A new breed of adviser for the modern-day enterprise

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

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

We support our 162,000 members and 428,000 students in 173 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 91 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

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This discussion paper presents views and recommendations on the growing implications, for both the finance profession and aspiring entrepreneurs, of the changing business landscape.

Technological innovations and changing business practices, alongside the challenging needs of start-ups, are pushing accountants to review what works and what needs to evolve in their role as businesses' most trusted advisers.

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FOR MORE INFORMATION

Charlotte Chung
Senior Policy Adviser, ACCA
charlotte.chung@accaglobal.com

INTRODUCTION

Accountants have earned a reputation as businesses' most trusted advisers (Blackburn and Jarvis 2010); this is particularly true for SMEs and young businesses, which are more reliant than other firms on external practitioners for strategic and day-to-day support. The technical expertise and trusted advice offered by the finance profession are often cited as its most valuable contributions and this remains as true today as it was a decade ago.

Nonetheless, businesses now are changing, evolving, and innovating more rapidly than ever before. Technology is playing an increasingly big role in how businesses operate, trade and access finance. The growing popularity of online education pathways, epitomised by Mass Open Online Courses (MOOCs), is also opening up enterprise to new audiences and potential entrepreneurs. This paper discusses how these issues relate to the role finance professionals play in business, drawing on discussions between members of ACCA's Global Forum for SMES; it offers the Forum's expert and practical insights into the evolving challenges to, and value of, accountants in the modern-day enterprise.

HOW CAN THE FINANCE PROFESSION SUPPORT EARLY-STAGE ENTERPRISE?

Accountants are seen by SMEs around the world as experts when it comes to financing and financial management (ACCA 2012). As such, they should be able to play an educational role in early-stage enterprise. In practice, the challenges here often start from an awareness issue; most entrepreneurs are simply not aware of the support that their accountant can offer from the start of their business journey, and many accountants are not aware of how transferrable their skills are.

One overarching role accountants can play is to provide discipline for entrepreneurs, who are often biased towards verbal communication and preoccupied with moving ideas forward: 'what's next and how will we get there?' – without being rooted in a more concrete plan of action or taking the time to examine key assumptions. Accountants can support entrepreneurs in putting pen to paper and preparing business plans and projections, capturing progress and ideas in full and teasing out their implications. This discipline can help them to run their business better and reassure potential investors, who often assess the quality of management before they consider the idea itself.

Business planning in particular, and understanding and querying business models, is a major skill in need of development among both entrepreneurs and the accountants who work with them. One of the first questions that entrepreneurs jump to concerns the finance they can access for their business. Crucially, many entrepreneurs will start the process of looking for finance or preparing a business plan without having explored and tested their business model: how the business plans to make money, remain competitive, and attract new business.

Working with their advisers, and with a real understanding of their business model, entrepreneurs can be supported to navigate the finance market. This does not simply involve knowing what financing options are out there, but also being able to understand how well they fit with the needs and aims of the business. For example, many entrepreneurs consider raising venture capital as a milestone to be achieved as soon as possible (Oringer 2014), when in fact it is in many cases advisable to delay this until as late as possible; the more value their business can create, the more they can reduce by themselves the amount of risk an external finance provider would have to assume; and the more sales they make, the less equity they will need to give up in exchange for funding.

ACCA's research (ACCA 2014) into financial education for entrepreneurs has revealed that a 'Plan First' approach is the most effective way of instilling financial education into entrepreneurs: that is, using business planning, key performance indicators (KPIs) and regular management reporting to form a sound base upon which decisions about accessing external finance can be made. Crucially, a Plan First approach would not assume that external financing, let alone any individual type of financing, is necessary in the first place. Rather, it would emphasise the fact that some short-term financing needs can be pre-empted by good financial management, or fulfilled informally through trade credit arrangements, and focus on making long-term financing needs measurable and attributable to specific outcomes.

One way to embed this business-planning skill set further into the profession is to develop a framework for integrated reporting (<IR>)[1] that promotes the view that communication about businesses' value creation should be the next step in the evolution of corporate reporting. This will support the enterprise in developing a really clear picture of what and where value is created within the business.

Business valuation is another rare but crucial skill for entrepreneurs and their advisers. With early-stage ventures, valuation is all about valuing intangible assets and the business model, both of which are underdeveloped. Again, the potential for <IR> to help here is significant. Aligned with this process of business valuation is the need to establish with entrepreneurs, for whom this is not self-evident, the concept of going concern,[2] and how it influences the way one should account for the business and its performance.

SOFT SKILLS FOR THE MODERN-DAY ENTERPRISE

Of equal important to the hard skills that are seen to be essential training for entrepreneurs, there is a strong emphasis on developing soft skills. Fostering the ability to influence and gauge how external stakeholders, including suppliers, buyers, employees, consumers and investors, perceive the entrepreneur and his or her enterprise is a critical behavioural skill for success. This is particularly important when dealing with competitors, as opportunities to extract insight and seize a market advantage are often time-limited, and change with the fluidity of the markets. Acquiring these skills occurs through wider behavioural training in leadership and management capabilities.

If there is one thing that entrepreneurs do not lack it is ideas. Learning how to communicate these ideas clearly and persuasively – whether pitching for funding or marketing a product or service – is fundamental to success. Many entrepreneurs get carried away with having a great idea and rush ahead trying to get the product/service to market without having thought about the communication that wraps around this: for example, describing the need their product/service will address. This is a particular concern for technology entrepreneurs if the product or service is highly technologically complex and its application is not easily understood. Developing strong communication skills is as much about anchoring the product or service into a wider vision for the business, to ensure alignment with long-term goals, as it is about meeting short-term objectives for marketing and selling.

By their nature, softer skills are best developed through social interaction, mimicking real life experiences and scenarios. This would seem to be a challenge for remote learning approaches such as MOOCs, but this is not always the case. For example, the MOOCs provided by NovoEd[3] try to develop soft skills by creating an experiential learning environment with an emphasis on team-based activities, for example, students will be asked to form teams and engage with potential customers and suppliers as a learning exercise. This is facilitated by channels for online peer-to-peer interaction as well as access to a network of mentors.

Providing this 'real life' experience of setting up and running a business is hugely important to the success of enterprise education. The way the general public thinks about entrepreneurship can be unduly influenced by the cult of the entrepreneur whereas, in reality, early stage enterprise development is a team sport (Delta Economics 2012).

Enterprise education needs to reflect the importance of putting together the right range and fit of skills for the executive team, recognising that the characteristics of this team will have a bigger influence on business success than those of the individual founder alone.

The background and motivations of entrepreneurs need to be carefully considered in enterprise education, as this will probably cast a different emphasis on the content and approach of the learning. For example, there is a difference between entrepreneurs who are opportunist, seek quick success with a venture and have an end goal of exiting quickly, and those who want to make a long-term commitment to developing the business.

1. Since 2007, the structure and content of the ACCA Qualification has become aligned with <IR>. The publication of a draft <IR> framework for the practice of financial reporting in April 2013, allowed ACCA to develop more <IR> content within its syllabuses, particularly at the Professional level, which will become mandatory from December 2014. See ACCA (2014b).

2. An entity prepares financial statements on a going-concern basis when, under the going concern assumption, the entity is viewed as continuing in business for the foreseeable future (ACCA 2014c).

3. NovoEd partners with leading education institutions and corporations to offer collaborative, experiential online courses <https://novoed.com>.

Entrepreneurs from a high-technology educational background may require greater support for developing the business strategy, as such people have shown a tendency to focus their efforts on product development, and may neglect the business aspect. ACCA's research (Delta Economics 2012) suggests that teaching entrepreneurs to look past both the desire to make money and the desire to change the world and to focus on exploiting gaps in the market may actually encourage more high-growth enterprise.

MOOCS IN ENTERPRISE EDUCATION

On the whole, MOOCs have been well received by entrepreneurs and the business community as an innovative way of expanding the space for learning and knowledge exchange. The low cost and brevity of the courses, in particular, have been praised for making the material accessible; busy entrepreneurs can brush up on some business learning while fitting in with their work schedules, and students in emerging markets who could never afford an Ivy League MBA can still tap the same pool of knowledge.

The key to enterprise education is experiential learning; it is particularly important to understand the 'lived experience' of working in entrepreneurial teams and witnessing how the market (incumbents, customers, suppliers and regulators) reacts to a new entrant. Business games and simulations can offer a glimpse of these things and can easily find a place within MOOCs.

Another promising niche for MOOCs is the democratisation of enterprise learning in a corporate environment. In large corporations, this kind of training is usually reserved for senior management, or those with the clear potential to reach senior management. Yet a substantial share of corporate employees have the potential to undertake entrepreneurial activity (5.7% do so in high-income countries but fewer than 1% in low-income countries) (Bosma et al. 2012), adding value for their employers, and could benefit from the same educational opportunities. MOOCs could provide an easy means of selecting the most promising learners, and allow corporates to nurture 'intrapreneurship' at a reasonable cost.

The high level of engagement from users has been especially exciting and MOOCs are likely to disrupt more traditional approaches to education. Even so, MOOCs are no panacea; they are a very weak commercial proposition for Universities themselves, providing limited direct income (Hoxby 2014). They are perhaps most promising as a means of facilitating lead generation for venture capitalists and finance providers, or for learning providers offering more directed and formal learning courses. There are also questions on the effectiveness of MOOCs in contexts other than Western enterprise eco-systems. It is still unsure how well these courses can cater for an international audience, particularly in emerging markets, where institutional factors ranging from access to finance, industry structure and regulation are substantially different.

A NEW BREED OF ADVISER

The professional training received by accountants means that they should be very well placed to provide advice on financial strategies, business planning, risk management and other tasks crucial for start-ups' health, and this is broadly true. Nonetheless, their skill set is not automatically a good fit to the needs of fast-growing young firms and this gap is likely to widen.

In order to provide a more rounded package of support to high-growth start-ups, accountants need to build a different set of communication skills, involving elements of marketing, advocacy and influencing. As categorised in Table 2.1, professional accountants' soft skills are typically more aligned to interpersonal and organisational communication, while those of successful entrepreneurs are more aligned to leadership communication skills. Reconciling the two styles is a challenge.

One way of helping finance professionals to develop these softer skills is by training them using real-life business scenarios, which will help to make the connections between the different needs of a business clearer: for example, how business planning supports negotiations with suppliers and investors. This will also give accountants better insight into the entrepreneurial process, which can be quite alien to what they are used to in the finance profession.

In addition to acquiring the right skills and behaviours, a change of perspective is important for professional accountants wishing to support today's start-ups: a change that mirrors the change the profession often tries to bring about in entrepreneurs' mindsets. An accountant's training generally treats the business as a going concern, and the client, or their livelihood, as things that are not expendable and must be protected. The profession as a whole rightly focuses on stewardship. Yet in entrepreneurship, the individual entrepreneur, their business, and their funding are expendable; trial and error is the rule, entrepreneurial exits are the norm and failure is common.

The profession can never fully swing to the opposite end of the stewardship pendulum, but appreciating how reporting and performance measurement might change as one moves away from a stewardship role can give accountants a greater appreciation of early-stage entrepreneurship and the preoccupations of early-stage investors.

Another area of significant adaptation is in the interpretation of financial ratios and setting of key performance indicators (KPIs). Much of an accountant's training is aligned to the needs of mature, if not necessarily large, businesses. In a known and proven business model standard metrics and financial ratios are meaningful. In start-ups, where the business model is still evolving, the accountant cannot always be clear about the significance of particular metrics; accountants can get sidetracked by conventional metrics such as the P&L (profit and loss statements). A deeper understanding of business model typologies, company lifecycles and their implications for performance measurement is necessary if accountants are to provide value-added advice.

Finally, just as entrepreneurs need an appreciation of the collective nature of enterprise activity, so do accountants; they need to adapt their approach from the 'one-to-one' format to the 'many-to-many' format that is much more common in entrepreneurial situations – where the decision-makers are often entrepreneurial teams, and the finance professional is one of many advisers, investors, potential business partners and experts (ACCA 2011). Alongside a distinct set of soft skills, this calls for an approach that focused on ensuring good governance – a notion that professionals will associate mostly with mature businesses.

GETTING UP TO SPEED WITH CROWDFUNDING

In more traditional face-to-face investment settings, the quality of the preparation demonstrated by aspiring entrepreneurs may lead to a potential investment (Cardon et al. 2009; Chen et al. 2009). This preparation would usually involve a lengthy history of financial reports, forecasts for the next three to five years and critical interrogation of the business model and management team – and all to a select few people, from a bank or venture capital firm. Crowdfunding is a very different setting for entrepreneurial fundraising, and it is much less clear how individuals demonstrate preparation or draw on strategic networks in a virtual environment. From the 'Kickstarter School' on Kickstarter's website, the advice on creating a video and providing updates has been offered by Kickstarter since its launch in 2010; this is a very different way of handling investor communications.

Social networks also play a much bigger role in determining the success of projects. Researchers have found that the social network of individuals seeking funding influences the success of entrepreneurial financing efforts, as it provides connections to funders as well as endorsements of project quality (Shane and Cable 2002). In crowdfunding, the social network of the founders is the initial source of significant funding for many projects, the equivalent of 'friends and family' money (Agrawal et al. 2010).

For a finance professional, understanding developments such as crowdfunding is crucial to staying abreast of the new ways entrepreneurs are doing business. Peer-to-peer lending and online loans are other examples of how technology is changing the environment within which people do business. For example, PayPal[4] has recently announced that it will soon be providing working capital loans for its customers. Accountants need to familiarise themselves with the advances in digital trading and the use of technology in business, in order to engage fully with technology entrepreneurs and other early-stage businesses.

4. PayPal is an international e-commerce business allowing payments and money transfers to be made through the internet.

Table 2.1: A classification of communication skills

Interpersonal communication skills	Leadership communication skills	Organisational communication skills
Active listening	Arousing enthusiasm	Initiating open discussion
Building rapport	Being a change catalyst	Resolving conflict
Demonstrating emotional self-control	Creating group synergy	Creating information networks
Building trust	Building team bonds	Teaching important skills
Relating to people of diverse backgrounds	Expressing encouragement	Using information technology
Demonstrating respect	Providing motivation	Providing performance feedback
Building relationships	Being persuasive	Negotiating
	Building optimism	Writing business correspondence
		Making convincing presentations.

Source: Conrad and Newberry (2011).

RECOMMENDATIONS FOR ENTREPRENEURS AND ENTERPRISES

Invest in creating and building a robust business plan.
A robust business plan acts as the foundation for any business, enabling the entrepreneur to experiment with new ideas and to steady the firm for rapid growth while being anchored within sound financial parameters. Seeking professional support early on – working out what the business can and cannot afford to spend or working through potential scenarios and options for growth – is a worthwhile investment for helping entrepreneurs to flesh-out their business and its potential beyond just the initial idea.

Practice putting pen to paper.
It is easy for entrepreneurs to get carried away with developing the 'what' – the product or service – without really thinking about how to get it to market, making sales and the sustainability of the business. Working through the finer aspects of the business model using simple analysis and review techniques such as SWOT analysis[5] and risk matrices[6] will provide entrepreneurs with a more rounded view of their business and how it may fare in the real world, factoring in competitors, the uncertainty of market forces and the like. Such practice should also instil a greater degree of accuracy and discipline in their decision-making processes.

Take advantage of MOOCs and other online learning initiatives.
Enterprise education has never been more accessible than it is today, with online learning initiatives such as MOOCs. Entrepreneurs should invest some time and effort in exploring what is on offer to stay abreast of the latest business trends, share best practice, and learn new skills and know-how to stay ahead of the competition. Businesses should also consider the use of online learning as a cost-effective and flexible way of providing staff training and professional development.

5. A SWOT analysis is a structured planning method used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or in a business venture.

6. A risk matrix is a tool used to determine the size of a risk and whether or not the risk is sufficiently controlled. There are two dimensions to a risk matrix, looking at the possible severity and likelihood of an unwanted event.

RECOMMENDATIONS FOR FINANCE PROFESSIONALS

Understand the mindset of the entrepreneur.
The majority of entrepreneurs will not be from a professional finance background and hence will probably be driven by a different set of approaches and skills to enterprise development. What entrepreneurs and accountants value and prioritise may differ wildly, and the accountant will typically adopt a more conservative role – that of the steward. Accounting education should therefore be better aligned with enterprise education, through the use of business scenarios, role playing, and case-study material.

Stay on top of technology.
The role and impact of technology in business cannot be overestimated. Technology-driven alternative finance providers such as crowdfunding platforms are enabling entrepreneurs to do business in new and innovative ways, where conventional practice and behaviours do not necessarily apply. If accountants want to remain businesses' most trusted advisers they will need to keep up with these developments; such changes are also likely to provide opportunities for developing new value-added services to businesses.

Develop a deeper understanding of business model typologies throughout the business cycle.
Finance professionals need to be prepared to apply and adapt their rigorous approach to finance management to less familiar business models, particularly those during the start-up phase. The prevalence of technology has also sparked new models of doing business, such as those operating in e-commerce, which may not fit conventional moulds and metrics. It is ever more crucial for finance professionals to work closely with businesses to ensure that their support is fit for purpose and tailored to their client's needs.

Finance leaders as business partners.
While accountants will always be valued for their technical prowess in navigating the financials, this technical know-how needs to be set within a broader business mindset. The skills that finance professionals do not typically excel in belong to what are often considered to be other 'unrelated' areas of the business: marketing, communications, information technology, brand and reputation management, etc. For example, the growing value of intangible assets in business is one area that will push the profession to look beyond its traditional frame of reference when calculating assets and liabilities, which are increasingly found in these explicitly non-finance related areas. Accountants need to address these weak spots in order to provide a more rounded service which factors in the value and impact of these areas on the bottom line, to get a truly accurate picture of the financial health and potential of a business.

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