13%	4%	1%	4%	11%	12%	4%	6%	15%	10.2%
Business consulting	10%	3%	2%	3%	1%	3%	5%	6%	2%	4%	6%	4.7%
Advertising or marketing	6%	0%	1%	1%	2%	2%	1%	2%	1%	2%	2%	1.9%
Engineering (any type)	8%	1%	2%	5%	0%	0%	3%	3%	0%	1%	4%	2.3%
Medical or other health-related	0%	0%	0%	1%	0%	0%	1%	0%	0%	0%	0%	.2%
Other	6%	1%	14%	1%	2%	6%	3%	7%	6%	4%	9%	6.6%
None of the above	35%	61%	44%	35%	71%	64%	46%	43%	66%	55%	42%	49.0%
Don't know	17%	10%	15%	37%	7%	8%	20%	17%	9%	16%	14%	15.1%

Table A3.9: Partnerships maintained by SMPs, by country/region

	Romania	Malaysia	Iran	China (incl Hong Kong)	UK	UK and Ireland	Asia-Pacific	Emerging	Mature	Specialist	Generalist	TOTAL
Any partnerships, of which:	8%	27%	5%	16%	53%	51%	25%	19%	44%	27%	22%	25.0%
Free referrals to a subsidiary of ours	0%	9%	1%	3%	6%	5%	5%	3%	4%	5%	2%	3.4%
Free referrals to a business owned/run by friends and/or family of the principals in our practice	0%	14%	1%	0%	11%	11%	7%	5%	9%	6%	5%	5.8%
A formal joint venture with another business	2%	3%	0%	3%	2%	2%	4%	3%	1%	4%	2%	2.8%
Referrals to another business in exchange for a fee or commission	2%	9%	2%	1%	14%	14%	5%	5%	12%	8%	5%	6.6%
Referrals to another business in exchange for counter-referrals	2%	4%	2%	1%	33%	25%	5%	5%	21%	10%	8%	9.2%
Referrals to a government agency	0%	0%	1%	1%	0%	1%	1%	1%	1%	1%	0%	0.8%
None of the above	2%	1%	1%	8%	4%	5%	5%	3%	4%	4%	3%	3.4%
Other	0%	0%	1%	0%	2%	5%	0%	1%	4%	1%	2%	1.5%

Table A3.10: Quality standards with which practices comply

	Romania	Malaysia	Iran	China (incl Hong Kong)	UK	UK and Ireland	Asia-Pacific	Emerging markets	Mature markets	Non service area specialist	Service area specialist	TOTAL
Yes, a government or regulator-mandated standard	33%	39%	52%	66%	8%	8%	55%	46%	16%	28%	50%	38.6%
Yes, a practice quality certification from an accountancy professional body	69%	51%	32%	13%	52%	50%	31%	40%	44%	39%	43%	41.2%
Yes, ISO9000/9001	10%	6%	1%	4%	5%	4%	4%	4%	3%	4%	3%	3.8%
Yes, International Standard on Quality Control (ISQC 1) 1 in relation to audit, review, other assurance and related services engagements	8%	56%	15%	13%	9%	17%	34%	26%	23%	21%	30%	25.4%
Don't know / Not Sure	13%	13%	21%	22%	31%	25%	15%	17%	23%	25%	11%	18.3%
Other (please specify)	0%	1%	3%	0%	4%	4%	1%	2%	3%	3%	2%	2.3%

Table A3.11: Practices' succession planning arrangements

	Romania	Malaysia	Iran	China (incl Hong Kong)	UK	UK and Ireland	Asia-Pacific	Other	Mature	Specialist	Generalist	TOTAL
A formal succession planning policy for partners and senior staff	10%	20%	16%	15%	21%	17%	22%	19%	16%	22%	13%	18.3%
Formal training for professionals just below partner level	6%	16%	23%	8%	16%	15%	18%	18%	18%	24%	9%	18.1%
Informal training, including coaching and mentoring, for professionals just below partner level	17%	24%	17%	10%	24%	24%	22%	19%	26%	23%	16%	20.5%
Formal training for more junior professionals	17%	13%	28%	22%	12%	12%	21%	22%	15%	25%	12%	19.8%
Informal training, including coaching and mentoring, for more junior professionals	19%	27%	25%	14%	11%	10%	20%	22%	9%	21%	15%	18.6%
Formal assessments of professionals' potential to become partners	6%	9%	15%	10%	7%	5%	12%	12%	7%	13%	7%	10.4%
Headhunting potential partners from other practices	4%	1%	4%	6%	11%	8%	4%	4%	7%	5%	5%	5.1%
Don't know	12%	11%	7%	30%	18%	19%	20%	14%	19%	12%	21%	15.3%
Others (please specify)	0%	0%	1%	0%	0%	1%	0%	1%	1%	1%	0%	.8%
No support for succession planning	35%	21%	29%	18%	29%	31%	18%	24%	28%	20%	33%	24.9%

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