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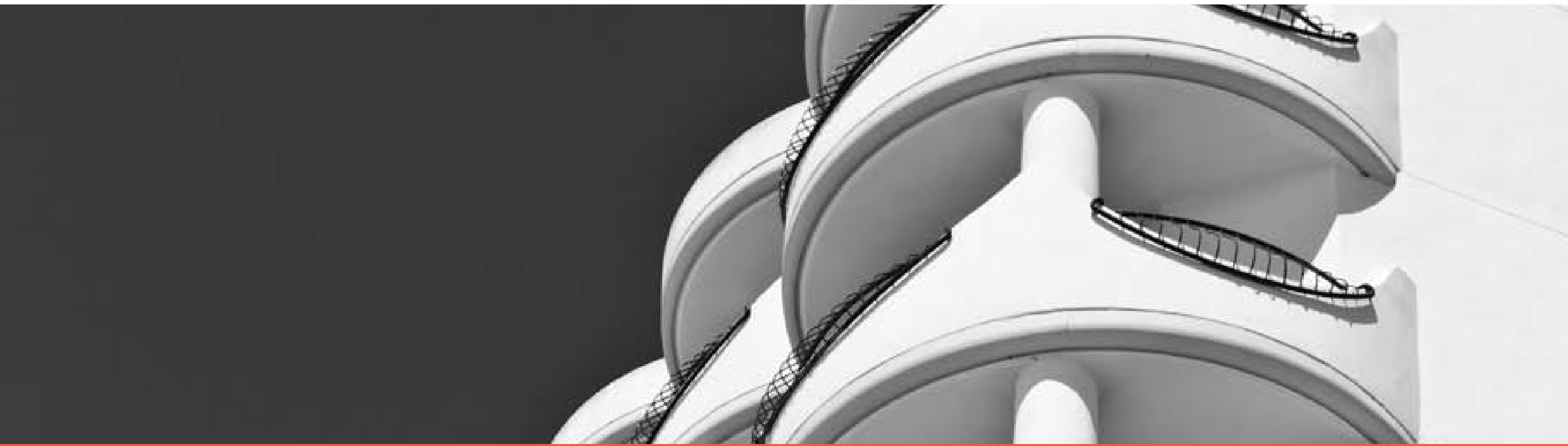

Surviving the recession and the recovery: the SME story

ACCA AND **IMA**: GLOBAL BODIES EMPOWERING ACCOUNTANTS AND FINANCIAL PROFESSIONALS TO DRIVE BUSINESS PERFORMANCE

About ACCA

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

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

We support our 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 89 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

About IMA®

IMA® (Institute of Management Accountants), the association for accountants and financial professionals in business, is one of the largest and most respected associations focused exclusively on advancing the management accounting profession. Globally, IMA supports the profession through research, the CMA® (Certified Management Accountant) program, continuing education, networking, and advocacy of the highest ethical business practices. IMA has a global network of more than 65,000 members in 120 countries and 200 local chapter communities. IMA provides localised services through its offices in Montvale, N.J., USA; Zurich, Switzerland; Dubai, UAE; and Beijing, China.

FURTHER INFORMATION

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About the report

The two years from the fourth quarter of 2011 marked a period of continued economic turbulence, with slowing economic growth in Asia's major economies, the slow resolution of the Eurozone crisis and renewed hope that continued signs of economic recovery in the US are signalling a global trend for a more sustainable global economic upturn. This period began with fears of a double dip in the West and a hard landing in the East – and ends with hopes of a second, more resilient global recovery.

To gain better understanding of how small and medium-sized businesses (SMEs) are experiencing this crucial period of change and recovery, ACCA and IMA commissioned a special analysis of the SME responses received through the quarterly ACCA–IMA Global Economic Conditions Surveys.

This report provides a unique SME insight, shedding light on how SMEs have survived and thrived during this latest period of global economic developments and drawing lessons for the future.

Executive summary

September 2012 marked a turning point for the global economy and ACCA–IMA's analysis has shown that small businesses are broadly keeping up with their larger counterparts, showing optimism and confidence that economic recovery will be sustained. Mid-market companies showed the highest levels of optimism but, at the other end of the spectrum, micro businesses were least confident in both their own business prospects and the economic recovery, indicating that micro businesses may be lagging behind the general trend. Overall, the strongest upturn was seen in the US, especially among US mid-market companies.

SMEs globally continued to face a tough environment with substantial pressure on profit margins; 89% of SMEs were under pressure from domestic economic conditions, with tightening profit margins emerging as a major issue. This was especially true in emerging markets, where demand remained weak and inflation pressures intensified.

Despite these problems, small and medium-sized businesses were less likely than larger ones to have responded to economic pressures with a loss of business capacity; they had held back on staff cutbacks and capital investment. Arguably, they also had less spare capacity on which to draw upon to make such cutbacks.

Access to growth capital had improved in all major ACCA and IMA markets, but a different kind of 'credit crunch' was setting in: the combination of a return to growth and continued problems in accessing finance have squeezed SMEs' cash flow. This is a common trend in periods of recovery highlighting the particular fragility of SMEs in these periods, when new orders are increasing the amount of working capital to be financed, while SMEs find it hard to finance growth, owing to a lack of liquidity. As a result, SMEs increasingly draw on each other via trade credit and late payment and the ACCA–IMA surveys confirm this, showing SMEs' reporting of late payment concerns increasing in line with the increase in economic confidence.

An interesting trend emerged, with business size influencing the type of economic recovery measures businesses took. With profit margins under pressure, micro and small businesses were more likely to seek shelter from competition in niche markets or segments and mid-market firms were more likely to enter new markets, while large corporates were more likely to pursue innovation. Encouragingly, however, businesses of all sizes demonstrated a similar commitment to quality.

This report provides evidence of recovery among the 'mid-market' firms: defined here as businesses above the usual SME size threshold (249 employees) whose finance staff nevertheless still considered the business to be an SME. While this group was originally introduced to the study in order to reconcile varying SME definitions across markets, the findings confirm that this is a distinct group of tremendous importance to the global economy, representing varied national SMEs. Analysis for this report shows mid-market companies to be more extroverted and dynamic and thereby better placed to take advantage of any economic opportunities, addressing some issues like small businesses and others like large corporates. They are also exposed to threats, such as FX risk, to which smaller businesses are rarely exposed. Mid-market companies were more likely than other SMEs to see opportunities arising for their business in the recovery and to respond to these by adding capacity. Along with large corporates, however, they were also more likely to respond to economic pressures with cost cutting and loss of capacity. Mid-market companies were the only business size segment to report a significant improvement in profitable investment opportunities in 2013.

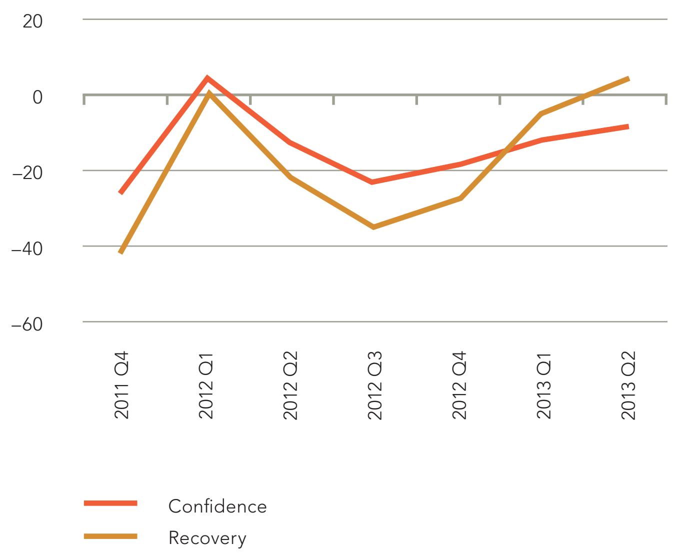
Singapore, the UAE and Canada emerged as the markets with the most SME-friendly policies over this period, in the sense that finance professionals in SMEs gave government policies more positive ratings than did their colleagues working for large corporates. Government came in for relatively harsher criticism by SMEs in markets such as Pakistan and the US.

In most developed countries, SMEs appear to have adjusted their expectations of government spending since growth started to return in late 2012 and calls for more spending have generally decreased. Finance professionals in US SMEs have been particularly persistent in their opposition to the government's fiscal policy. On the other hand, emerging economies, especially in the Asia Pacific region, have seen the opposite trend – as growth slowed, calls for more spending naturally increased. SMEs in austerity-hit countries demonstrated growing 'austerity fatigue', increasingly expecting governments to ease the rate of spending cuts as fiscal adjustment progressed.

Finally, the study reveals how political instability emerged as a substantial issue for SMEs in key regions. Elections and, perhaps more importantly, polarised politics from the US to south Asia strongly affected business sentiment and investment in late 2012 by creating mistrust and uncertainty.

1. Economic conditions

Figure 1.1: Major GECS indices (All SMEs)



LATE 2012 MARKED A TURNING POINT AS ECONOMIC CONDITIONS AND SMES' BUSINESS CONFIDENCE IMPROVED

A reversal of trends in the Global Economic Conditions Survey (GECS) recovery index[1] suggests that finance professionals working in SMEs have become more optimistic about the prospect of a recovery of the global economy since late 2012, with those expecting their national economies to improve now outnumbering those expecting a decline (Figure 1.1).

Confidence in SMEs' own business prospects also improved steadily from late 2012 onwards. The upturn mirrors the views of professionals in large corporate businesses, where business confidence and faith in the economic recovery both appeared to return in early 2013.

The improvement in business confidence was reported across all size segments of the SME sector in 2013. After starting fairly level in late 2011, the confidence levels of small and mid-market companies improved most, along with those of large corporates. Nonetheless, over the whole period, micro businesses have shown lower levels of confidence in both their own business prospects and the economic recovery.

1. Refer to methodology for index calculations (page 21).

MID-MARKET FIRMS MOST OPTIMISTIC ABOUT THE STATE OF THE GLOBAL ECONOMY

Throughout this stage of the recovery, mid-market companies showed higher levels of optimism about the global economy, and in 2013 reported notably more positive perceptions than large corporates. Medium-sized businesses also reported a more optimistic outlook on their national economies compared with large corporates, while micro and small businesses remained far more negative during the first half of 2013 (Figure 1.2).

Figure 1.2: Economic recovery index (Q4 2011 to Q2 2013) by size of business

Size of business	Confidence Index (whole period)	Recovery index (whole period)
Micro	–20	–36
Small	–15	–30
Medium	–17	–18
Mid-market	–13	–17
Large corporate	–16	–26

WHICH REGIONS LED THE UPTURN IN SME ECONOMIC RECOVERY?

Positive reports from SMEs in the UK and North America, in particular the US, largely accounted for the upward trend in SMEs' confidence and perceptions of the economic recovery. Of all SMEs, those in the US reported the most significantly improved perceptions of the recovery. Business confidence also rose steadily among US SMEs but has not yet crossed over into levels indicating a robust recovery – in other words, US SMEs are likely to feel that they are lagging behind the rest of a recovering US economy.

Other regions in which accountants in SMEs recorded a noticeable improvement in the economy and their own business prospects were south Asia, which reported the most positive perceptions of the recovery over the whole period, and central and eastern Europe. Despite this, SMEs in central and eastern Europe remained less optimistic about the economy than their peers in other regions.

SMEs in the Republic of Ireland showed a significant rise in economic optimism although without a comparative improvement in their own business confidence, which remained steady. This was in contrast to large corporates in Ireland, which reported a significant improvement in confidence in the first half of 2013.

SMEs from Asia Pacific reported the lowest confidence levels over the whole period, most notably those in Malaysia, China and Hong Kong. It should be noted, however, that large corporates in China and Hong Kong fared only marginally better. There was a clear low point in the Asia Pacific region towards mid-2012 when news of a rare China trade deficit fuelled talk of a Chinese 'hard landing'. SME confidence in China then improved but remains very weak.

MID-MARKET COMPANIES SHOWED GREATER OPTIMISM THAN SMALL, MEDIUM AND LARGE SEGMENTS IN MOST REGIONS

The most optimistic mid-market companies over the whole period were from the Middle East, in particular the UAE, and from Canada and Russia. Even so, mid-market firms in the UAE were if anything more sober than other participants in the domestic economy – the country's small and medium-sized segments, taken together, were substantially more optimistic about the economy and showed high and improving confidence levels in their own business prospects.

Compared with larger and smaller US businesses, US mid-market companies reported the most improved views of the economy in 2013. In fact, the US contributed a disproportionately large share of the mid-market firms in the GECS sample, which added to the sector's lead in the global economic recovery.

Mid-market companies in Australia and the Republic of Ireland also reported significantly better perceptions of the economy than other SMEs and large corporates, while roughly the same pattern (if less pronounced) emerged in the UK.

Nonetheless, it is worth noting that mid-market companies in Ireland and the UK still showed lower confidence in their business prospects than other businesses there.

VIEWS FROM SMES

'Stability of the euro has resulted in more confidence coming into the market, which is starting to have an effect on consumer confidence slightly.'

SMALL BUSINESS, REPUBLIC OF IRELAND, Q2 2013

2. Major business outcomes

SMEs experienced greater pressures but were less likely to respond by losing business capacity, whether through cutting investment or laying off staff.

The difficulties that SMEs faced as a result of the recent economic environment were further evidenced by the high proportion of business pressures highlighted, which far outweighed the positive outcomes. Most SMEs (89%) stated that they had experienced at least one negative outcome (pressure) as a result of changes to the global or national economy in the previous three months compared with 54% that identified at least one type of opportunity arising from the recession (Figure 2.1).

More optimistically, fewer SMEs (49%) had made a negative response to economic conditions, such as staff cutbacks or reduced investment, than large corporates (63%). Just 19% of SMEs had made a positive response (increased hiring or investment) over the previous three months – the same proportion as large corporates.

Figure 2.1: Summary of economic business outcomes – by size and selected regions

	Any pressure	Any negative response	Any opportunity	Any positive response
Micro	91%	50%	45%	8%
Small	88%	45%	52%	16%
Medium	89%	48%	54%	19%
Mid-market	89%	51%	57%	22%
Large corporates	86%	63%	54%	19%
All SMEs	89%	49%	54%	19%
SMEs (including mid-market):				
Africa	99%	58%	63%	16%
Asia Pacific	92%	45%	51%	15%
South Asia	94%	49%	44%	15%
Central and eastern Europe	93%	58%	37%	10%
UAE	89%	51%	58%	19%
UK	90%	49%	56%	17%
US	84%	44%	54%	22%

Mid-market companies were most likely to have made a positive response (22%) or to have seen an opportunity arise (57%), suggesting they are more responsive to opportunities than other size segments. This trend was most apparent in the US and UAE.

Of those in the major countries, SMEs from the US were least likely to report either a negative pressure or response. Micro businesses and those from Africa, Asia, and central and eastern Europe were the most likely to report a negative outcome. Most interestingly, in Africa, 99% of SMEs reported at least one negative pressure although positive responses were also highest here, as 58% reported a business opportunity showing that Africa is a region of contrasts where SMEs are facing a high-risk environment full of both opportunities and threats. Of those in the major economies included in the study, SMEs from the US (including mid-market companies) were least likely to report either a negative pressure or response.

The economic pressures felt more strongly by small and medium-sized businesses stemmed from cash flow issues, ie 'Decreased income', 'Securing prompt payment for customers', 'Concern about customers going out of business' and 'Problems with access to finance'. Mid-market businesses, which tend to be more internationalised than smaller SMEs, were most likely to identify inflationary concerns as costs rose, and the negative impact of foreign exchange movements (Figure 2.2).

The incidence of late payments had increased significantly for small and micro enterprises since late 2011, when 33% cited it as a business outcome compared with 48% in the first half of 2013 (Figure 2.3). This increasing trend partly reflected the responses of smaller SMEs from the UK, where 49% highlighted this as a pressure in the first half of 2013, and partly the responses of respondents in Malaysia (52%) and Ireland (43%).

Over the whole period, only 21% of mid-market companies in the UAE highlighted 'securing prompt payment' as a business pressure, compared with 51% of all other SMEs.

While there was little correlation between size of business and tightening profit margins,[2] access to finance was clearly more problematic for smaller SMEs. Cited by 42% of respondents, it was the challenge rated third for micro SMEs in the first half of 2013. There was a significant rise in the share of small businesses (10 to 49 employees) citing problems with access to finance in the UK in 2013, while for medium and mid-market businesses there was a comparative decline.

The continued presence of these indicators among SMEs is evident of the restrictions on cash flow that are common during an economic recovery period.

Profit margin pressures were most apparent in the emerging markets (76% of respondents), especially Africa (87%) and south Asia (83%). Among the OECD countries, 66% of SMEs stated that either costs had risen or income had declined.

Figure 2.2: Business pressures (by business size segment)

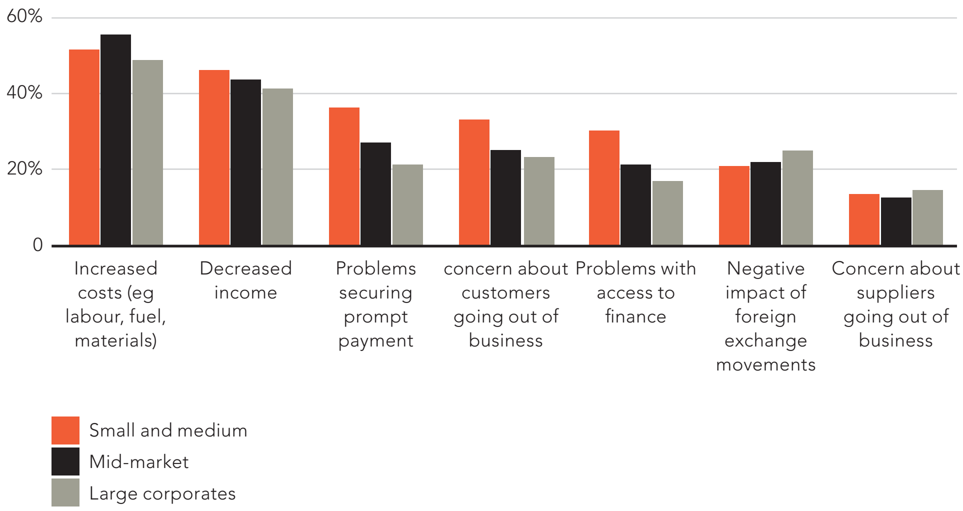
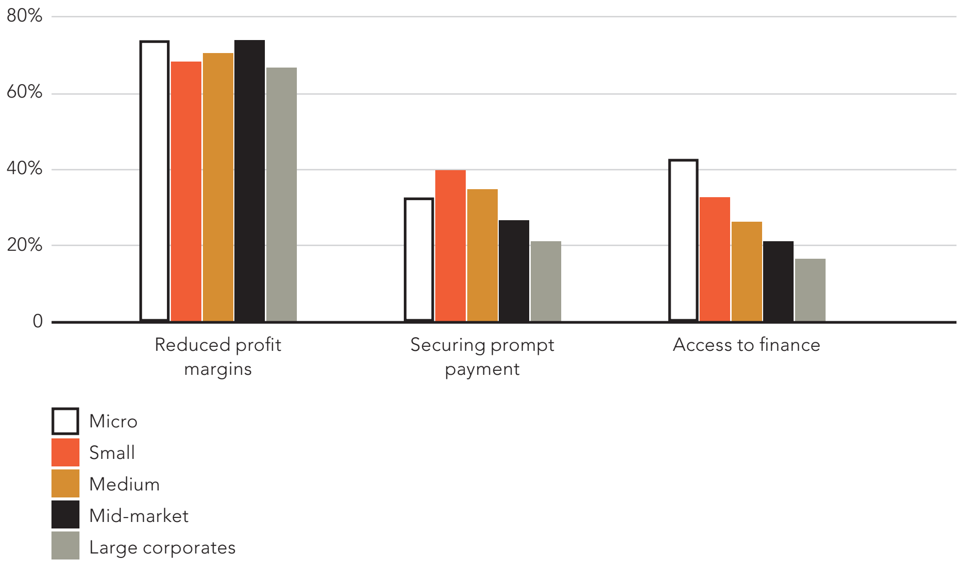
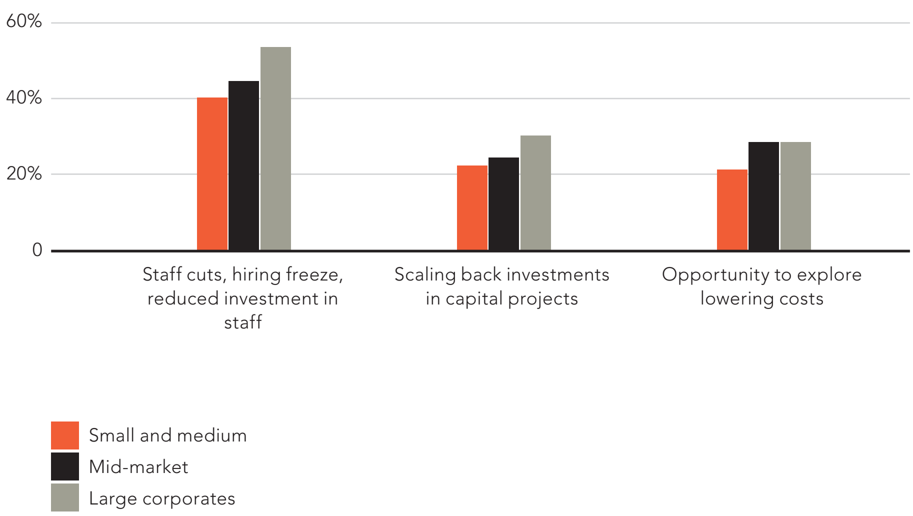


Figure 2.3: Business cashflow issues (by size segment)



2. Includes responses for 'decreased income' or 'reduced costs'

Figure 2.4: Negative business responses (by size segment)



When asked which specific economic developments had most affected their organisation, 10% of all SMEs that commented about increasing costs were from south Asia (a region that made up 3% of the total SME sample).

SMES LESS LIKELY TO RESPOND TO ECONOMIC PRESSURES BY CUTTING CAPACITY

Mid-market companies and large corporates were significantly more likely than smaller SMEs to cut back staff hiring or investment as a result of the economic climate. The tendency to scale back capital investment also decreased with size of business, as could be expected. SMEs from Africa were most likely to explore reducing costs (37%), followed by those in Western Europe (Irish SMEs being the main ones here) and the Middle East – both at 26% (Figure 2.4).

VIEWS FROM SMES

'Due to the economic slump customers [haven't] paid on time, which resulted in increased debtor days and increased financing cost'

MEDIUM-SIZED BUSINESS, UAE, Q2 2013

'By far the lack of finance from banks and other sources has been most impactful.'

MICRO ENTERPRISE, UK, Q4 2012

'The continuing difficulty in accessing finance remains an issue. There is also increased pressure from suppliers for reduced payment terms.'

MEDIUM-SIZED BUSINESS, MALAYSIA, Q2 2013

HOW DID SMES SEEK TO EXPLOIT BUSINESS OPPORTUNITIES?

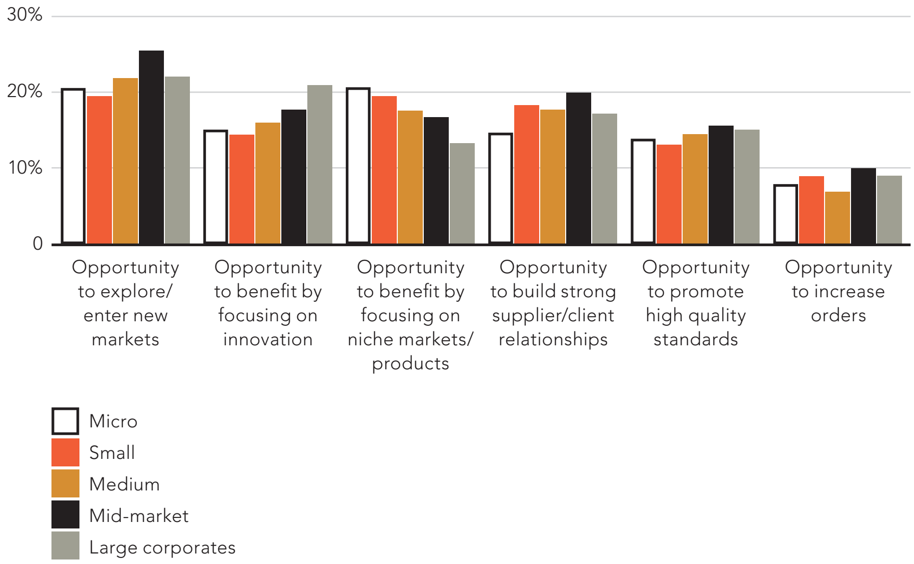
Mid-market SMEs and large corporates were more likely to identify different opportunities resulting from the economic climate, particularly in terms of innovation, entering new markets and building supplier/client relationships. Finance professionals in mid-market businesses were more likely to cite any opportunities at all (57%), with 'exploring new markets' top, while those in large corporates were more likely to focus on innovation (Figure 2.5).

Mid-market companies could be considered well placed to benefit from the range of opportunities arising from the economic conditions, emulating both small businesses, in exploring niche market opportunities, and large corporates, in focusing on building stronger relationships along the supply chain and on innovating.

Smaller businesses were more likely to seek to benefit from economic conditions by focusing on niche markets and products, especially in the US regions. Businesses were more likely to focus on new market opportunities in the UAE, highest at 31%, Australia and the UK. The UK was also among the markets in which SMEs were most likely to focus on niche market opportunities, although this opportunity declined for small and micro businesses since a peak in mid-2012.

Overall, SMEs of all sizes, and indeed large corporates, cited roughly similar opportunities to promote high quality standards, but there were some regional variations. UK and UAE businesses were most likely to see such opportunities (17%) while only 6% saw a potential for investment in quality in Canada, 9% in central and eastern Europe and 10% in China and Hong Kong.

Figure 2.5: Key business opportunities by size segment



Very few micro or small businesses reported increasing business orders as an opportunity. Those that did were mainly from the US, UK and Malaysia, with no reports from the UAE, Singapore, Pakistan or central and eastern Europe.

Analysis of business outcomes and opportunities could suggest that businesses in the emerging market regions tend to support profit margins by focusing on strategies for lowering costs, as opposed to expanding the business through increased orders. Those in central and eastern Europe were least likely to identify any opportunities, with SMEs far less likely to do so than large corporates. One might expect that this would not be the case in Africa, where SMEs were more likely to identify business opportunities (63%) but 'Opportunity to lower costs' was the most popular response selected in both regions, reflecting fewer opportunities sought for growth.

Countries in which SMEs were significantly more likely to focus on lowering costs as an opportunity rather than growth strategies included Canada, China (including Kong Kong) and Singapore.

VIEWS FROM SMES

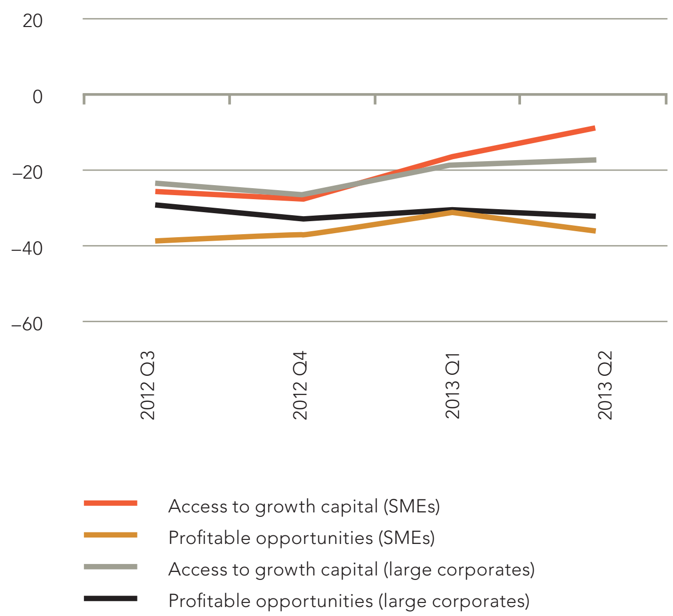
'Upcoming factors (health care costs rising, energy and commodity prices rising) will have an impact on our organization.'

MID-MARKET COMPANY, US, Q2 2013

'Rising labour cost and tightening [requirements for employing] foreign workers'

MID-MARKET COMPANY, SINGAPORE, Q2 2013

Figure 2.6: Changes to investment environment



VIEWS FROM SMES

'The uncertainty of expected increases in healthcare, tax rates and jobs stability causing capital project spending to decrease, thereby my company's orders did not increase as expected'

SMALL BUSINESS, US

'Inflation and increase in cost of capital. This has led to an increase in input cost as well as difficulty in managing working'

MEDIUM-SIZED BUSINESS, SOUTH ASIA, Q3 2012

HOW DID THE INVESTMENT ENVIRONMENT CHANGE?

Access to growth capital became less of a restraint for SMEs from late 2012 onwards, with SMEs reporting a higher availability of capital3 but still more SMEs continued to see it as a constraint than not. The biggest improvement in access to growth capital was recorded for small and mid-market businesses, leading to an overall stronger improvement for SMEs than for large corporates (Figure 2.6).

Regionally, SMEs in the US were most likely to report that growth capital had increased. There was also a noticeable improvement for UAE SMEs, although in relative terms they may have lagged behind large corporates in the region. A number of comments were received from SMEs in the UAE highlighting the positive benefits from capital investment, which was partly from the in-flow of investors from the troubled regions of the Middle East.

The improving trend for access to capital was seen in all major countries, although for many (including the UK, ROI, Australia, China, Hong Kong, Malaysia, and Pakistan) capital availability remained poor.

Despite improvements in availability of growth capital, the share of businesses pursuing 'profitable opportunities to exploit' was not greatly affected. Only mid-market companies reported a significant improvement in 'profitable opportunities to exploit' in 2013.

3. Refer to methodology for index calculation.

3. Government policy

CONFIDENCE IN GOVERNMENT ACTIONS REMAINED WEAK

There has been little change in SMEs' overall ratings of government economic policy, which has remained very negative. SMEs typically gave government policies lower ratings than did larger corporates (Table 3.1). In regions where the government was rated more positively, however, the SMEs were in fact most supportive. This suggests that SMEs are more political or sensitive to government policy than large corporates.

Table 3.1: Government Response index, Q4 2011 – H1 2013.1 Selected countries

	Government response index (SMEs)	Government response index (Large)
All	–39	–34
Australia	–20	–11
Canada	29	18
US	–61	–54
UK	–28	–24
ROI	–34	–34
UAE	32	18
Pakistan	–91	–95
Singapore	40	25
Malaysia	–31	–29
China and HK	–36	–16

Table 3.2: Medium-term government spending index

Size of business	% expecting underspending medium term (whole period)	% expecting underspending in medium term (Recovery period: Q3 2012–Q2 2013)	% expecting overspending in medium term (whole period)	% expecting overspending in medium term Recovery period: Q3 2012–Q2 2013)
Micro and small	30	31	46	47
Medium	24	26	53	52
Mid-market	22	23	54	56
Large corporate	27	26	48	50
All SMEs	25	26	51	52
SMEs in selected countries				
Australia	47	*	25	*
Canada	42	48	30	35
US	9	8	78	79
UK	41	42	31	36
ROI	51	48	19	23
UAE	46	42	20	21
Pakistan	40	45	59	55
Singapore	41	42	13	10
Malaysia	22	19	55	53
China and Hong Kong	26	31	39	32

*Base too low for analysis (<40)

HOW DID GOVERNMENT POLICY RATINGS VARY ACROSS THE GLOBE?

Countries with the highest ratings for government policy over the whole period included Singapore, UAE and Canada, where SMEs were more likely to give the government policy a higher rating than were large corporates. Government ratings were significantly lower in Pakistan and in the US, where SMEs gave government policy a lower rating than did large corporates.

Among the global regions, professionals in Middle East SMEs consistently gave government response the highest ratings but their support has been in steady decline since late 2011. In the regions that gave the lowest government ratings, south Asia and central and eastern Europe, a marginal upturn has been reported over recent quarters.

Figure 3.1: Government spending index, Q4 2011–Q2 2013 (UK)

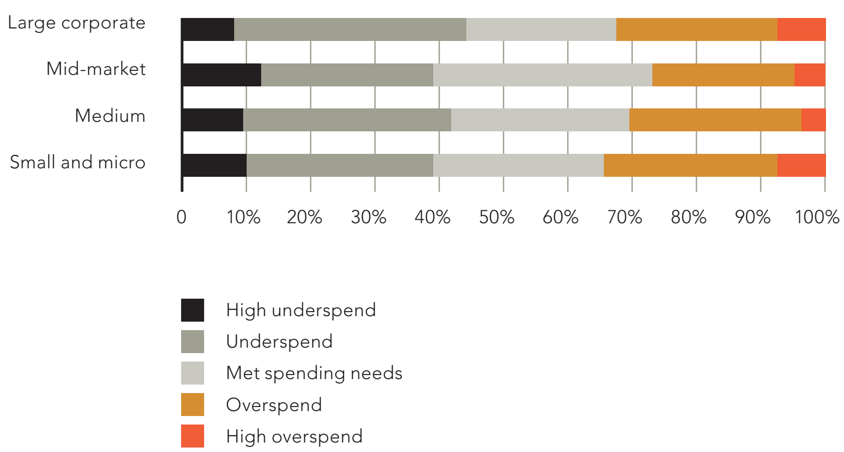
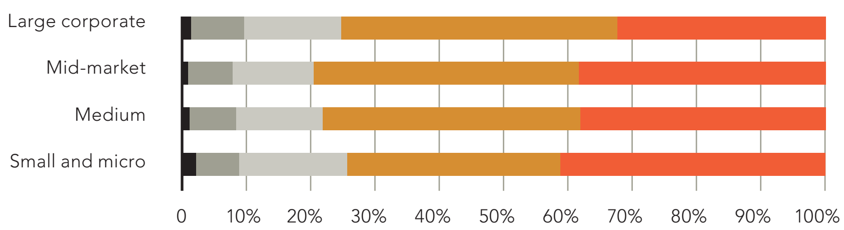


Figure 3.2: Government spending index, Q4 2011–Q2 2013 (US)



HEIGHTENED DEMAND FOR FISCAL TIGHTENING

The GECS records expectations and preferences for government spending (Figure 4.2).[4] At the global level, SME's spending expectations are difficult to decipher and there appears to have been little change after evidence of a recovery first emerged (2012 Q3–2013 Q2).

Over the whole period covered by this study, mid-market and medium-sized companies were more wary of government overspending in the medium term while small businesses and large corporates were more likely to believe government was under-spending. This could be a result of the more international nature of medium-sized and mid-market companies, which means that they are less exposed to domestic spending policies, but still exposed to the financial stability of their home countries.

CONTRASTING FISCAL EXPECTATIONS ACROSS THE ATLANTIC

The increase in expected government overspending in 2013 was apparent in the UK, Ireland and Canada, all regions undergoing fiscal consolidation (Figure 3.1).

SMEs in Ireland reported the highest expected government underspend in the medium term although this steadily decreased in the first half of 2013, providing signs of 'austerity fatigue' and evidence that austerity had begun to run its course.

4. The government spending index calculates the difference between how much businesses believe government should increase or decrease spending in the medium term (five years) and their expectations about how governments will act.

The gap between medium-term government spending expectations and perceived spending needs was acutely in reverse in the US, where 78% of SMEs reported expectations of overspending, suggesting a strong demand from US businesses, especially in the mid-market, for fiscal tightening.

There was also an increase in overspending expectations reported in the US towards the end of the period: 49% of US SMEs had anticipated a high level of overspending in the first half of 2013.

The Asia Pacific region, including China, Hong Kong and Malaysia, also had a higher proportion of businesses that expected a government overspend in the medium term over the whole period, although this dropped in China and Hong Kong as growth slowed in the first half of 2013.

In Singapore, where businesses had consistently rated government support most highly, 46% reported that they expected government spending to be broadly at correct levels over the next five years. Mid-market companies and large corporates were most likely to believe that government spending was at the correct level (59%) whereas small businesses were somewhat more likely to expect that government would underspend.

Few businesses from Pakistan reported that the government was likely to spend at correct levels in the medium term, with more (especially large corporates) expecting an underspend.

VERBATIM ANALYSIS OF ECONOMIC DEVELOPMENTS THAT MOST AFFECT THE ORGANISATION

In Q3 2012, an open question was added to the GECS to establish what specific economic developments in the respondents' country had made the biggest difference to their business performance.

The most common theme emerging from verbatim responses was government policy, cited by 24% of mid-market companies that made a comment. Inflation was also strongly mentioned, across all global regions, and more so among mid-market companies and large corporates.

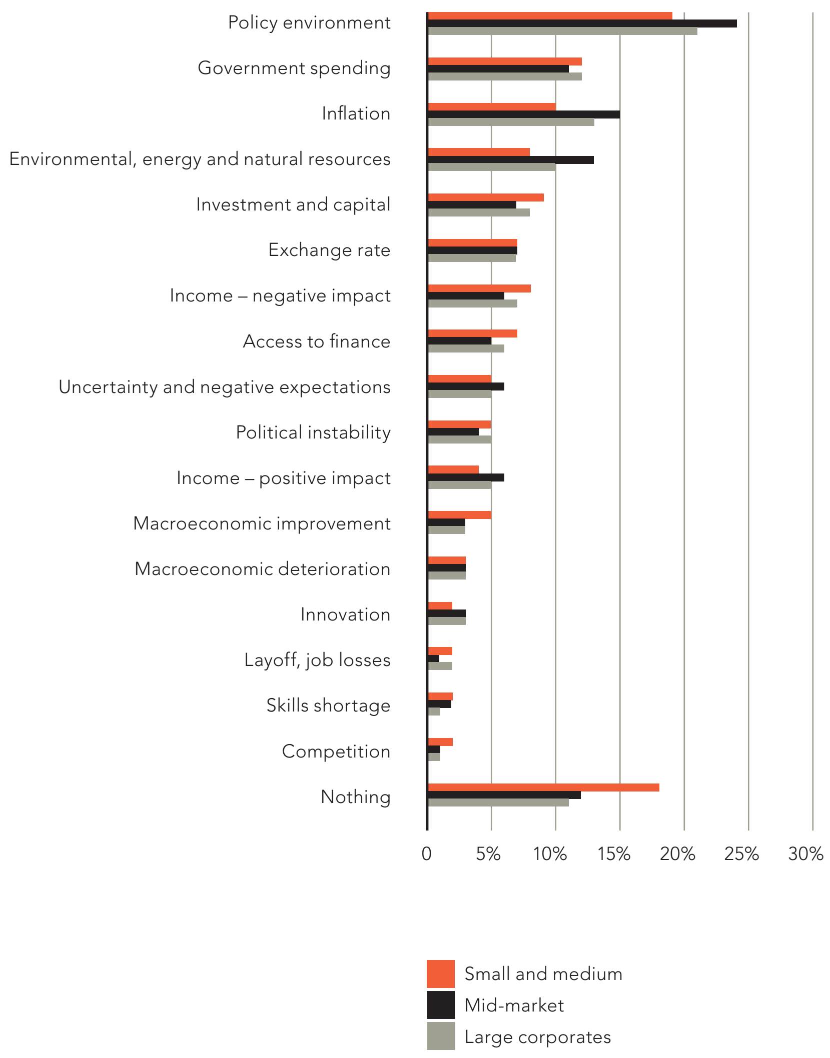
Small and medium-sized businesses were as likely as large corporates (12%) to mention 'government spending', echoing the similar government spending index figures seen for both small businesses and large corporates. The themes that were more common for small and medium-sized businesses than for mid-market and large corporate were access to finance, investment and capital, and, positively, confidence in macroeconomic conditions, showing SMEs tend to be more confident of macroeconomic improvements. Comments relating to access to finance were most prominent in the UK, Canada and Australia.

Of those in the major economies, SMEs in Malaysia, Singapore and Pakistan were most likely to comment about government spending and policy. In Pakistan, these comments centred on concerns about political corruption and instability while in Malaysia comments about policy were more often linked to infrastructure investment. In Singapore the comments about government policy were mainly related to the restriction on numbers of foreign workers, causing concerns that labour costs would rise, but also included positive perceptions on such things as government incentives for SMEs.

Other comments about political developments came from the US, which were connected with mentions of uncertainty arising from the 'fiscal cliff' and healthcare policy. Within the policy and environment theme, the comments centred on taxation/duty, regulation and business support/incentives. SMEs were somewhat more likely to mention labour laws, contracts or projects, healthcare or corruption while large corporate were almost twice as likely to mention taxation and duty.

Comments about job losses were most numerous from businesses in Canada, the US, Pakistan and the UK. Concerns about skills shortages were expressed almost entirely by those in the UK, with 15% of UK respondents mentioning skills-shortage issues. Access to finance had largely been raised by those responding from OECD countries, particularly Australia, Canada and the UK.

Figure 3.3: Analysis of verbatim comments on economic developments



VIEWS FROM SMES

'Austerity slowing customer/consumer demand.'

SMALL BUSINESS, UK, Q4 2012

'Government stimulus package was launched and was successful in reviving the economy.'

MID-MARKET COMPANY, CANADA, Q3 2012

4. Finance function changes

SMES LEAST LIKELY TO CHANGE CAPACITY LEVELS IN THE FINANCE FUNCTION

SMEs were less likely than mid-market companies and large corporates to have experienced changes to the finance function, with far fewer redundancies reported, in particular. Mid-market companies were most likely to have increased permanent staffing levels. The more common capacity changes for SMEs were transient measures, including reduced training and increased use of contract staff (Figure 4.1).

WHAT WAS THE REDUNDANCY TREND IN THE FINANCE FUNCTION?

The proportion reporting that redundancies had happened rose for mid-market companies between late 2012 and mid 2013, but declined for SMEs in first half of 2013 (Figure 4.2).

Over the whole period, mid-market companies were the most likely to report an increase or a decrease in staffing levels (26% and 20% respectively) (Figure 4.3). Relatively high proportions reporting changes in finance capacity either way suggest that the finance functions of mid-market companies are more dynamic, and have tended to grow counter-cyclically. Headcount, including permanent and temporary staff, began to rise moderately from late 2012 as economic conditions started to improve. Large corporates were most likely to have increased staffing levels throughout the period, followed by mid-market companies, whose behaviour was more cyclical.

Figure 4.1: Finance capacity building, % reporting by size of business

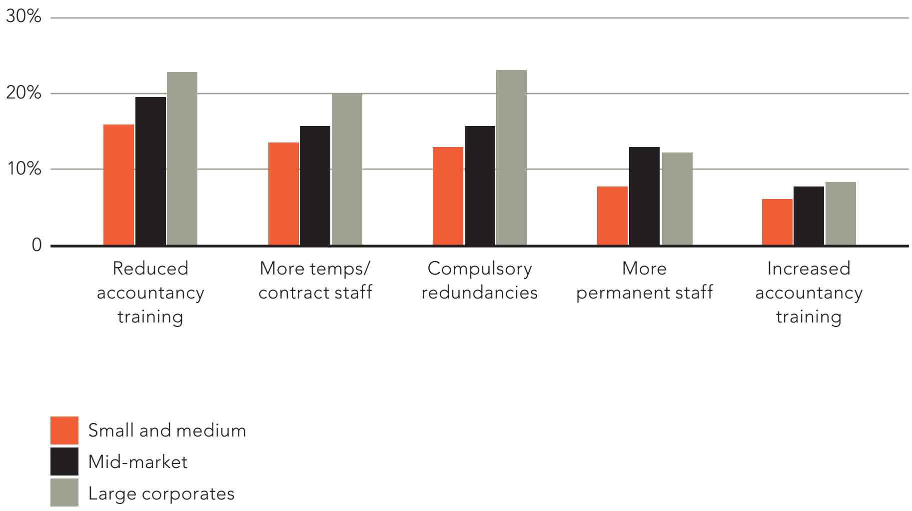


Figure 4.2: Net % redundancies already happened, by size of business

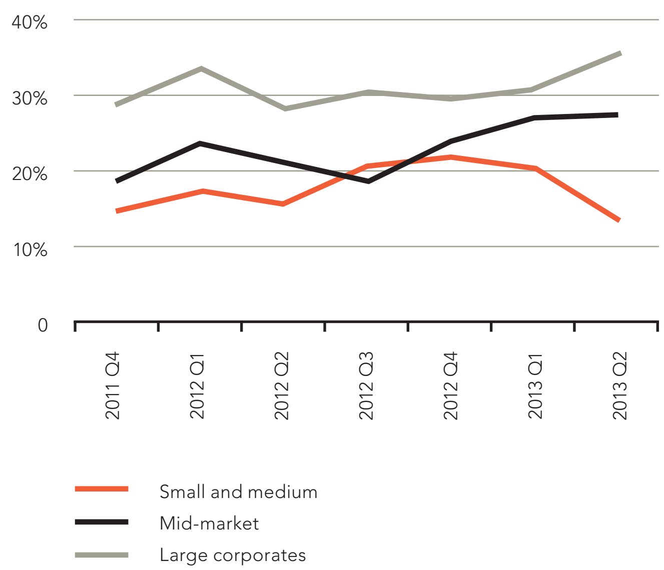


Figure 4.3: Net % staff increases and decreases, by size of business

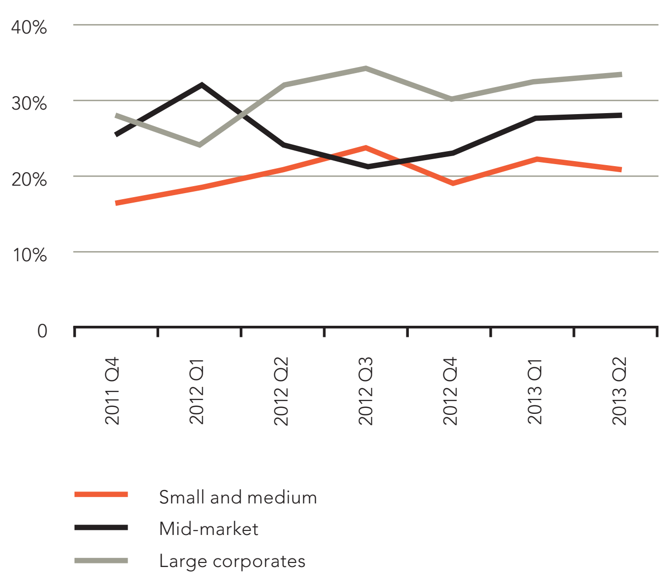
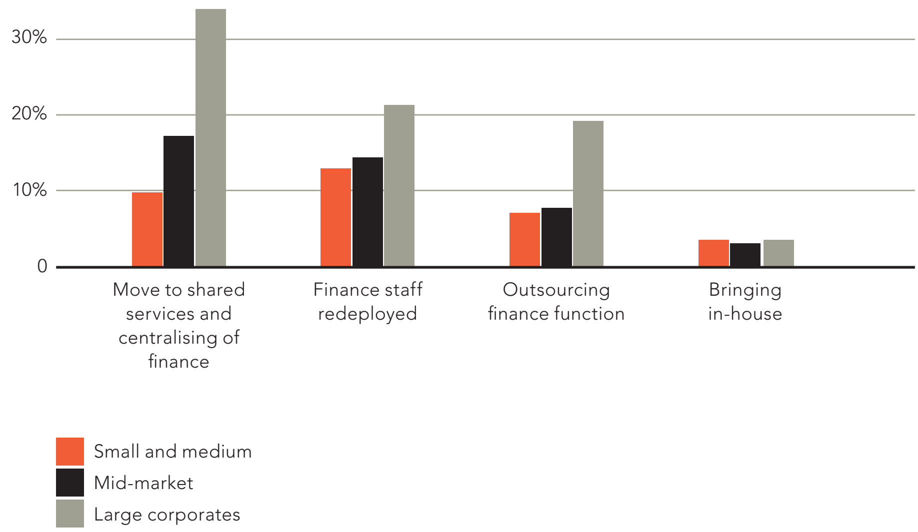


Figure 4.4: Finance function restructuring, % reporting by size of business



The large countries that experienced above-average levels of redundancies in finance functions over the whole period were Pakistan and the UAE. These countries generally saw a lot more churn in the finance function, including new job creation, which was particularly common among large corporates in the Middle East.

HOW ELSE HAS THE FINANCE FUNCTION CHANGED?

Further finance re-structuring changes were more apparent among large corporates, such as moving to shared services, re-deploying finance staff or outsourcing the finance function (Figure 4.4). There was little correlation between size of business and in-sourcing of the finance function, the latter being quite rare among all size segments.

The results suggest that mid-market firms behave more like SMEs when restructuring, and like large corporates when it comes to building or losing capacity in the finance function.

5. Recommendations

Reports from finance professionals in SMEs around the world suggest a recovery is finally under way, but financing and liquidity constraints, political uncertainty, and short-sighted responses to economic conditions could hold the sector back.

GOVERNMENTS

Governments should:

- review the SME-support policies developed during the downturn to ensure they are still fit for purpose in the recovery
- ensure that surviving policies and support programmes take the diversity of the sector and its strategies for the recovery fully into account
- develop a distinct support infrastructure for dynamic, extroverted mid-market firms. In particular governments should look for ways of:
    - supporting staff development and managerial training in mid-market firms
    - developing formal ties between the sector and agencies in charge of promoting exports or securing foreign direct investment (FDI)
- support liquidity, whether directly through tax forbearance, or throughout their supply chains by paying public sector suppliers promptly
- take advantage of stabilising economic conditions to provide certainty by committing to long-term plans on spending and tax in a credible manner
- recognise the danger of political brinksmanship and its effects on business confidence and investment.

OWNERS AND MANAGERS OF SMES

Owners and managers of SMEs should:

- prioritise investment; while a great deal of uncertainty still exists it is unlikely that conditions, especially with regard to finance, will become much more benign in the future
- look for opportunities internationally, focusing on market growth and potential
- plan now for the resources that will be needed when the economy stabilises
- invest in financial capability, either through advice or the building of credible in-house finance teams. Training for both finance and non-finance staff should be re-prioritised.

PROFESSIONAL ADVISERS

Professional advisers should:

- emphasise the need for sound financial management in the recovery and make clients aware of the risk of overtrading
- help clients diversify their sources of funding, and educate SME owner/managers in the alternatives to bank loans and overdrafts
- advise smaller clients that rely on niche markets and products of the risks involved in their business models
- be alert to clients with the capacity for internationalisation and guide them through what is likely to be a series of daunting decisions
- network as widely as possible, growing clients need value-added advice and brokerage that practitioners may not be well placed to provide on their own.

Appendix: Background and methodology

ABOUT THE SURVEY

The Global Economic Conditions Survey (GECS) is carried out jointly by ACCA and IMA, to provide a regular 'temperature check' on the economy from the accountant's viewpoint. It draws on responses from ACCA and IMA members across the world and has become the largest regular economic survey of accountants. The survey measures perceptions of economic recovery, government spending and business confidence and provides a range of economic variables and indices that are tracked quarter on quarter. The results can be used to indicate GDP growth patterns and inform economic policy.

This report presents findings from among SME businesses that have completed the survey between Q4 2011 and Q2 2013. This period has marked a very distinct episode in the global recovery to date: it began with a renewed downturn as the global economy coped with a slowdown in China and the US debt ceiling standoff, followed by uncertainty over the US 'Fiscal Cliff', and the shock of the sequester, as well as a new stage in the Eurozone crisis. It ends, however, with a 'second recovery' spurred by an international barrage of monetary stimulus.

4,221 SME responses are included in this report, collected over seven quarters, including 532 from chief financial officers (Figure A1).

A1: Quarterly sample size by business size segment

	SMEs (total)	Micro and small businesses	Medium businesses	Mid-market companies	Large corporates
Q4 2011	982	241	363	378	711
Q1 2012	600	147	236	217	421
Q2 2012	659	176	240	243	547
Q3 2012	657	200	241	215	449
Q4 2012	395	112	152	131	334
Q1 2013	482	121	197	164	369
Q2 2013	446	127	162	157	340
Total	4,221	1,124	1,591	1,505	3,171

Size segment definitions used in this report:

- Micro = 0–9 employees
- Small = 10–49 employees
- Medium = 50–249 employees
- Mid-market = 250+ employees self-defined as an SME
- Large corporate = 250+ employees not self-defined as an SME

Note: An SME is typically defined as a business with fewer than 250 employees. As the upper thresholds of SME definitions vary around the world, however, for the purpose of this report the respondent's self-definition as an SME has also been considered. Countries where the upper threshold can be much higher (over 1,000 employees for some sectors) include the US and China, among others. (Figures A2 and A3)

Additionally, there has been much discussion throughout the recovery of the role of 'mid-market' companies as drivers of growth. This term loosely reflects segments of the business population such as France's enterprises de taille intermediaire (ETI) and a substantial part of Germany's Mittelstand. In this report, the term 'mid-market' is used to refer to businesses that have 250 or more employees, but were classified as 'SMEs' by respondents, as opposed to 'large corporates'.

Further, as with most SME definitions around the world, the results in this report exclude responses from corporate businesses whose main activity is in financial services.

Figure A2: SME base sizes per Global region:

Global region	Quarterly range	Total period	% of total
Americas	176 – 441	1,871	44%
Western Europe	69 – 203	860	20%
Central and eastern Europe	13 – 34	177	4%
Middle East	32 – 73	320	8%
Africa	15 – 45	219	5%
Asia Pacific	39 – 173	643	15%
South Asia	10 – 23	128	3%

Note: Questions are not mandatory in the GECS, meaning that base sizes vary by question as well as by quarter. Missing answers have not been included in the analysis for this report.

Figure A3: Sample profile by Global region and size segment:

Global region	% of core SMEs	% of mid–market	% of large corporates
Americas	43%	48%	38%
Western Europe	23%	15%	23%
Central and eastern Europe	4%	5%	7%
Middle East	7%	9%	8%
Africa	6%	3%	5%
Asia Pacific	15%	16%	15%
South Asia	3%	4%	4%

INDEX CALCULATIONS

Economic recovery index

= % stating that the economy is getting better or about to improve – % stating that the economy is getting worse or will remain at the bottom for a while yet

Business confidence index

= % stating that they are more confident in the economic prospects facing their organisation compared with three months ago – % stating that they are less confident. (Those stating no change are not included in this calculation)

Access to growth capital

= % stating that availability of capital has increased – % stating that availability of capital has decreased

Profitable opportunities = % stating that there are more profitable opportunities to exploit –% stating that there are fewer profitable opportunities to exploit

Government response index

= % rating their government response to the economic downturn over the past three months as good or very good – % rating the government response as poor or very poor

Government spending index

= expected spending over the medium term (five years). This is calculated by subtracting each respondent's answer at Q4 (government should increase spending) from their response at Q3 (government will increase spending), where: –2 = High underspend / –1 = Underspend / 0 = Spending at correct level / +1 = Overspend / +2 = High overspend

'Don't know' responses have been included in the main analyses and index score calculations, except for the government spending index and analysis of verbatim comments as to specific economic developments affecting the organisation. In these cases, 'don't know' responses are treated as 'missing' and excluded from the base.

As always, the researchers are grateful to all ACCA and IMA members who took the time to share their insights. As finance professionals, they have front-row seats to the recovery, and their collective views can tell a more complete and more accurate story than economic indicators alone.

POL-TP-STRA

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