

ACCOUNTANTS FOR BUSINESS

Living up to expectations

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.

We support our 131,500 members and 362,000 students throughout their careers, providing services through a network of 80 offices and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities. Our focus is on professional values, ethics, and governance, and we deliver value-added services through our global accountancy partnerships, working closely with multinational and small entities to promote global standards and support.

We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest.

Our reputation is grounded in over 100 years of providing world-class accounting and finance qualifications. We champion opportunity, diversity and integrity, and our long traditions are complemented by modern thinking, backed by a diverse, global membership. By promoting our global standards, and supporting our members wherever they work, we aim to meet the current and future needs of international business.

Since the economic downturn began, small enterprises have been under the spotlight – expected to survive against the odds and lead the global economy back into sustainable growth. The advice of professional accountants has rarely been more valuable to them.

While much research considers business confidence and conditions at the large company end, fewer studies look at prospects for small business and the strategies they are adopting to survive and flourish. ACCA believes that small business can be the engine for future economic growth - providing we encourage them and put in place policies and support which meet their needs.

Using evidence from ACCA's quarterly survey of professional accountants, which has the widest representation of any survey of its type, we look into the state of the small business sector and the different strategies being adopted by them and their advisers to enhance their fortunes. Our study suggests that by being flexible and adopting the right approach, small business is proving that it is ready to drive economic growth.

1. Introduction

ABOUT THIS STUDY

In October 2009, ACCA, in collaboration with CGA-Canada and CPA Australia, published their joint commentary on *Surviving the Drought*,¹ a report on SMEs' access to finance that the three professional bodies had jointly commissioned from the Economist Intelligence Unit (EIU).

Their joint report, *Access to Finance for the Small and Medium-sized Enterprise Sector: Evidence and Conclusions*,² used additional analysis of the EIU study and also included evidence collected by ACCA member surveys, to put into context the findings of the EIU survey.

The three bodies issued a set of recommendations for small business owner-managers, urging them to:

- recognise their customer relationships as a strategic asset and address them as formally as they would any valuable intangible asset
- carefully consider what skills and capacity they will need as the recovery gets underway, and plan these resources in the medium and long-term
- engage in cost-cutting only as a disciplined exercise, based on solid business planning.
- continue to focus on improving their cash position and profitability.
- prepare for the eventuality that credit conditions will never recover to 2007 levels and consider how this prospect affects their business planning
- tap into sources of equity finance, especially business angels
- take advantage of low asset prices and consider opportunities to expand by acquiring competitors, opening new premises or investing in new assets.

Accountants for Business: Living up to Expectations uses data from ACCA's Global Economic Conditions Survey (GECS)³ in order to benchmark the experiences of businesses smaller than those of the EIU panel against those of larger SMEs, and to contribute to a better understanding of how accountants are supporting small business through the recovery. More importantly, it considers the match between the advice given by professional accountants and the three bodies' joint recommendations in late 2009.

ABOUT THE GLOBAL ECONOMIC CONDITIONS SURVEY

The fourth ACCA Global Economic Conditions Survey was carried out between 9 and 30 November 2009 and attracted 1,702 responses from ACCA members around the world. It is now almost certainly the largest quarterly survey of accountants in the world. Participating members are asked to share their views on the state of the global economy, the performance of governments, as well as the impact of the downturn on themselves, their organisations and clients.

In addition to the usual range of topics considered by the GECS, respondents to the Q4 2009 survey were asked two questions specifically referring to small businesses.

Are you involved in offering financial advice to small businesses (with fewer than 50 employees)?

As the new year approaches, what would be your number one piece of advice to a small business in your country that wants to be able to take advantage of the economic recovery? (You can choose to focus on a particular sector if you prefer).

The first question distinguished between a number of different types of engagement with small businesses, and explicitly considered advice offered by members to their own social networks – their friends and colleagues who manage small businesses.

The second question was intentionally open-ended in order to elicit a rich set of responses and capture something of the diverse experiences of our membership. Qualitative content analysis was then undertaken to establish the common themes emerging from our members' advice. These were coded and linked to the original dataset in order to enable even more insightful analysis of our members' advice.⁴

1. Economist Intelligence Unit, *Surviving the Drought*, October 2009.

2. ACCA, CGA-Canada and CPA Australia, *Access to Finance for Small and Medium-sized Enterprises: Evidence and Conclusions*, October 2009.

3. ACCA, *Global Economic Conditions Survey Report: Q4 2009*, December 2009.

4. The analysis made use of SPSS Text Analytics for Surveys v. 3.0. Categories were developed through an initial sweep based on statistical frequencies and individual responses were then coded manually.

2. Updating the evidence: small business in the downturn

Policymakers are not unfamiliar with the effects of the downturn on businesses and the policy response around the world has been robust, if diminishing in proportions.⁵ However, in order to monitor its effectiveness, it is necessary to benchmark the responses of members working in small businesses against those of their colleagues in larger organisations, but also against their own perceptions in the recent past. The GECS data allow this to some extent.⁶

According to the latest GECS data, the smallest businesses and their clients have been performing better against many of the key risk measures the three professional bodies identified in October 2009 (see box The Small Business Economic Outlook). Additionally, it appears that they have done so despite facing greater challenges than their larger competitors.⁷

The resilience of small business investment at first appears inconsistent with the trading conditions reported by finance professionals. Accountants in micro and small businesses were much more likely than their colleagues in larger organisations to report a tightening supply of capital in Q4 2009, and slightly more likely to report fewer profitable investment opportunities. Moreover, they were more likely to report deteriorating revenue expectations and were more pessimistic about the state of the global economy. One explanation could be that small businesses are increasingly financing investment from retained profits and cash flow; however as falling incomes and cash flow problems appear to be more common among smaller businesses this appears to be unlikely. It is more likely that results are being skewed by a large percentage of micro enterprises or businesses in the services sector that have only ever engaged in negligible levels of capital investment and have therefore seen little change during the downturn.

However, there is one more plausible explanation. Analysis of the Q4 2009 GECS found that a cost-cutting mentality was the most important threat to capital investment, and that this was decidedly less common among smaller businesses. This is of course encouraging but it also means that small business investment hinges on attitudes which could change with a prolonged downturn.

Chart 1: % of GECS respondents who cited problems accessing finance for their organisations or clients in last three quarters of 2009, by size

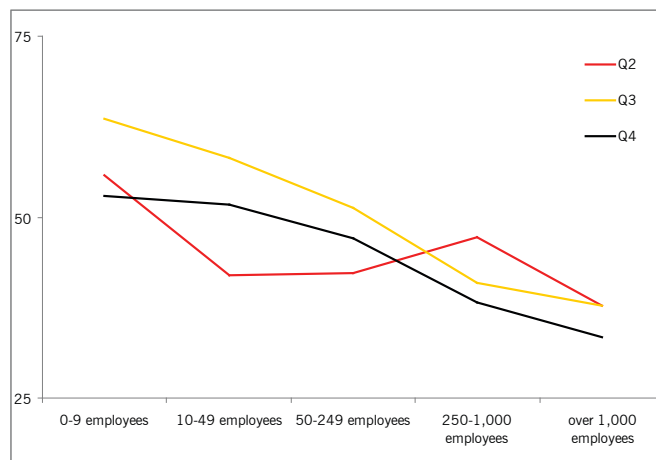


Chart 2: % of GECS respondents whose organisations are taking opportunities to cut costs, by size

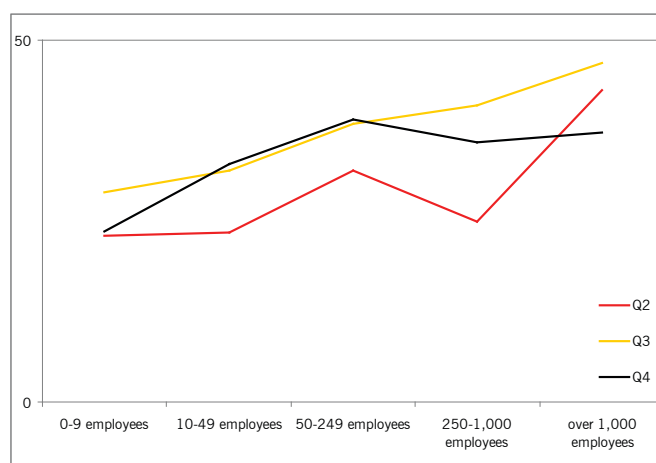
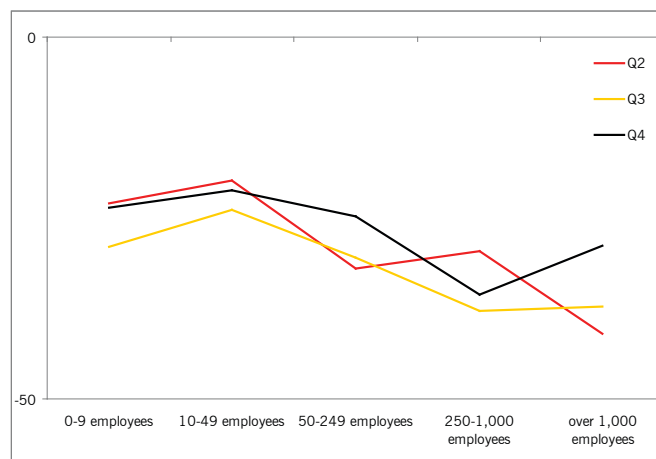


Chart 3: % balance of GECS respondents reporting an increase or decrease in capital investment in their organisations and/or among their clients, by size



5. OECD Economic Outlook No. 86, November 2009. IMF World Economic Outlook, October 2009.

6. GECS is not a longitudinal survey, although a substantial number of participants are repeat respondents. In November 2009, 89% of respondents said they were happy to be contacted again in the next quarter. GECS respondents are individual ACCA members who were asked to discuss the effects of the downturn on their organisations as well as their clients. Thus, while any percentages reported are likely to overestimate the extent of individual effects, they do give a more accurate view of market perceptions.

7. To avoid confusion regarding the meaning of size-bands, we will follow the EU standard of referring to businesses with 1 to 9 employees as 'micro enterprises', those with 10 to 49 employees as 'small businesses' and those with 50 to 249 employees as 'medium-sized businesses'.

THE SMALL BUSINESS ECONOMIC OUTLOOK

- Accountants in small and micro enterprises are less optimistic about the state of the global economy, about the duration of the downturn and about their own organisations' economic prospects than those in larger workplaces. However, they reported growing confidence in the prospects of their organisations in Q4 2009: small businesses in particular are gaining confidence faster than those of any size band apart from the very largest organisations.
- Small and micro enterprises have consistently been more likely to report shortages of finance or incidences of late payment, although conditions are improving more rapidly for them than for larger businesses.
- Small organisations (and to some extent micro enterprises) have consistently been less likely to reduce their levels of investment. However, they too have been affected substantially and are recovering more slowly than businesses in other size bands.
- Small and micro businesses have been less focused on cost cutting and are less likely to make job cuts than larger organisations. Moreover, the percentage of small and micro business accountants who are reporting job cuts is falling more rapidly than that of accountants in larger organisations. Larger organisations are, however, shifting away from a cost-cutting mentality faster than smaller businesses are.
- That said, the proportion of accountants in small and micro businesses reporting 'pre-emptive' job cuts that are unprompted by falling demand is once again on the rise after a brief respite in Q3 2009. Job cuts appear to be more loosely correlated to late payment (used here as a proxy for cash flow problems in general) among the smallest businesses than among larger organisations. However, members in small and micro enterprises are still less likely than those in larger ones to report pre-emptive cuts.
- Micro enterprises are becoming increasingly less likely to look to new or niche markets, while attitudes among other small businesses have changed very little.
- Small and medium-sized organisations are becoming more engaged in innovation, while larger organisations are becoming less so. Despite this trend, small businesses are still less likely to be innovating their way out of the downturn.
- An emphasis on supply chain relationships is no more or less common among smaller businesses than larger ones. However, while the relative importance of supply chain relationships for larger organisations has been falling, it has risen for micro enterprises and remained constant for small businesses.
- Small businesses are the only size band for which the relative importance of improving quality as a business opportunity has risen in the last three months of 2009.

3. Supporting small businesses – the role of governments

The third GECS (Q3 2009) studied in more detail the perceptions of government policy among ACCA members, focusing on specific types of government interventions and the degree to which they were seen as helpful. The GECS findings, published in October 2009,⁸ indicated that accountants in smaller businesses were less approving of government responses to the downturn, despite a range of measures worldwide targeted directly at small and medium-sized enterprises. Members working in micro enterprises have, on average, only seen a net benefit from increased public sector spending, while those in small businesses report moderate net benefits only from governments' efforts to stabilize the financial services sector – whether through financial aid or tighter regulation. Members in medium-sized and large enterprises, on the other hand, reported net benefits on average across almost all of the areas of policy that were examined.

Further analysis suggests that size does not, in itself, explain all of the disparities found in the effectiveness of government interventions. Once other relevant variables, such as sector, country, region, as well as potential biases due to the role and experience of respondents, are taken into account, only a few types of interventions have genuinely been less effective for small businesses.⁹ These are, by order of significance of the size variable, as follows:

- 1. Government spending and public procurement.**
Smaller businesses often face barriers to accessing the public procurement market and, even where quotas or other interventions exist to assist them, these can often be overridden or may prove counterproductive.
- 2. General business support.**
For larger businesses, government support can entail powerful interventions from the political leadership, while smaller businesses must generally make do with the public infrastructure of business support, which, where it exists, is often of poor quality.
- 3. Assistance to financial services firms.**
Assistance to financial services firms is often understood to have had little effect on the supply of finance to small businesses. Additionally, the recapitalization and stabilization of large financial services firms has caused government finances around the world to deteriorate, threatening small businesses with larger tax bills in the future.
- 4. Access to finance for businesses.**
Smaller businesses can often find it difficult to access government programmes, such as guarantee schemes, providing financial support. As discussed above, members working for small businesses also report that recapitalization of the banking system has not led to a release of additional credit to small businesses.
- 5. Sector-specific business support.**
Sector-specific business support may be unduly focused on protecting clusters of high-profile ailing businesses from foreign competition, while their extensive and diverse but politically less powerful supply chains receive less attention and support.

8. This detailed question on the effectiveness of different types of government intervention was only included in the Q3 2009 survey. ACCA, *Global Economic Conditions Survey Report: Q3 2009*, October 2009.

9. This analysis has been obtained by running a set of multinomial regression analyses in which the GECS effectiveness ratings were the dependent variables and all identifier variables (role, experience, size, sector, country and region) were introduced as independents. The types of interventions reported on here are the ones for which likelihood ratios of the size variable were statistically significant.

Table 1: Mean ratings for aspects of the policy response to the downturn in the year to October 2009 by organisation size (Respondents reporting effects on their organisations only. 1 = very harmful, 3 = negligible net effect 5 = very helpful)

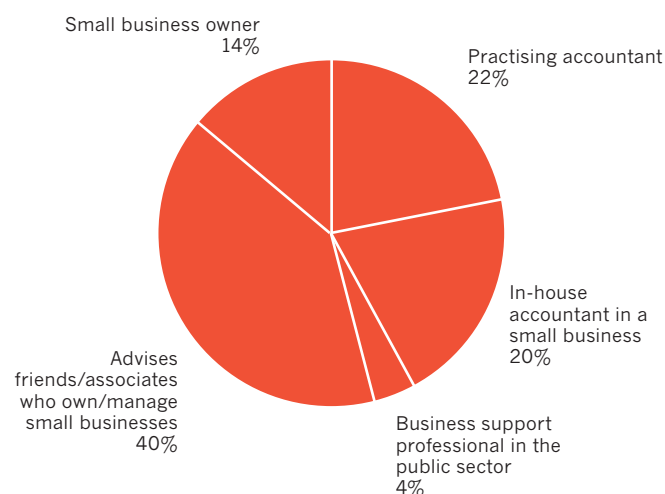
Aspects of government response	0–9 employees	10–49 employees	50–249 employees	250–1,000 employees	Over 1,000 employees
Public sector spending and procurement	3.05	2.89	3.28	3.46	3.43
Business law and regulations	2.90	2.93	3.17	3.24	3.26
Individual tax	2.59	2.64	2.90	2.94	2.98
Corporate tax	2.92	2.99	3.07	3.15	3.16
Assistance to financial services firms	2.99	3.10	3.19	3.45	3.44
Regulation of financial services firms	2.91	3.05	3.22	3.38	3.29
Access to finance for consumers	2.66	2.73	3.03	3.20	3.10
Access to finance for businesses	2.73	2.77	3.08	3.29	3.19
General business support	2.90	2.99	3.28	3.41	3.35
Sector-specific support	2.90	2.94	3.27	3.44	3.36

4. Supporting small businesses – the role of finance professionals

Exactly one third (33%) of the ACCA members surveyed in November 2009 were, in one way or another, involved in providing financial advice to small businesses, although this percentage varied widely by region and by sector.¹⁰

A large percentage of those respondents who did offer support to small businesses (40%) did not engage them in a professional capacity, but rather through their social networks, in which friends and associates who managed small businesses sought out the advice of a finance professional. Practising accountants and accountants employed directly by small businesses made up around one fifth of the adviser sample each, while 4% offered advice through government agencies. Finally, 14% were themselves the owner-managers of a small business.

Chart 4: Advisers to small business (% of all respondents providing financial advice to small businesses)



Small business support was most widespread in Africa, where 63% of the members surveyed were involved in providing financial advice to small businesses, and least common in Central and Eastern Europe, where only 19% did so. While these variations are significant, it is important to note that they reflect the historical contingencies of ACCA's expansion more than they do any other patterns in the role and activity of accountants.

10. These figures reflect the focus on businesses with 0–49 employees as a benchmark for small business status and the restriction to financial advice, while alternative benchmarks would yield different results. Over half of ACCA's members are engaged in providing professional advice to SMEs according to the World Bank Definition (less than 300 employees).

It is not surprising to find that practitioners and in-house accountants were not the only professionals involved in providing financial advice to small businesses, although the extent of social engagement is very impressive.¹¹ In some regions, most notably Africa and South Asia, support through social engagement is in fact much more common than professional advice. It is also important to note how strongly small financials are involved in the social provision of financial advice. This very likely reflects the degree to which they and their staff are embedded in the enterprise community.

Chart 5: Share of respondents who provide financial advice to small businesses by region and means of engagement (% of total sample)

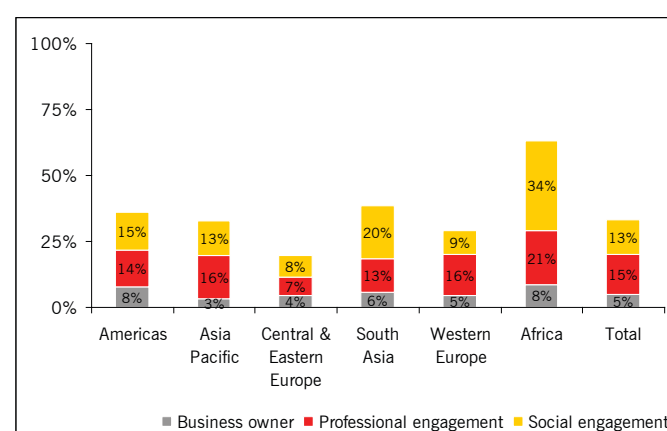
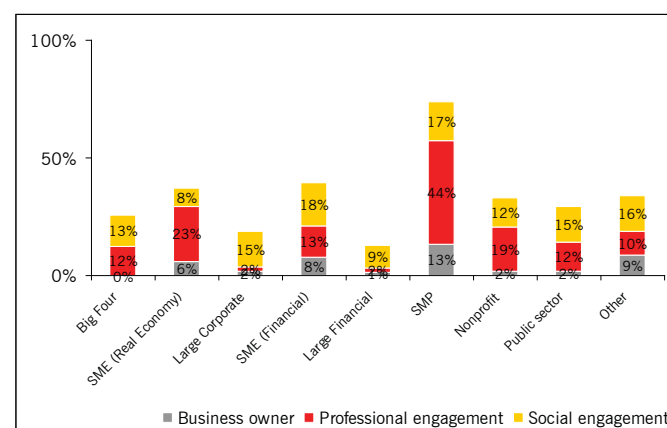


Chart 6: Share of respondents who provide financial advice to small businesses by sector and means of engagement (% of total sample)



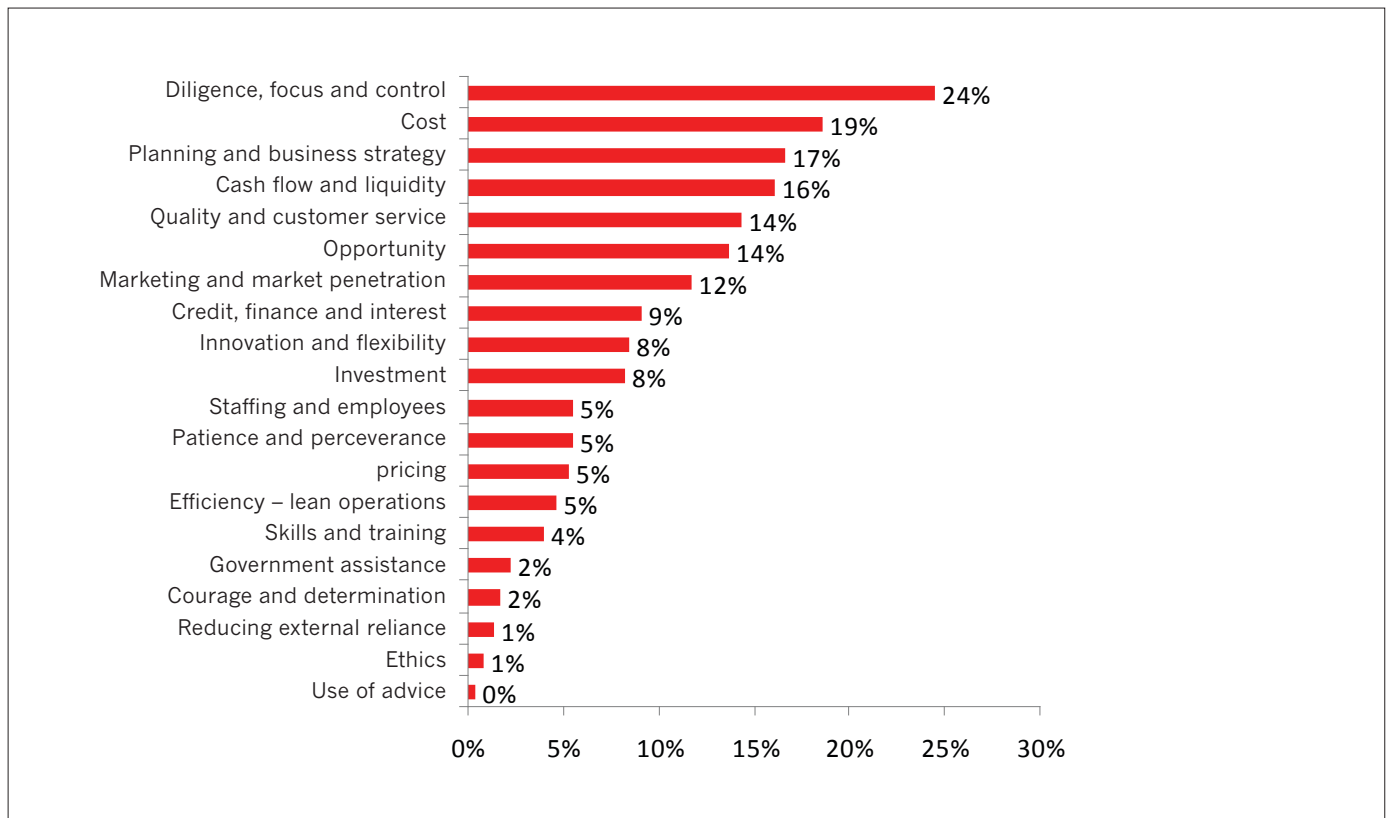
11. Professional engagement includes financial advice provided by practicing accountants, public sector business support professionals, or in-house accountants in small businesses.

WHAT ACCOUNTANTS THINK

Content analysis of the qualitative GECS data identified 20 major, recurring themes in the advice offered by members (see Chart 7). As might be expected, members emphasised the need for business owners and managers to remain focused, to look after cash flow, to review their operating costs and provide better value for money. The five most common advice themes, by order of frequency, were:

- 1. Diligence, focus and control (24% of respondents)**
This category included any advice on remaining alert and avoiding distractions, tightening internal controls, managing or avoiding risks, or on establishing policies and applying them consistently.
- 2. Cost (19%)**
This category included any advice on the treatment of cost items, the cost basis of the organisation and levels of operational gearing. It also included all generic advice on 'spending' where this was not judged to refer to investment. It did not include references to labour costs (classified under 'staffing and employee relations')
- 3. Planning and business strategy (17%)**
This category included any advice on medium- and long-term planning, on sources of competitive advantage and on distinguishing between core and peripheral activities of the business.
- 4. Cash flow and liquidity (16%)**
This category included any advice on the management of cash, receivables, working capital and inventories, as well as any reference to liquidity or solvency. It also included any reference to trade credit or terms of credit between customers and suppliers.
- 5. Quality and customer service (14%)**
This category included any advice on standards of product quality or customer service, on quality outcomes such as customer satisfaction, on quality management or associated strategic decisions.¹²

Chart 7: Frequency of themes in small business advice (% of respondents offering advice on this topic)



12. See Appendix for the definitions of all 20 categories.

ACCOUNTANTS' PERSPECTIVES

ACCA members' advice is, of course, informed by a number of factors, some of which were captured by the Global Economic Conditions Survey. These typically involved perceptions of trading or macroeconomic conditions but the experience of professionals themselves was also found to be important. The following factors appear to be particularly significant.

1. Experience

Accountants who qualified more than 10 years ago (but not those who qualified between 5 and 10 years ago) tend to be more preoccupied than their junior colleagues with diligence, focus and control, cash flow, business planning and strategy, and access to skills. Most of those respondents who have been members for more than 10 years will have experienced at least one major recession or financial crisis while in a professional capacity.

2. Government spending

Professionals who expected government spending to rise tended to discuss improvements to quality and customer service. Naturally, they were also more likely to discuss government assistance. However, those who expected government spending to fall significantly were more likely to want to bring up cash flow.

3. Fiscal uncertainty

Respondents who expected government spending to rise faster than they considered prudent tended to focus more on marketing, pricing and finance. This is not surprising, as inappropriate levels of government spending expose businesses to the risks of high inflation, low economic growth and high interest rates.

4. Assessment of economic conditions

Accountants who believed that economic conditions were still deteriorating, as well as those who thought a bottom had been reached but no recovery was yet in sight, were more likely to discuss cash flow and liquidity and less likely to discuss quality and customer service.

5. Expected length of the downturn

More optimistic professionals were more likely to discuss opportunities and market penetration. On the other hand, more pessimistic respondents were less likely to want to give any advice at all, and this reluctance was even greater among those who were unsure as to when the downturn would end. Of this latter category, more than half offered no advice at all.

Despite these significant effects, the content of members' advice remained surprisingly consistent across regions, although it varied significantly depending on the precise manner in which members were involved in providing financial advice.

Chart 8: Content of members' advice by length of professional membership (% of respondents offering advice on this topic)

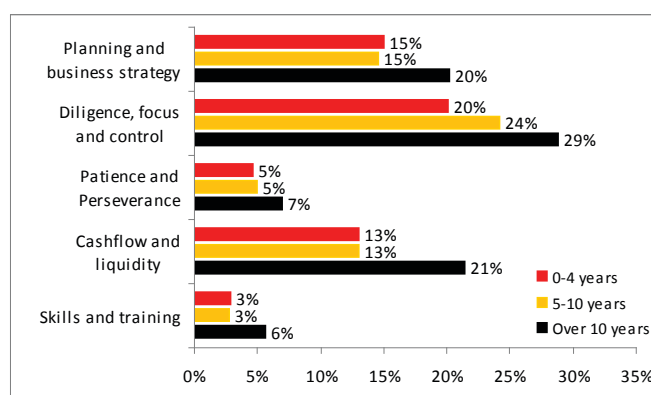


Table 2: Top five themes in members' advice by region (% of respondents)

Americas	South Asia	Asia Pacific	Africa	Central and Eastern Europe	Western Europe
Diligence, focus and control (30%)	Diligence, focus and control (20%)	Diligence, focus and control (20%)	Diligence, focus and control (28%)	Quality and customer service (22%)	Diligence, focus and control (26%)
Cost (28%)	Cost (19%)	Planning and business strategy (15%)	Cost (25%)	Diligence, focus and control (19%)	Cash flow and liquidity (21%)
Marketing and market penetration (19%)	Investment (19%)	Opportunity (15%)	Planning and business strategy (23%)	Cost (14%)	Cost (19%)
Quality and customer service (19%)	Quality and customer service (16%)	Cost (14%)	Quality and customer service (22%)	Planning and business strategy (14%)	Planning and business strategy (16%)
Planning and business strategy (18%)	Planning and business strategy (16%)	Marketing and market penetration (12%)	Marketing and market penetration (15%)	Opportunity (12%)	Opportunity (13%)

Table 3: Top five themes in members' advice by type of engagement with small businesses (% of respondents)

Practicing accountant	In-house accountant in a small business	Business support professional in the public sector	Advises friends / associates who own / manage small businesses	Small business owner / manager	No involvement with small business advice
Cash flow and liquidity (27.5%)	Diligence, focus and control (32%)	Cost (36%)	Diligence, focus and control (30%)	Diligence, focus and control (35%)	Diligence, focus and control (21%)
Diligence, focus and control (27%)	Cost (23%)	Investment (32%)	Cost (27%)	Cash flow and liquidity (27%)	Planning and business strategy (16%)
Cost (22.5%)	Planning and business strategy (18%)	Diligence, focus and control (27%)	Planning and business strategy (18%)	Planning and business strategy (24%)	Cost (16%)
Planning and business strategy (19%)	Cash flow and liquidity (16%)	Innovation and flexibility (27%)	Investment (15%)	Quality and customer service (24%)	Quality and customer service (15%)
Opportunity (12.5%)	Marketing and market penetration (15%)	Cash flow and liquidity (23%)	Opportunity (14%)	Cost (19%)	Cash flow and liquidity (15%)

Chart 9: % of respondents advising on selected themes, by expected medium-term change in government spending

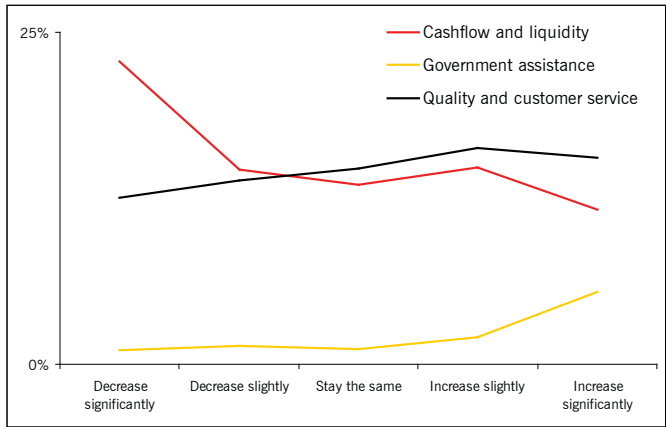


Chart 10: % of respondents advising on selected themes, by expected medium term over- or under-spend by government:

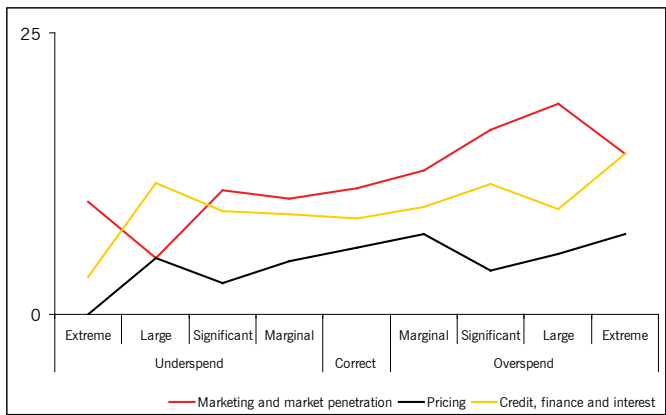
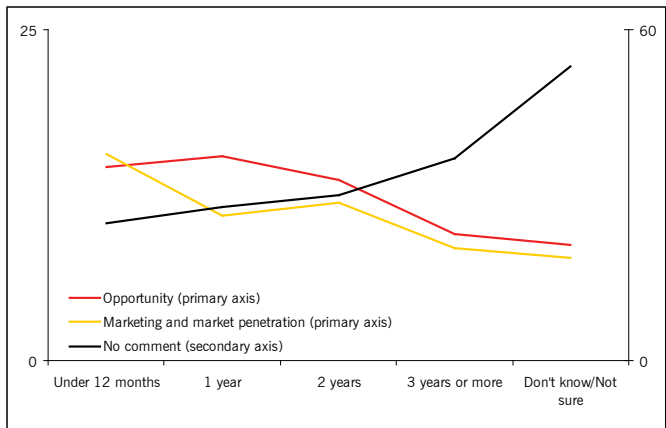


Chart 11: % of respondents advising on selected themes or offering no advice, by expected time to recovery:



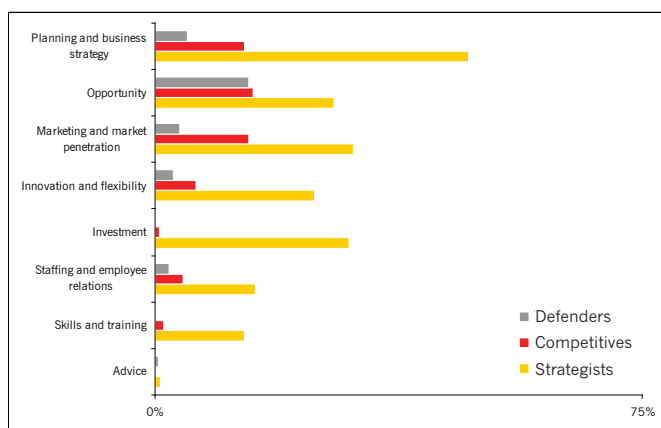
5. Profiling the profession

Once the content of members' responses had been coded to facilitate statistical analysis, cluster analysis¹³ was used to identify general types among ACCA members based on the content of their advice. The analysis returned three fairly distinct and coherent groupings.

A. THE STRATEGISTS

More numerous than any other grouping (39% of respondents to GECS Q4 09), the Strategists believe that small business owners need to take a moment as economic conditions improve in 2010 to look at the big picture and make robust plans for the future. More than other members they tend to advise small businesses to seek out opportunities as markets begin to recover, to invest and to explore new or niche markets. Alongside capital investment, they emphasise the value of retaining or developing key people and skills and advise small businesses to be as flexible and innovative as they can. Strategists are driven by a belief that the recovery is already well underway, and that survival can no longer be the sole preoccupation of small businesses. As such, they are proportionately rarer in Europe and more common in Asia.

Chart 12: Preoccupations of Strategists

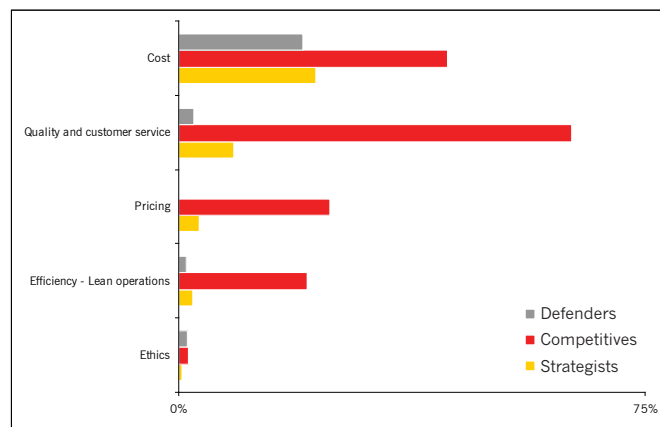


B. THE COMPETITIVES

Competitives believe that the downturn offers a rare opportunity for smart businesses to build a strong competitive advantage. They advise on competitive pricing, achieved by cutting costs or building more efficient operations, as well as on maintaining or improving quality and customer service. More than a quarter (26%) of the respondents to GECS Q4 09 were classified as Competitives. All other things being equal, they were more likely to be based in the Americas, although they were also over-represented in Central and Eastern Europe. They typically worked for multinationals and were aware of

competition on a global level. They were very scarce in the public sector, but also in less cyclical parts of the private sector, such as the Big Four.

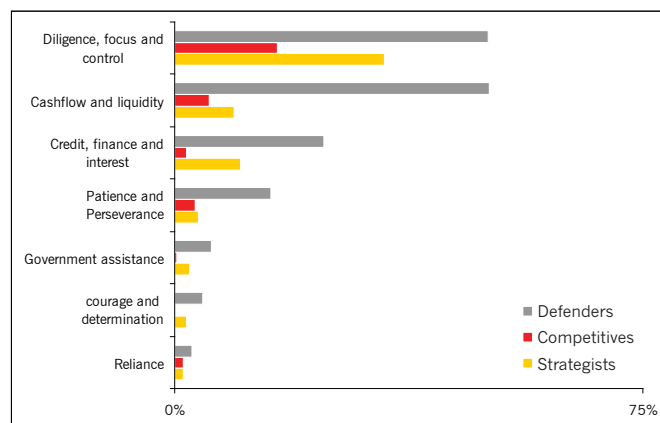
Chart 13: Preoccupations of Competitives



C. THE DEFENDERS

Defenders typically advise small businesses to be extremely cautious: to prepare psychologically for tough years ahead and to focus on survival. In particular, Defenders are preoccupied with maintaining strong cash flow, improving financial controls and reducing reliance on other organisations, including lenders. Defenders are also more likely than other members to direct small businesses to Government assistance programmes. Just over one third (36%) of the respondents to GECS Q4 09 were classified as Defenders, including a substantial part of the sample in Western Europe (44%) where they are substantially over represented. All other things being equal, these members tend to be older and many will remember false dawns that complicated previous recessions. They have been adjusting income expectations for their own organisations regularly and are acutely aware of how unstable the economic environment can be.

Chart 14: Preoccupations of Defenders (% of respondents offering advice on this topic)



13. A TwoStep Cluster Analysis was performed on all responses which had not been coded as 'no comment' or 'blank'. All coded content variables were entered as dichotomous categorical dummies. Of 1,702 respondents in total, this left 520 cases, 31% of the sample, unclassified. The cluster membership statistics reported here exclude unclassified members.

IN THEIR OWN WORDS: THE STRATEGISTS

'Keep on going and target higher profits but most of all give up on the idea that a company going through a crisis period needs just to survive. It needs to survive and more...take [advantage of the] opportunities of [the] current situation.'

Financial controller, medium-sized advertising agency, Romania

'This should be a good opportunity to make a thorough assessment of the operation, its cost structure and current strategy. Small businessmen should use this time to plan [in order] to be ready (maybe with new ideas/products/services) when the economy will start showing clear signs of recovery, and maybe...penetrate into new markets.'

CFO, public sector, Malta

'Be confident with banks and borrowing institutions and be prepared with good business planning and flexibility in financial models to show that you can withstand further pressure. Review costs and recognise that you can do things more efficiently and cost effectively and the lessons learned will stay with you for all time. Review potential to build in the market place at a time when investors are looking for worthwhile longer term investments.'

Director, micro non-profit, England

'Review [your] business model to streamline operations and be more cost efficient. Look to East/Tiger Economies for more trade and investment. China's future is bright...ride on this wave of expansion.'

Senior manager, small business, Australia

'Grow your business slowly but surely. Ensure utmost satisfaction of existing clients and get to know their needs better so as to be better able to meet [them]. Also maintain good relations with suppliers. With a firm client base, begin to diversify, preferably into related / complementary areas / activities to your existing ones.'

Accountant, small business, Zambia

'Keep good staff – it will be slow and difficult to recruit when the economy turns. [Maintain] strong networking with clients and suppliers – build new contacts. Keep company name and brand visible in the market; explore new opportunities for business – niches, partnerships.'

Senior manager, medium-sized non-profit, China

'Be nimble and move up the value chain'

Senior manager, medium-sized, Malaysia

'Try to reduce cost of doing business, find out the different areas of saving and retain skilled staff, if you can. I understand it is really difficult in current economic conditions. But it is also an opportunity to grow and capture new market[s].'

Senior manager, public sector, Pakistan

'The small business operators need to ensure they develop a good business plan and ensure that they can access funding for their business. They could also take this time to do some research on business areas that are in demand and try to capture a part of that market share.'

Newly qualified accountant, public sector, Jamaica

'Small businesses should focus [on] repositioning their business and do away with products that consumers do not want. Knowing what the customer wants and offering quality product and services should be the key. Overstocking should be avoided so as not to tie-up capital and increase holding costs.'

Senior manager, large financial, United Arab Emirates

'Don't lose your best staff. Take a hit now because you will be in a position to move quickly when the upturn begins.'

Senior manager, medium-sized, Republic of Ireland

'They must learn to cut costs. They should consider merging with other small businesses, [and] think about the possibility of diversifying and expanding their product or service base. They should seek advice from financial experts.'

Manager, small non-profit, Canada

IN THEIR OWN WORDS: THE COMPETITIVES

'Invest in optimization of internal processes and increase internal efficiency and productivity now. The end of [the] economic crisis and start of [the] recovery will coincide with the toughest competition ever between those businesses which will manage to survive in the difficult times. This will be a great opportunity to find [one's] place in the market and grow fast.'

Manager, Big Four, Romania

'[Maintain] market share. Try to reduce costs via process improvement or lower raw material costs, but ensure [that] quality is maintained at the correct standard. The customers will never accept inferior quality (for long), even when they know they are getting the goods cheaper from you now than before!'

Supply chain manager, medium-sized manufacturer, China

'I would suggest that they [maintain] a good standard of service to clients because as the economy gets back into shape those providing [a] poor level of services to cut cost will soon find themselves out of business.'

Newly qualified accountant, micro enterprise, Mauritius

'Customer focus is key. People want value for money above anything else. The next year or two is not about making profits but retaining and expanding customer base. When things get better this customer base will contribute to growing the organisation and increasing profits.'

Accountant, small financial, Republic of Ireland

'My number one piece of advice will always be on improved customer care and cost management strategies. Improved customer care will bring about improved relationship management and improvement in earnings.'

Internal Auditor, large corporate, Ghana

'Look closely at your business model – watch your costs and do not rely solely on sales to increase your profits – look closely to your business partners and do not rely on one or a few customers / suppliers.'

Senior manager, large corporate, US

'Develop quality improvement mechanisms that should enable local products [to] compete on the international market [and] take advantage of the high foreign exchange rates.'

Internal Auditor, large financial, Zambia

'Focus on value for money – don't worry about providing a full service, offer people 80% of what they want at 50% of the price, the last 20% of a service is generally the most expensive so cut it.'

Manager, large financial, Republic of Ireland

'The key to survive and grow in the coming years is to reduce prices and reduce margins. Businesses need to push some of the margins [into] the hands of the customer; this will indeed allow customers to grow, and in turn for business to survive and grow.'

Micro enterprise owner-manager, Pakistan

'Smart planning and thorough budgeting should be done to ensure efficient and effective cost management'

Manager, medium sized business, Malaysia

'Keep the cash inflows at a safe level until the business environment improves. Work carefully with the customers. Re-negotiate prices and terms with suppliers – there is a good opportunity there.'

Internal auditor, large corporate, France

'Know your costs well and be able to differentiate [between] fixed and variable overheads. Increase production efficiency and minimise sudden shutdowns due to breakdown of plant and equipment'

Consultant, medium-sized legal firm, Hong Kong

'Lose your money but don't lose your business. Cut your profit margins to secure your business, focus on staying in business versus making money.'

Senior manager, large corporate, Republic of Ireland

IN THEIR OWN WORDS: THE DEFENDERS

'There are more chances of businesses failing in the recovery process since most business make over ambitious decisions [while] in recovery. My advice would be to proceed with caution.'

Consultant, large corporate, Germany

'Make sure your accounting records are still in shape so that at least one of the information sources you can use to take advantage of changes in the economic landscape is accurate and reliable.'

Higher education student, Australia

'It's time to strengthen the internal controls, such as cost related, in order to minimise the unnecessary outgoings.'

Manager, mid-tier international accounting firm, Hong Kong

'Focus on [the] domestic market and establish relationships with commercial bankers and even government officials to secure financing.'

Newly qualified accountant, Big Four, China

'Prepare for things to get a lot worse as the next oil price spike kicks in and kills any recovery stone dead'

Accountant, large financial, Scotland

'The small business must re-assess their working capital cycle, perform SIPOC (Supplier-Input-Process-Output-Customer) analysis and SWOT analysis to better understand the financing needs and its impact on business in worst-case scenario.'

Manager, Big Four, Saudi Arabia

'Keep your costs to a minimum. Free up cash in your organisation where possible. If seeking finance, have a clear, well thought-out plan for lending institutions. Stress test your financial projections.'

Accountant, small business, Republic of Ireland

'Make sure your balance sheet and liquidity is strong enough for all eventualities; as the cost of financing could be crippling if you or the economy runs into trouble.'

Senior Manager, small financial, Bermuda

'Concentrate on working to maintain cash flow – work hard to maintain the level of activity and exercise good credit control to bring the money in. Don't be afraid to ask directly for your money!'

Practitioner, SMP, England

'Collect all receivables, choose very carefully partners, maintain access to external funding (banks), monitor very carefully the situation and jump ahead of the competition, when the opportunity arises.'

Director, large financial, Bulgaria

'Cash is King and the need to improve cash flow is critical for a small business [trying] to survive in the current changing economic front. Many consumers have now resorted to savings and due to the current low cost of funds, extending credit may be tempting for a small business but be careful. Cash is a limited but vital resource [for] a small business.'

Director, large corporate, Singapore

'They should sit tight....I think it is a 'W' type recession.'

Manager, large corporate, Pakistan

'Keep tight control over cash flow and overheads in order to ride out the storm and survive.'

Practicing accountant, Wales

'Utilise [to the] maximum the subsidy from Government through its stimulus package of low rate loans. Improve CRM [customer relationship management] and cut costs.'

Manager, Big Four, Vietnam

'Negotiate credit terms at the order stage, [implement] strict credit control and avoid key customer concentrations.'

Internal auditor, Large Financial, England

'[Small businesses] need to be creative in managing cash flow and [should] try not to rely on one financial institution.'

Director, SMP, Trinidad and Tobago

6. Conclusion

This report has made use of the experience and knowledge of ACCA members around the world to consider the state of the small business sector and discuss its priorities in the recovery.

Small businesses appear to have outperformed larger organisations against most of the key indices monitored by ACCA, despite facing disproportionate cash flow pressures and benefiting less from government interventions. In particular, their refusal to engage in indiscriminate cost cutting is serving them and the global economy reasonably well. But it is clear that the small business sector, as indeed the entire global economy, is not out of the woods yet.

This suggests that the advice of professional accountants has rarely been more valuable. At the global level, the consensus view appears to be that survival can no longer be the sole preoccupation of small businesses. For some, time and resources will now allow a brief period of reflection and planning that could yield benefits in the future. Others must wade straight into the recovery in search of competitive advantage. However, in those regions where the recovery is weakest, large numbers of finance professionals are still advising businesses to prepare for the worst. Some are drawing on experience of past recessions while others are simply reading the signs of troubled times ahead.

What emerges, however, as the single most common theme in the profession's advice to small business owners and managers is a need to stay focused and exercise precise control over their organisations. ACCA is confident that the sector can achieve this – as long as they can continue to count on professional accountants to provide high quality information and insight.

The findings of this study suggest that accountants' advice closely matches the recommendations of ACCA and our partners to small businesses (see Table 4), although of course members emphasise different areas based on their experience and their own assessment of economic conditions.

Some topics, such as equity finance for small businesses, are still niche subjects even among finance professionals and it is no surprise to find them under-represented in accountants' advice. We believe, however, that such areas will grow in prominence as the supply of credit continues to grow sluggishly and demand continues to shift away from debt.

Table 4: Emphasis on individual ACCA/CGAC/CPAA recommendations in accountants' advice

ACCA / CGA-Canada / CPA Australia Business recommendations	Strategists	Competitives	Defenders	Total
Recognise customer relationships as a strategic asset	Low	Very high	Moderate	High
Plan resource needs in the medium and long-term	High	Moderate	Low	Moderate
Engage in disciplined cost-cutting based on solid business planning.	Moderate	Very high	Moderate	High
Continue to focus on improving cash position and profitability.	Moderate	Moderate	Very high	High
Plan for the eventuality of a sustained fall in credit supply	Low	Low	Very high	Moderate
Tap into sources of equity finance	Low	Low	Low	Low
Consider investment opportunities that take advantage of low asset prices	Very high	Low	Low	Moderate

Note: This is a broad qualitative assessment and recommendations have been loosely matched against the themes (and sub-themes) in accountants' advice that emerged from the analysis. Total sample includes unclassified cases.

Appendix: advice themes defined

- 1. Diligence, focus and control (24% of respondents)**
This category included any advice on remaining alert and avoiding distractions, tightening internal controls, managing or avoiding risks, or on establishing policies and applying them consistently.
- 2. Cost (19%)**
This category included any advice on the treatment of cost items, the cost basis of the organisation and levels of operational gearing. It also included all generic advice on 'spending' where this was not judged to refer to investment. It did not include references to labour costs (classified under 'staffing and employee relations')
- 3. Planning and business strategy (17%)**
This category included any advice on medium- and long-term planning, on sources of competitive advantage and on distinguishing between core and peripheral activities of the business.
- 4. Cash flow and liquidity (16%)**
This category included any advice on the management of cash, receivables, working capital and inventories, as well as any reference to liquidity or solvency. It also included any reference to trade credit or terms of credit between customers and suppliers.
- 5. Quality and customer service (14%)**
This category included any advice on standards of product quality or customer service, on quality outcomes such as customer satisfactions, on quality management or associated strategic decisions.
- 6. Opportunity (14%)**
This category included any advice pointing out potentially profitable strategies, markets or investments. It also included any references to readiness or preparation for the recovery combined with an exhortation to act.
- 7. Marketing and market penetration (12%)**
This category included any comments urging entry into specific geographical or product markets, or any general references to entering new markets or niches. It also included any advice on marketing and increasing market share.
- 8. Credit, finance and interest (9%)**
This category includes any advice on obtaining or avoiding external finance, on monitoring and controlling financing costs, on choosing between different sources of finance and on initiating or maintaining relationships with providers of external finance.
- 9. Innovation and flexibility (8%)**
This category includes any advice recommending the development of new products, services or practices, as well as any comments on organisational change and adaptation.
- 10. Investment (8%)**
This category includes any references to investment in organisational assets and staff, any advice on inventory levels and any references to investment in financial assets, such as equities.
- 11. Staffing and employee relations (5%)**
This category includes any references to levels of employment, recruitment and labour costs. It also covers all references to the way in which employees are treated and their relationship with management.
- 12. Patience and perseverance (5%)**
This category includes any advice suggesting an increased focus on the survival of the business as well as any advice recommending a stoic approach to the economic downturn.
- 13. Pricing (5%)**
This category includes any comments on achieving competitive product prices or taking advantage of such in the marketplace.
- 14. Efficiency – lean operations (5%)**
This category includes any comments suggesting a need for reducing unit costs, simplifying organisational structures, or reducing waste.
- 15. Skills and training (4%)**
This category includes any comments on improving workforce skills or on the treatment of talented or important staff members.
- 16. Government assistance (2%)**
This category includes any advice on accessing business support schemes run by the government, or any proposals for lobbying the government.
- 17. Courage and determination (2%)**
This category includes any comments advocating a positive attitude and overcoming of fear.
- 18. Reducing external reliance (1%)**
This category includes any comments advising small businesses against relationships, be it with lenders, customers or other economic agents, that could foster dependency.
- 19. Ethics (1%)**
This category includes any comments on the level of professional and moral conduct required as well as any criticism of the moral conduct of economic agents during the downturn.
- 20. Use of advice (<1%)**
This category includes any comments on what advice small businesses should seek, who from and whether existing sources of advice are trustworthy during the downturn.

TECH-AFB-LUE