

A woman with curly brown hair, wearing a denim shirt and orange suspenders, is sitting at a workbench in a workshop. She is holding a red pen and writing on a piece of paper. The workbench is cluttered with various tools and materials, including a hammer, a pencil, and a wooden block. The background is a blurred workshop with shelves and equipment.

SMES: BUSINESS CHALLENGES AND STRATEGIC INNOVATION OPPORTUNITIES

About ACCA

We are ACCA (the Association of Chartered Certified Accountants), a globally recognised professional accountancy body providing qualifications and advancing standards in accountancy worldwide.

Founded in 1904 to widen access to the accountancy profession, we've long championed inclusion and today proudly support a diverse community of over **247,000** members and **526,000** future members in **181** countries.

Our forward-looking qualifications, continuous learning and insights are respected and valued by employers in every sector. They equip individuals with the business and finance expertise and ethical judgment to create, protect, and report the sustainable value delivered by organisations and economies.

Guided by our purpose and values, our vision is to develop the accountancy profession the world needs. Partnering with policymakers, standard setters, the donor community, educators and other accountancy bodies, we're strengthening and building a profession that drives a sustainable future for all.

Find out more at accaglobal.com



SMES: BUSINESS CHALLENGES AND STRATEGIC INNOVATION OPPORTUNITIES

This report considers the challenges faced by small and medium-sized enterprises (SMEs) in 2023. The findings are derived from a survey of ACCA members in SMEs and discussions with small and medium-sized accountancy practices (SMPs) serving their clients. The report explores future strategies that small businesses can undertake to bolster resilience and innovate and the opportunity for SMPs to support SMEs in transforming their organisations to achieve these ambitions.

Acknowledgements

ACCA would like to thank all individuals who participated in our roundtables across the world to support this project and provide their insights. In particular we would like to extend our gratitude.

We are extremely grateful to Mr Steve Heathcote and Ms Courtney Piette from PrimeGlobal, and Mr Christopher Arnold and Mr Harpal Singh from the International Federation of Accountants (IFAC). Through the massive support of their professional members and affiliates, these global partner associations helped shape this work with their experience and industry knowledge.

Contents

Executive summary	5
Opportunities for small and medium sized practices to augment their role as trusted advisors	6
Introduction	9
1. SME challenges	10
1.1 The cost challenge facing SMEs in the global economy	11
1.2 Talent challenges in SMEs	16
1.3 Small business, regulation and the ESG reporting agenda	22
2. SME opportunity and innovation	26
2.1 Innovation at the heart of strategy – unlocking small business value	26
3. SMPs as the trusted advisors	32
3.1 Accelerate the introduction of digital technologies	32
3.2 Investing in talent and assessing new organisational structures	33
3.3 Develop strategic businesses services	34
3.4 Strategic partnerships	35
3.5 Leading the sustainability agenda	36
Appendix & References	37

Executive summary

1. SME Challenges

It is clear from our analysis that SMEs in 2023 have been grappling with a spectrum of challenges, a reflection of the significant issues presented by the global economy over the last 18 months. Unsurprisingly inflation is a key issue, with 58% of respondents identifying higher costs as the most pressing concern. Talent as always is a major consideration, with recruitment of new employees emerging as a key issue during 2023 and linked to this skills development. These issues naturally have an impact on the capability of SMEs to drive innovation.



COST

Cost pressures and the global economy – a detailed examination of cost pressures reveals significant increases across various sectors. Utility prices surged by over 20% for 25% of the surveyed businesses, while for an additional 27% of respondents the price hikes ranged from 11% to 20%. Similar trends were observed in supplies of materials and other inputs, with 19% of SMEs hit by increases of over 20%, and 26% suffering increases between 11% and 20%. The level of cost challenges faced by SMEs in their day-to-day operations is clear and, for many, unprecedented.



TALENT

Workforce and talent in SME – the workforce landscape for SMEs underwent significant shifts in Q1, 2023 over the previous 12 months, with 31% of respondents reporting increased job vacancies for professional workers. The ability to fill these vacancies varied across occupations, with 14% unable to find suitable candidates for clerical workers, technicians, and service and sales workers. The accountancy sector continues to grapple with recruitment and retention challenges globally, as also evidenced by our [Global Talent Trends 2023](#) survey.



ESG

SMEs and the ESG agenda – the importance of sustainability for small businesses cannot be overstated. Embracing sustainable practices is not merely an ethical choice but a strategic imperative that yields multifaceted benefits. Sustainability reporting has gained prominence, with almost 50% of SMEs being requested to provide environmental, social and governance (ESG) information. However, the report reveals a disconnection between the information required and the ability to generate it, as fewer than 45% receive technical assistance in collecting ESG information and concerns were raised about the perceived high costs associated with ESG reporting. Sustainable transformation and sustainability reporting represents a significant opportunity for SMPs in the future and has already become an advisory service offered by some of the practitioners.



2. SME opportunity and innovation

In the face of escalating challenges, some SMEs are strategically positioning themselves for the future, with 63% emphasising improvement in existing business processes, although only 31% of those surveyed plan to fully automate or digitise some operations, suggesting further opportunities to embrace technology transformation. The development of new products or services is a priority for 31% of these businesses, emphasising some commitment to innovation. Linked to this is the importance of skills development, with 39% focusing on management skills and 27% on digital skills as critical upgrades to drive future strategy. Those smaller businesses that are looking to invest in their capabilities are flag bearers for the wider SME community, and SMPs should be instrumental in supporting their clients to innovate and transform for the future.

All SMEs should be reflecting now on further opportunities to embrace innovation to drive business growth. Innovation equips small businesses with the tools to adapt to shifting consumer demands and technological advancements, ensuring they stay ahead of trends.

63% of the SMEs surveyed suggested they have introduced process innovations in the past two years, and as a consequence 47% of these suggest they have seen improvements in information and communication processes and 44% suggesting products and services had improved. Innovation comes with inherent risks and uncertainty, however, particularly in market and technology domains and these dynamics need to be managed carefully.

3. SMPs as the trusted advisors

SMP as trusted advisors to small businesses are uniquely positioned to support SMEs in mitigating challenges. Building a portfolio of capabilities for addressing challenges and stimulating SME growth represents a massive opportunity for SMPs. In order to embrace this opportunity, SMPs need to continuously work on updating a portfolio of capabilities and review their service offering to better address changing SME needs. Accelerating adoptions of digital technologies, developing strategic advisory services, investing in talent, embracing sustainability are among some of the actions that SMPs can undertake to achieve the ambition.



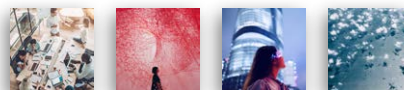
OPPORTUNITIES FOR SMALL AND MEDIUM SIZED PRACTICES TO AUGMENT THEIR ROLE AS TRUSTED ADVISORS

The challenges and issues facing SMEs in the current economic climate provide ongoing opportunities for SMPs in enhancing their strategic service offering. Building a portfolio of capabilities for addressing challenges and stimulating SME growth represents a massive opportunity for SMPs. Based on the survey results and discussion with the SMP community representatives, we see a number of key actions that are relevant to SMPs in achieving this ambition:

- **Accelerating the adoption of digital technologies**
– ACCA's previous research on SMPs and technology adoption points to the critical need for SMPs to continue to embrace digital tools and resources. Accountants and SMP firms are 'technology evangelists' for small business and the start-ups sector. They are at the forefront of wider small business digital transformation, not only implementing finance technology solutions, but also creating 'app stacks' within a particular app ecosystem or integrating 'best of breed' solutions tailored to small businesses. Technology is an important pillar for both the recovery and enhanced growth of the small business sector and accountants should be continuously working on developing their digital core that will enable them to address a number of challenges facing their clients. Digitalisation is an important enabler of innovation.

→ Explore:

- [The passionate practitioner](#) developing the digitalised small and medium practice.
- [Quick guide to AI](#) explaining why it's vital for finance professionals to understand the capabilities, limitations and potential applications of AI within their specific domains.
- [Digital horizons: technology, innovation and the future of accounting](#) offering insight into how financial professionals view the potential of digital technology for the profession as a whole.
- You may want to learn more about [ACCA's certificate in Digital Innovation for Finance \(CertDIF\)](#) that is aimed at accountancy, finance, business and advisory professionals who wish to develop their knowledge, skills and awareness of innovations in digital technology and its impact on the finance profession.



- **Investing in talent and assessing new organisational structures** which can range from embracing flexible work arrangements to respond to the needs of various employee groups, internal mentoring and reversed training ensuring the wealth of internal knowledge is being shared to leveraging technology for routine tasks and considering partnering with other organisations to build the capacities, necessary to respond to client needs.

→ Explore:

- [Hybrid working and SMPs](#) and learn about opportunities and risks of working remotely.
- [SMP Careers Toolkit](#) and get some in-depth insight about developing talent and knowledge sharing in your practice, responding to the needs of various talent groups. The toolkit is supported by a wealth of case studies and links to a wealth of ACCA's resources available.
- ACCA's [Global Talent Trends 2023](#) report provides a unique and vital view of how people feel about working in the profession right now.



- **Strategic business services** – as the range of challenges faced by SMEs grows, and with a continued push on innovation, SMPs are provided with further opportunities. Providing these high-value-adding services will strengthen SMPs' position as trusted advisors. Evolving client expectations demand a holistic and forward-thinking approach from small accountancy practices, blending traditional financial expertise with strategic insights, technology integration, and a commitment to ethical and sustainable business practices.

→ Explore:

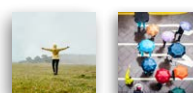
- [Leading the change](#) report that provides personal reflections of finance leaders having a key role in driving change across organisations
- [Space to Grow](#) report and learn more about the role of accountants and SMP acting as growth partners to their clients.
- [Supply chains: a finance professional's perspective](#) and a Playbook report considers the current issues in supply chains from the perspective of the finance professional.
- [Analytics in finance and accountancy](#) report and a playbook for SMEs.
- [ACCA Certificate in Data Analytics](#).
- [Planning and Performance Paradigm](#) report.



- **Strategic partnerships** – these are highlighted as a complementary strategy to overcome capacity constraints, pool resources and deliver enhanced services to clients. SMPs should have a 360 view of their clients' needs and ambitions and try to match it to what they have to offer-providing not just solutions to specific challenges, but access to communities and networks, to help their clients learn and develop. They can also form partnerships with other organisations that will enable companies to pool their resources, expertise and competences to deliver value-added services to their customers and drive long-term success.

→ Explore:

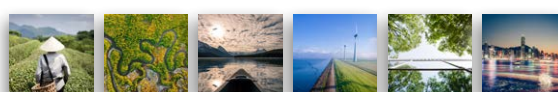
- [Space to Grow](#) report and learn about small business support ecosystems, how accountants can augment those ecosystems and connect their clients to support and business opportunities.
- [Responsible SMP Pacesetters](#) report and learn about the role of accountants as super connectors in local and business communities partnering with and supporting educational institutions, charities, NGOs.



- **Leading the sustainability agenda.** SMEs are increasingly expected to embrace sustainability and demonstrate their ESG credentials to get access to finance, retain and attract new clients, keep their positions in the supply chains. SMP can become indispensable in supporting small businesses in sustainability agenda. By first integrating sustainable practices into their operational frameworks, SMPs can gain firsthand experience and insights into the challenges and benefits of sustainable transformation. This approach allows them to serve as trusted advisors, guiding their clients toward environmentally and socially responsible practices and further enabling them to effectively communicate and report on their achievements.

→ Explore:

- [SMP leading sustainability toolkit](#).
 - [How SMEs can create a more sustainable world:](#) a series of case studies and a playbook.
 - [The role of the CFO and finance function in the climate transition: driving value and sustainability](#).
 - [Sustainability reporting – the guide to preparation](#).
- And ACCA Certificates that will provide you with the skills and knowledge to enable you to confidently lead on sustainability issues:
- [ACCA certificate in sustainability for finance](#).
 - [ACCA certificate in integrated reporting](#).



Introduction

Small businesses are the lifeblood of global economies, contributing to economic development and prosperity. Yet, they are often most vulnerable to economic turbulence and often lack support. Typically, they do not have the internal resources or the professional network to develop their businesses with the strategic intent necessary. Accountants as trusted advisors are therefore well placed to support small businesses with value adding services beyond traditional financial support services.

This report offers two complementary perspectives that shed light on the challenges facing SMEs. First, we explore three key challenges encountered by SMEs during 2023 in relation to rising costs, talent management challenges, and ESG reporting, as well as the successful strategies small businesses can adopt to help manage these issues. We then turn our attention to the opportunities that can

prevail in addressing these and other challenges through innovation, reflecting on why this is critical for smaller businesses, helping them build resilience by diversifying revenue streams and reducing vulnerability to economic fluctuations. Finally we consider the role small and medium- sized practices can play in supporting SMEs to innovate and deliver successful strategies for the future.



1. SME challenges

Overview of the key challenges facing SMEs in 2023

KEY CHALLENGE 1. COST



THE COST CHALLENGES FACING SMEs DURING 2023 HAVE BEEN UNPRECEDENTED.

The inflation challenge has been a truly global phenomenon, as central banks raced to control inflation initiating some of the most restrictive monetary policies across the world seen in recent times. The cost crisis has had a profound effect on smaller businesses across many different cost areas.

KEY CHALLENGE 2. TALENT



ANOTHER CRITICAL CHALLENGE RIGHT AT THE TOP OF THE PRIORITY LIST FOR 2023 FOR SMEs HAS BEEN THE ISSUE OF TALENT.

Our research suggests that SMEs continue to struggle to both acquire and retain key talent, as well as continuing to face significant wage pressure and pay demands within their organisations. Upskilling is also a critical area of focus as technological change speeds up.

KEY CHALLENGE 3. REGULATION/ ESG



INCREASING REGULATION AND PARTICULARLY ESG REPORTING WAS ALSO IDENTIFIED AS A KEY ISSUE FOR SOME SMEs.

As risk proliferates, there is a wealth of new and emerging regulation impacting businesses, most obviously in the area of environmental, social and governance. Regulation and reporting requirements will continue to evolve fast in this area, and SMEs need to be future ready to accommodate increasing demands.





1.1 The cost challenge facing SMEs in the global economy

KEY FINDINGS RELATED TO COST PRESSURES:

- SMEs continue to face unprecedented cost challenges due to the inflation crisis that has gripped the global economy.
- Utility prices surged by over 20% for 25% of the surveyed businesses, while for an additional 27% of respondents the price hikes ranged from 11% to 20% reflecting the outfall from the Russia invasion of Ukraine.
- Supplies of materials and other inputs also rose by over 20% and between 11% and 20% for 19% and 26% of respondents respectively.
- Labour markets during 2023 continued to be tight, which was possibly adding to the challenges of wage pressures some SMEs have faced – but 20% of SMEs had seen their wage costs go up by at least 10%
- Control of the cost base across these different elements has to be a key priority for SMEs, and there are numerous strategies SMEs can be adopting to strengthen their financial resilience.
- Small and Medium Sized Accountancy practices have a critical opportunity to play in supporting cost reduction strategies.

Smaller businesses often face a greater variety of pressures that can impede their operations and reduce their profitability than do larger businesses, and the 2023 global economy has presented numerous challenges to smaller businesses in managing cost pressures. Both the Russian invasion of Ukraine and the aftermath of the COVID-19 pandemic have contributed to inflationary pressures in

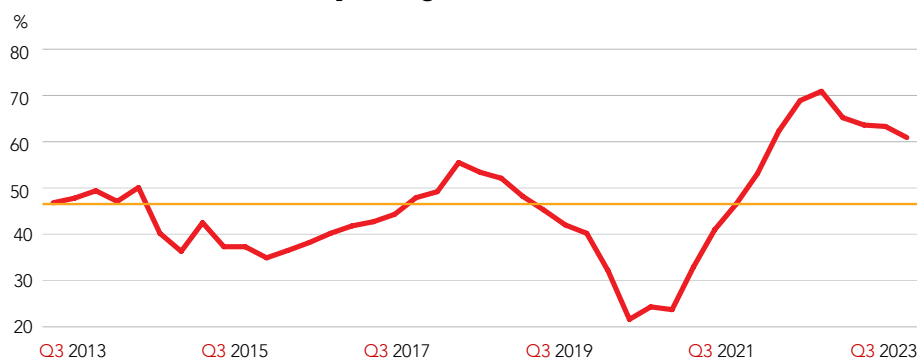
many economies. Supply chain disruptions, increased production costs, and geopolitical uncertainties have led to rising prices for goods and services. SMEs, in particular, face challenges in adjusting to inflation, and often they may lack the capacity to absorb costs or may not have the bargaining power to share the cost burden across their supply chains or pass on those increased costs to consumers.

Inflation and the global economy:

ACCA's and the Institute's of Management Accountants (IMA) [Global Economic Conditions Survey](#), which is a quarterly survey of ACCA and IMA members sentiment on a wide range of economic indicators pointed to a slight fall in terms of individuals worried about increased operating costs in Quarter 3 2023, though concerns remain very elevated compared to historical standards. As we move into 2024, central banks remain cautious over the inflation challenges still present, as well as ensuring any global growth slowdown is managed appropriately.



Concerns about increased operating costs



Source: ACCA/IMA (2013–23)

CONCERNS ABOUT 'INCREASED COSTS' EASED AGAIN, BUT REMAIN VERY ELEVATED BY HISTORICAL STANDARDS. THIS WOULD SUGGEST THAT CENTRAL BANKS MAY STILL HAVE SOME WORK TO DO TO GET INFLATION SUSTAINABLY DOWN TO THEIR TARGETS.

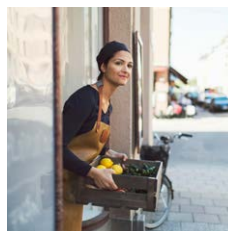




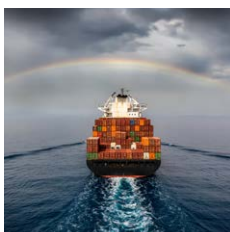
What are some of the key areas in which SMEs are typically presented with cost challenges?



LABOUR COSTS, which can include wages, benefits and payroll taxes, are a significant expense for many small businesses. Labour costs can often be increased by worker shortages. One cause of any labour shortage is increasing competition for talent.



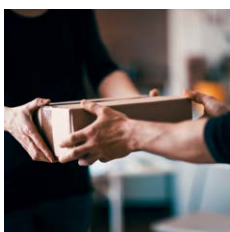
RENT AND LEASE PAYMENTS for office space, retail space, or manufacturing facilities can be a substantial fixed cost and sudden or large increases can have negative consequences to planning and budgets.



SUPPLY CHAIN disruptions such as shortages of raw materials or increased shipping costs can lead to higher expenses. Events such as natural disasters or global crises (eg, the COVID-19 pandemic) can exacerbate these challenges.



Rising **ENERGY AND UTILITY COSTS** can increase a business's operating expenses. Again, sudden changes from external events, eg the Russian invasion of Ukraine, acutely and adversely affect smaller businesses.



SHIPPING AND DISTRIBUTION costs can be a millstone on small businesses. Shipping costs can be increased by energy prices and higher insurance premiums, especially in import- and export-oriented businesses.



Costs due to **COMPLIANCE AND REGULATION** can include licensing fees, permits and compliance with labour, health and safety regulations. Changes in regulations or unexpected compliance costs can be a financial burden. Increasingly, sustainability reporting is a cost for business.



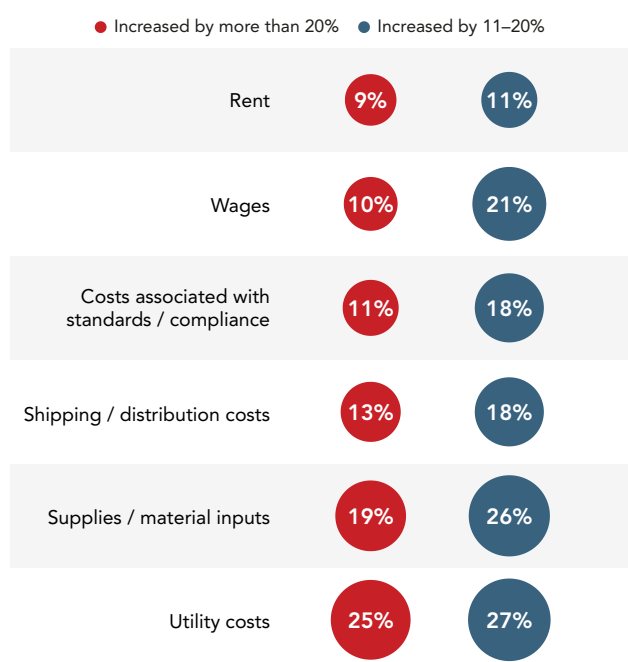
Other costs small businesses can incur include **INSURANCE PAYMENTS**, **TAX** obligations and **CURRENCY** fluctuations (especially if firms are importing material inputs).



What are the key cost challenges SMEs currently face according to our data?

In our survey it was striking that significant price increases were experienced by small businesses across a range of products and services. For example, utility prices increased by over 20% for 25% of businesses and a further 27% saw prices increase by 11% to 20%. Supplies of materials and other inputs also rose by over 20% and between 11% and 20% for 19% and 26% of respondents, respectively.

FIGURE 1.1: Cost increases in Q1 2023



‘Small businesses need to innovate to remain competitive and sometimes the costs imposed are quite high. For instance, a simple accounting firm or self-employed accountant cannot invest in accounting packages initially even though we all know this is critical for bookkeeping purposes.’

Professional Service company in Mauritius

Geopolitical tensions particularly from the outfall of the Russia – Ukraine conflict during 2023 have reverberated through global supply chains. The interconnected nature of the modern economy means that disruptions in one region can have a domino effect on businesses worldwide. Industries reliant on inputs from the affected regions, such as energy and raw materials, have experienced increased costs due to supply shortages and rising geopolitical risks. Businesses are grappling with the need to diversify supply chains and find alternative sources, the challenge here is that this often means higher costs for the SME.

‘The aftermath of COVID 19 is affecting most of our clients especially access to finance, loss of market due to acquiring some of their critical components in manufacturing, rising costs of energy and frequent power cuts, due to load shedding.’

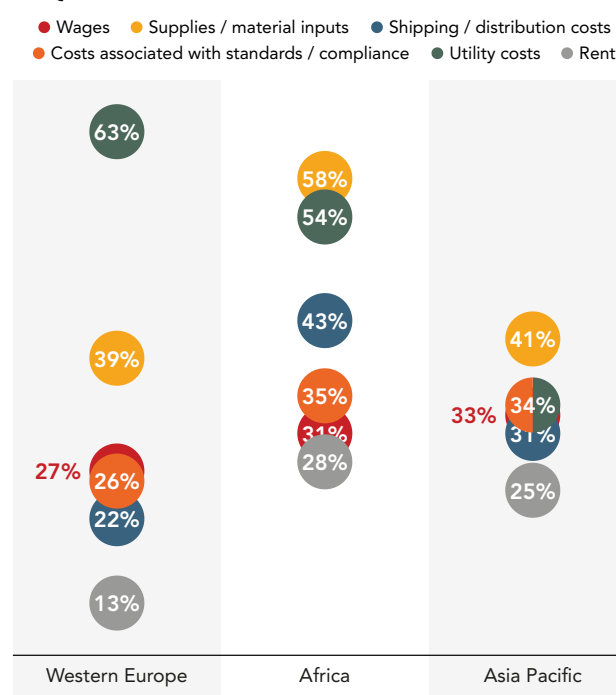
Professional Services company in Botswana

The geopolitical tensions between Russia and Ukraine have led to significant volatility in energy prices. This volatility affects businesses across various sectors, particularly those with high energy consumption, such as manufacturing and transportation. Fluctuating energy costs add a layer of uncertainty to budget planning, forcing businesses to adapt to rapidly changing economic conditions and potentially leading to increased operational expenses.

‘Most MSMEs, particularly start-ups lack proper plans to guide them through turbulent times. Challenges of access to finance, lack of collateral and inability to innovate deter growth.’

Professional services SME in St Lucia

FIGURE 1.2: Cost pressures across identified regions in Q1 2023



‘Costs is the main factor. Any expenditure to implement anything has to be substantiated by direct revenue increase else it will not be considered, ie implementation of ESG, ISO standards etc.’

Wholesale business in Kenya



These external shocks have created a continuing situation of **economic uncertainty** in many regions. Businesses are hesitant to make significant investments due to concerns about the stability of markets and the potential for further disruptions. This uncertainty affects the overall investment climate, hindering growth and contributing to a cautious approach to expansion or capital expenditure.

'Facing impact on economic growth from local market is challenging to company. The inconsistency of government policy produces great uncertainty to corporate long-term development, which impacts investors' confidence.'

Leisure and tourism business from China (mainland)

Governments worldwide have responded to these cost challenges with various **fiscal and monetary policy measures**. While these interventions aim to stabilize economies and support businesses, they may also contribute to increased costs in the form of higher taxes, regulatory changes and higher interest rates. SMEs are facing a difficult time adapting to evolving policy landscapes, which add to their cost base. Whilst many of these cost levels may be short term, the capacity of SMEs to weather these is challenging. However, strategic planning and adaptive measures can help them navigate these turbulent times more effectively and prepare SMEs against future shocks.

HOW CAN SMEs RESPOND TO EXTERNAL COST PRESSURES TO HELP DRIVE INNOVATION?

- ✓ **Diversification of supply chains:** those SMEs which are tied to specific regions for their supply chains, may explore diversification strategies. Identifying alternative suppliers and establishing relationships with sources in more stable regions can reduce vulnerability to disruptions. By diversifying, businesses can enhance resilience and minimize the impact of supply chain bottlenecks caused by geopolitical events.
- ✓ **Risk assessment and scenario planning:** conducting a thorough risk assessment is crucial for small businesses to identify vulnerabilities in their operations. Scenario planning, considering various potential outcomes related to geopolitical tensions and pandemic aftermath can provide insights for flexible strategies. By anticipating challenges and having contingency plans in place, businesses can respond swiftly to changing circumstances and minimise the financial impact of unforeseen events.
- ✓ **Adopting technology for remote operations:** the COVID-19 pandemic has accelerated the shift towards remote work and businesses that continue to embrace technology for remote operations can realise cost savings. This includes leveraging digital collaboration tools, cloud-based systems and e-commerce platforms. Not only does remote work contribute to cost efficiency but it also enhances business continuity by reducing the reliance on physical office spaces.
- ✓ **Monitoring and managing energy costs:** with energy prices volatility SMEs should actively monitor and manage their energy consumption. Implementing energy-efficient practices, investing in renewable energy sources and negotiating favourable contracts with energy providers can help mitigate the impact of rising energy costs on operational expenses.
- ✓ **Strengthening financial resilience:** SMEs could focus on optimising cash flow management and maintain healthy working capital, which can build financial resilience during uncertain times. Establishing lines of credit or securing additional funding sources can provide a financial cushion during periods of economic uncertainty.
- ✓ **Strategic marketing and customer engagement:** SMEs can adapt their marketing strategies to navigate changes in consumer behaviour and expectations. Digital marketing and e-commerce can open up new avenues for reaching customers. Also, building strong relationships with existing customers through personalised experiences and effective communication can enhance customer loyalty.
- ✓ **Talent management strategies:** in response to labour market challenges, SMEs should focus on investing in employee training and development, enhancing workplace flexibility and implementing competitive compensation and benefits packages to attract and retain skilled workers. A robust and satisfied workforce can contribute to increased productivity and efficiency, which can help offset increasing labour costs.



Inflation and the global economy:

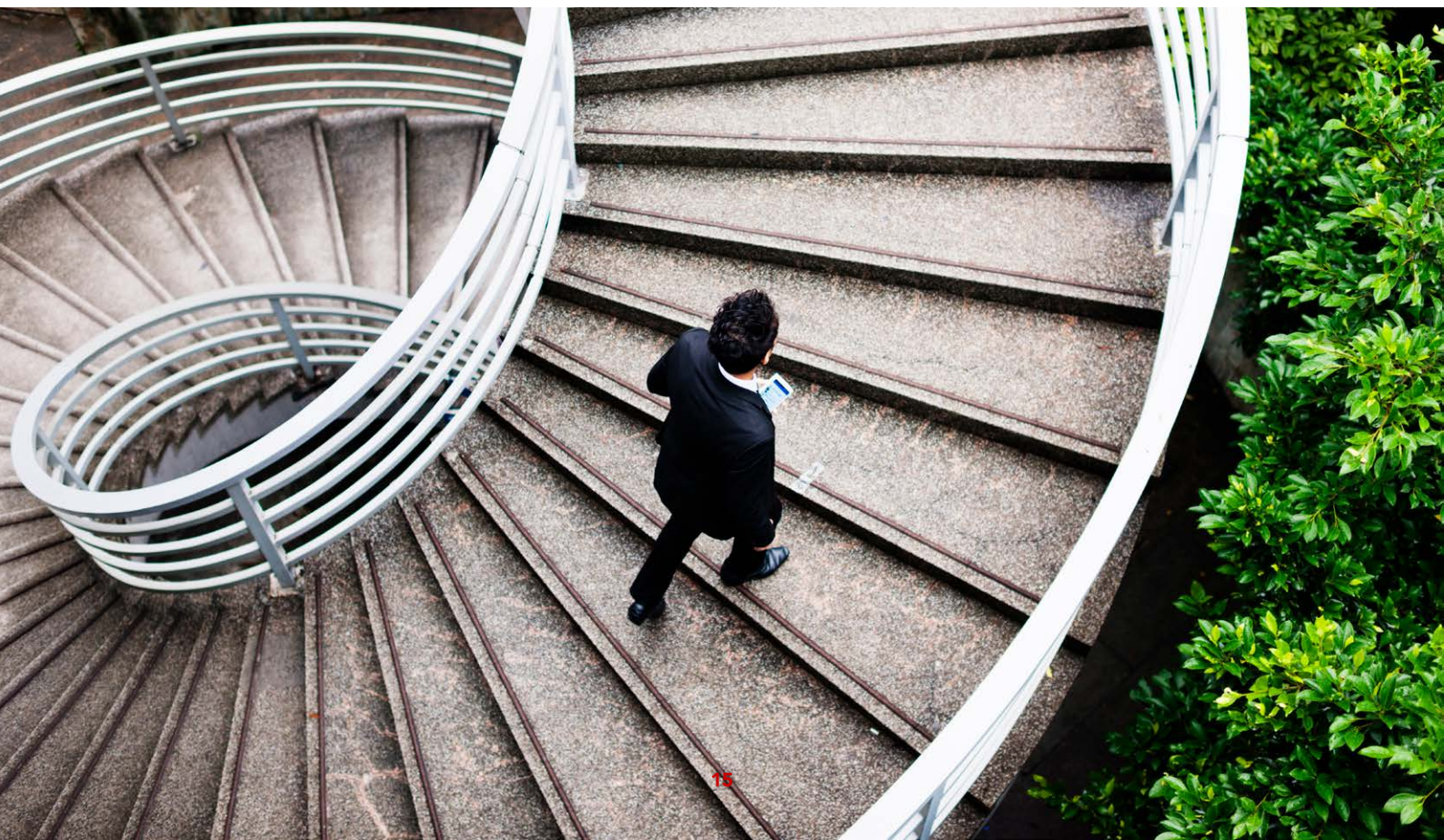
In ACCA's report [Global Talent Trends 2023](#), the impact of inflation was significant across most sectors in the global economy. For smes the cost of living crisis was identified as the biggest workplace fear, with pay demands putting significant pressures on sme attraction and retention strategies.



The inflation challenge across sectors

ALL RESPONDENTS EXCEPT IF RETIRED	BIG FOUR ACCOUNTING FIRMS	MID-TIER ACCOUNTING FIRMS	SMALL ACCOUNTING (SMP) / SOLE PRACTICES	PUBLIC SECTOR	FINANCIAL SERVICES	NOT-FOR-PROFIT	LARGE OR MID-SIZED CORPORATES	SMALL-MID SIZED ENTERPRISE	ACADEMIA
Inflation impacting my real wage / salary	51%	48%	48%	50%	50%	51%	52%	51%	38%
Wellbeing / mental health	51%	40%	35%	34%	36%	28%	32%	32%	38%
A global economic downturn impacting my job opportunities	27%	29%	30%	24%	34%	35%	41%	37%	25%
Poor career development opportunities	20%	26%	25%	30%	32%	26%	31%	31%	27%
Jobs being replaced by technology	21%	20%	22%	19%	24%	22%	20%	19%	32%
Not having relevant skills for the future	22%	19%	21%	19%	22%	21%	23%	26%	21%
Workload / insufficient resources to carry out my role	33%	30%	31%	26%	22%	28%	21%	18%	27%
Job opportunities moving to other parts of the world	24%	19%	16%	17%	20%	17%	18%	17%	18%
Employee equality in the workplace	14%	17%	10%	16%	14%	16%	14%	16%	10%
Poor education systems that don't deliver future vital workplace skills	9%	13%	13%	16%	9%	14%	11%	11%	21%
Increasing retirement age	6%	5%	6%	13%	9%	10%	8%	10%	8%

(Based on a net top 3 ranking system)





1.2 Talent challenges in SMEs

KEY FINDINGS RELATED TO TALENT CHALLENGES:

- SMEs have been facing talent attraction and retention challenges in 2023 with significant demand across different employee categories.
- In Q1, 2023 with 31% of respondents reporting increased job vacancies for professional workers.
- The ability to fill these vacancies varied across occupations, with 14% unable to find suitable candidates for clerical workers, technicians, and service and sales workers.
- The demand for workers is creating challenges for employers as it is further compounded by challenges around wage demands in the face of a cost-of-living crisis.
- Small and medium sized accountancy practices are not immune from these challenges, citing similar talent attraction and retention issues themselves.

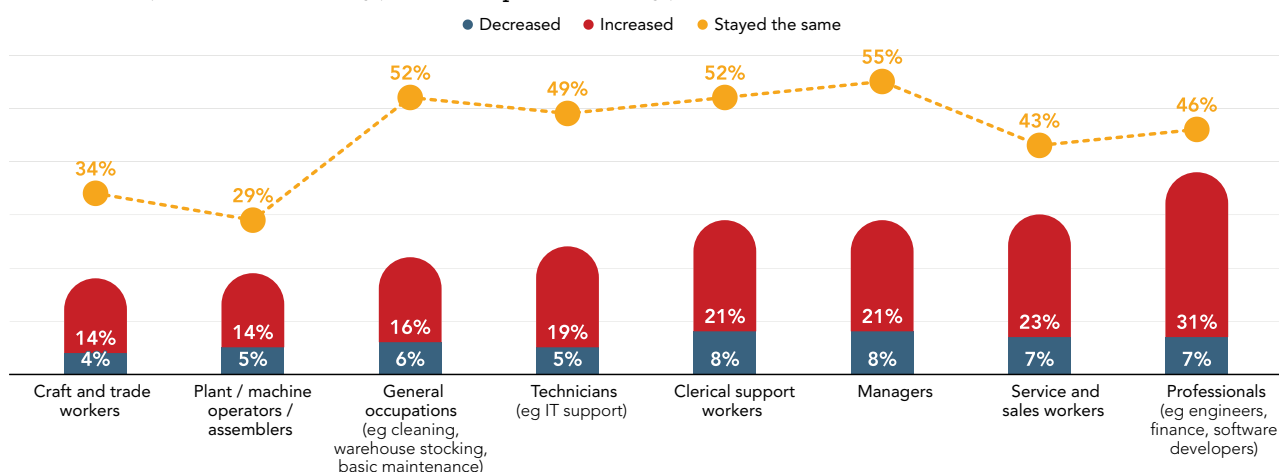
How is the demand for different workforce types changing for SMEs?

For most SME survey respondents, the demand for employees and workers in Q1, 2023 remained at roughly the same level as in Q1, 2022 but with some noticeable differences (Figure 1.3). In the first quarter of 2023, 31% of these respondents indicated that job vacancies for professional workers increased compared with the same period in 2022. Also during this period, vacancies for service and sales workers grew by 23% while the demand for managers and clerical workers rose by 21% for each category.

There are a myriad of different factors impacting talent demand across different employee categories:

- Local and global economic conditions having a mixed impact on job creation. During turbulent economic times, demand uncertainty leading to lower job creation, especially if business investment confidence is ebbing.
- Technological change creating new industries and job opportunities while rendering some traditional roles obsolete. The transition to new technologies often leaves gaps in the job market as individuals need to acquire new skills. Many sectors and industries are experiencing an accelerated adoption of digital operations and processes (IMF 2023)
- Lack of skills alignment can also lead to vacancies when there is a mismatch between the skills possessed by the available workforce and the skills demanded by employers.

FIGURE 1.3: Job vacancies in Q1, 2023 compared with Q1, 2022



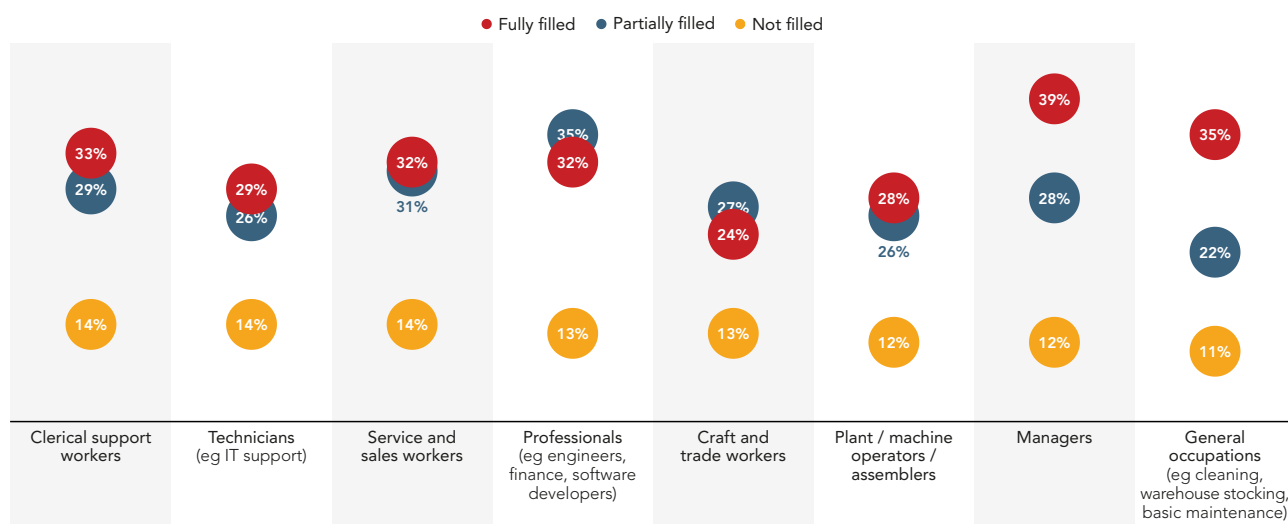
IN THE FIRST QUARTER OF 2023, 31% OF THESE RESPONDENTS INDICATED THAT JOB VACANCIES FOR PROFESSIONAL WORKERS INCREASED COMPARED WITH THE SAME PERIOD IN 2022.



The better news was that some SME respondents were able to fill the vacancies, either fully or partially (Figure 1.4) in Q1 of 2023. Occupations that 14% of these firms were unable to fill include clerical workers, technicians and service and sales workers.

OCCUPATIONS THAT 14% OF THESE FIRMS WERE UNABLE TO FILL INCLUDE CLERICAL WORKERS, TECHNICIANS AND SERVICE AND SALES WORKERS.

FIGURE 1.4: Job vacancies filled Q1, 2023



(*Don't knows' remain the balancing figure for each response)

Global Talent Trends 2023 – what's happening with SMEs according to employees working for small businesses in finance and accounting?

ACCA's report [Global Talent Trends 2023](#) surveyed the opinions of 770 small and medium sized finance professionals working in SMEs to understand some of the key challenges their organisations were facing in relation to talent attraction and retention. Here a number of issues were identified, firstly that hybrid working opportunities were less prevalent for SME respondents than in other sectors, concerns over mental health were also cited as a key issue (this was more common across all sectors), as well as concerns around pay. It was also clear in the global talent trends data that smaller businesses were not necessarily seen as a particularly attractive sector to move to when respondents were asked about their preferred sector career destinations for their next career move.



- **64%** of SME respondents said they were working in the office full time and yet our research demonstrated a link between hybrid working and improved mental health
- **58%** of SME respondents said their mental health suffered because of work pressures.
- **50%** of SME respondents said they don't think their organisation considers employee mental health to be a priority.
- **88%** of SME respondents wanted a better work life balance.
- **69%** of SME respondents expected their next move to be external to their current organisation suggesting work pressures were impacting retention.



Key talent challenges identified in our roundtable discussions as part of this study:

'I believe all organisations are struggling to recruit suitable staff. There appears to be a shortage of good candidates and we find ourselves competing with other organisations when it comes to making an offer.'

Health and Social Care company in Scotland

It's clear that the global economy is having some impact on the ability of small organisations to both attract and retain staff currently. Our roundtable discussions identified a number of key themes emerging in relation to SME talent:

- The need to upskill talent including technical and digital skills as well as building skills around creativity and problem solving to help drive innovation and business transformation. Here key interventions across the workforce such as classical mentoring as well as reverse mentoring, with younger members sharing their expertise with older employees was identified as valuable – for example on technology or social media.
- Wage demands in the face of a cost-of-living crisis remain challenging and in some cases, our data suggests that the issue is further compounded by some SME vacancies across different employment types. Retention is a particular challenge with younger employees. In the face of rising pay challenges and increased cost of living challenges, some participants suggested their companies had responded by raising wages.
- Firms increasingly looking to other, non-financial incentives to attract and retain talent. Some firms are providing additional benefits, such as health care, vacation bonuses and childcare support.
- High turnover and retention issues especially in certain jurisdictions and countries where international mobility and emigration is high.
- SMEs not necessarily having the time and resources to deploy formal talent strategies but very commonly support their employees' initiatives in self-curated training and provide financing for external training opportunities.

'I think the critical challenge many small to medium enterprises is failure to cope with fast dynamic business operations especially in light of digitization. The global business landscape is getting more and more automated and from supply chains management through manufacturing and business management processes. Many small and medium enterprises often fail to cope with the speed of technological change, situation which may lower their business potential. Such failures are caused by various factors such as lack of innovation capacity, incapacity to hire and retain adequately skilled human capital.'

Africa roundtable participant

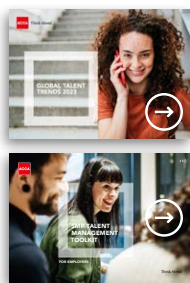




What are some of the talent challenges particularly facing SMPs currently?

Some of the challenges facing SME are similar concerns also for smaller and medium sized practices currently. Retaining talent is a big issue, particularly in recognition of the significant challenge for talent that originates from the Big 4 and larger accounting firms. But other concerns were expressed by SMPs too in this research, such as concerns on declining interest in the profession in some markets, as well as specific difficulties in trying to recruit individuals with technology related skills such as data analysis, machine learning artificial intelligence (AI) and coding. On technology skills in particular, the accountancy profession continues to compete with other sectors for talent, with some participants suggesting

that technology companies and start-ups are often more appealing to candidates with IT and coding skills than joining the smaller accounting firms. There were also issues specific to particular regions – for example, participants in our Africa roundtable suggested that many SMPs in the region provide advisory services to small and micro-businesses, either because there is a paucity of resources or sometimes because their clients were family run entities that required specific external independent advice. But opportunities are also provided to SMPs because SMEs are failing to hold on to the right talent, and not only within countries as more employees seek career opportunities internationally.



To get a more in-depth analysis and detailed toolkits related to talent management in the accountancy profession, you may want to consult ACCA's specialised report and practical toolkits:

- [Global Talents Trends 2023](#) – one of the largest ever studies across the accountancy profession, that provides a unique and vital view of how people feel about working in the profession right now.
- [SMP Careers Toolkit](#) – a practical toolkit for SMP employers covering the following areas: attracting and recruiting talent, developing talent, retaining talent, signposting a wealth of ACCA's resources available.

1. The accountancy industry is undergoing a major shift, with traditional accounting roles transforming to demand broader capabilities like data analysis and AI. Smaller accounting firms now compete with tech companies and startups for talent with these skills, forcing them to rethink their recruitment strategies.
2. There is a widespread shortage of skilled professionals in key markets, especially in specialized roles. Firms are struggling to find qualified accounting staff, especially among younger staff more reluctant to take on responsibilities. High staff turnover is also an issue, with many workers migrating abroad in search of better opportunities which impacts organizational stability and productivity.
3. Smaller audit firms across face competitive talent recruitment challenges, especially from the "Big Four." Retaining staff is also an issue due to factors like better pay at bigger firms. Some firms cited skill shortages in specific areas such as audit and tax as a key workforce challenge. Retention is difficult amid economic growth, salary disparities and competition from major players. Strategies involve raising compensation and benefits.
4. Globally, firms face challenges finding experienced staff, with many losing employees to other firms amid intense recruitment competition. Succession planning is a key challenge. The pandemic accelerated certain trends like desires for hybrid work and clients are increasingly utilize subcontractors for stability and access to talent. There are high levels of burnout in some markets.
5. Digitalisation and technology literacy emerged as major theme, with a notable generational divide in tech fluency observed. Younger professionals tend to rely more on digital tools compared to older counterparts still anchored in traditional practices. The potential for tech to support improved efficiency and automation was identified.
6. Multiple participants underscored the growing need for accountants to play an advisory role, providing strategic input on financial matters, business development, feasibility assessments and other areas beyond compliance. Firms recognise that evolving client expectations demand a shift towards more consultative services.



HOW CAN SMEs RESPOND TO THE TALENT CHALLENGES THEY FACE IN TERMS OF ATTRACTION AND RETENTION?



Attracting and recruiting talent:

- ✓ **Create and communicate meaning and purpose.** Employees increasingly look for careers that are purposeful and for jobs that have 'meaning'. Clearly framing and articulating the broader purpose of your organisation will help you become more attractive to potential employees and is a powerful employee retention tool. Explain to your teams how the purpose of work translates into concrete behaviours. Lead by example.
- ✓ **Build a recruitment brand.** Your customer brand needs to be complemented by a recruitment brand, whether this is communicated by social media, websites or careers fairs. This will clearly help articulate the proposition to employees, including rewards and benefits, career opportunities, workplace culture, work-life balance – and the nature of the work itself.
- ✓ **Do not underestimate soft skills.** The need to understand and communicate with clients becomes more and more important. Emotional intelligence and empathy are at the core of this. Do not underestimate their importance in relation to the technical skills required.
- ✓ **Ask candidates to submit video profiles in addition to traditional CVs.** This will help you to assess candidates' creativity and their ability to communicate with clients in the future.

Developing talent:

- ✓ **Learn to learn.** In an unpredictable world adaptability is key: employees entering the workforce now may need to reskill several times during their careers. Exposing employees to a variety of experience will help them make career choices and adapt to change. A culture of continuous learning recognises that the process is never complete and, as an SME leader, you should lead by example.

- ✓ **Use mentoring.** Classroom / remote training is important but so is on-the-job training and mentoring that can be provided by more experienced employees. Mixing up the generations in the workplace allows for reverse mentoring, enabling staff to learn from each other and enrich the knowledge base within the practice.
- ✓ **Empower employees to take charge of their own learning.** Within reason, staff should be allowed to make the case for, and pursue, the learning and development opportunities that they see as most valuable.
- ✓ **See learning and development as retention and recruitment tools.** Focus on the broader and long-term opportunities and show a willingness to invest in training that upskills and develops the whole person, not just their role.

Retaining talent:

- ✓ **Keep nurturing the purpose-driven culture.** Ensure leaders "walk the talk" in terms of creating and leading a purpose driven organisation
- ✓ **Workplace culture, flexible working and work-life balance.** Staff want to focus on results, not processes, and tend to look for flexible, open workplaces that allow them to deliver those results in the way that best suits them. Flexibility over office hours and location are gaining greater importance by allowing employees to manage their own work-life balance.
- ✓ **Listen and talk to your staff.** Regular discussion and exchange of opinions is not only important for business purposes, it is also a vital tool for showing respect to employees, and allowing any doubts they may have to be identified, so that you can take action to retain talent.

**STAFF WANT TO FOCUS ON RESULTS,
NOT PROCESSES, AND TEND TO LOOK
FOR FLEXIBLE, OPEN WORKPLACES
THAT ALLOW THEM TO DELIVER
THOSE RESULTS IN THE WAY THAT
BEST SUITS THEM.**





1.3 Small business, regulation and the ESG reporting agenda

KEY FINDINGS RELATED TO REGULATION AND THE ESG REPORTING AGENDA:

- Just under 50% of SMEs have been asked to provide information related to ESG
- Most SMEs suggested that they have the know-how to collect ESG information and, for over 50% of SMEs, the information is cited as accessible.
- Less than 45% of firms indicated that they receive assistance to collect ESG information
- Accountants have the potential to help businesses set up ESG reporting systems and collect and report non-financial data. However, this is currently an emerging service among most of SMPs.
- Digitalisation is seen as an enabler that can support ESG reporting.

The importance of sustainability for small businesses cannot be overstated. Embracing sustainable practices is not merely an ethical choice but a strategic imperative that yields multifaceted benefits. Small businesses play a pivotal role in local economies and collectively, they have a major economic impact and are essential to environmental and social change. Moreover, sustainability fosters resilience by mitigating operational risks associated with resource scarcity and regulatory changes. Small businesses that prioritise sustainability not only enhance their reputation and stakeholder relations but also position themselves for long-term success in a global marketplace that increasingly values and demands environmentally and socially responsible practices.

Reporting on sustainability issues can include:

- **environment** factors, such as lower greenhouse gas emissions, improve energy efficiency.
- **social** factors, can include improving employee working conditions, diversity and inclusion.
- **governance**, which includes the prevention of bribery, ensuring cybersecurity and appropriate privacy practices.

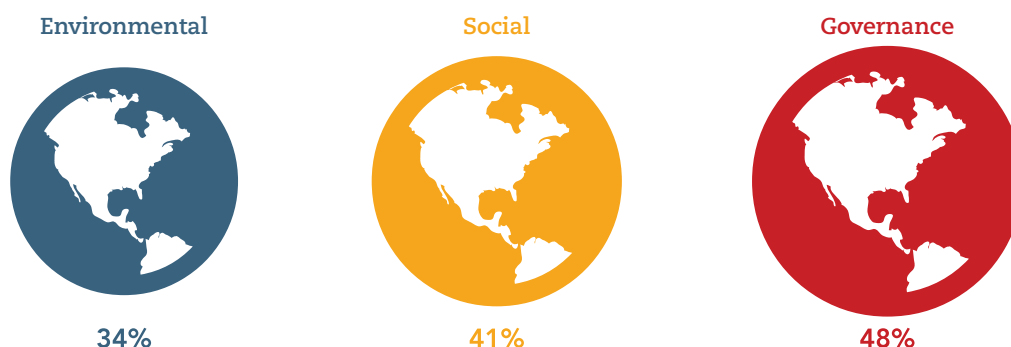
Corporate Sustainability Reporting Directive – a view from Europe

As of September 2023, sustainability reporting in accordance with the European Sustainability Reporting Standards (ESRS) will be mandatory for all organisations subject to the Corporate Sustainability Reporting Directive (CSRD). The European Commission intended that these reports should help stakeholders evaluate the sustainability performance of organisations, as part of the European Green Deal (Source: European Commission 2023).

ESG reporting by SMEs

The skills and operational processes required to report on sustainability issues are a priority for our survey respondents (Figure 1.5). Just under 50% of the survey respondents have been asked by customers or other organisations to provide information related to ESG. Some form of environmental reporting was undertaken by 34% of these businesses compared with 41% for social issues and 48% for governance issues.

FIGURE 1.5: SMEs providing ESG information



‘(There are an) increasing number of tenders appearing which oblige SMEs to be compliant with various ESG requirements, despite no (current) regulatory need.’ **Health and Social Care business in England**



There was some good news in our survey data in relation to ESG reporting. Many SMEs surveyed indicated that they believed they have the know-how to collect information pertaining to all three sustainability constituents. Furthermore, when ESG information is

requested, it is easily accessible to most of these firms. Less encouragingly many respondents felt the costs of collecting and reporting is excessive. Equally problematic for SMEs in our survey is the lack of support many feel they receive from the requesting parties. (Figure 1.6).

FIGURE 1.6: Perspective of the ESG reporting process by SMEs



What are some of the potential challenges facing SMEs in the ESG reporting area?

While the results from this survey are in some respects quite encouraging in relation to ESG reporting for SMEs it is worth noting that whilst many reporting requirements are currently not applicable to SMEs, they need to be aware of them because of the cascading effect down the supply chain and very importantly lenders requirements. Sustainability or ESG reporting is sometimes not without its challenges, especially for smaller businesses. Key challenges to ESG reporting include the following (CA ANZ and ACCA 2022).

- **Data collection and standardisation:** gathering accurate and relevant ESG data can be challenging, as it often involves collecting information from various sources within the organisation. Moreover, there is no standardised framework for reporting ESG data, leading to inconsistencies and difficulties in comparing data across different companies and industries.
- **Lack of common metrics:** the absence of universally accepted ESG metrics and indicators makes it difficult for companies to benchmark their performance against peers and for investors to assess the sustainability of their investments effectively.
- **Greenwashing:** some companies may engage in 'greenwashing', which is the practice of making misleading or unsubstantiated claims about their environmental and social efforts to appear more sustainable than they actually are. This can undermine the credibility and integrity of ESG reporting in general.
- **Integration with financial reporting:** integrating ESG information with traditional financial reporting poses challenges, as the two types of reporting have different methodologies, audiences and timelines. Finding ways of presenting ESG data in a manner that is meaningful to investors and financial stakeholders is essential.
- **Assessment:** identifying the key ESG issues for a specific company or industry is critical for reporting. Determining the practical and relevant factors requires a thorough understanding of the business's operations and their potential impacts on the environment and society.
- **Cost and other resource constraints:** implementing robust ESG reporting systems and processes can be costly, particularly for smaller companies with limited resources.
- **Supply chain challenges:** for multinational corporations (MNCs) with complex supply chains, assessing and reporting on the ESG performance of suppliers can be challenging. Small businesses are increasingly compelled to provide ESG information to comply with their MNC clients' internal standards.

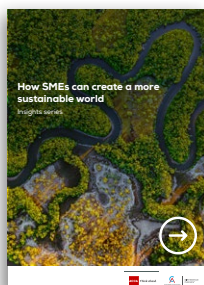


HOW CAN SMEs RESPOND TO ESG REPORTING CHALLENGES?

- ✓ **Get started by integrating sustainability initiatives** into every aspect of your organisation to achieve a genuine transformation.

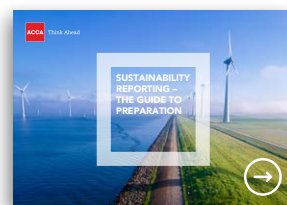
- Gather data
- Learn from other businesses and industries
- Identify material issues
- Develop a strategy and set goals
- Integrate

For more detailed guidance related to developing sustainability strategy refer to [SME Sustainability Toolkit](#).



- ✓ **Understand the reporting stages in the context of your organisation.**

Refer to ACCA's [Sustainability reporting – the guide to preparation](#) for more detailed guidance.



- ✓ **Learn from other businesses and industries.** Learning from other businesses that have successfully integrated sustainability into their operations can provide invaluable insights and practical strategies.

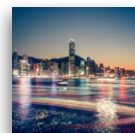
Establishing connections with businesses in similar industries through networking events, industry conferences, or online forums can create opportunities to share experiences and best practices. Embracing a continuous learning mindset and staying open to innovative approaches can inspire practical solutions.

[Accountants and SME creating a more sustainable world series](#) compiles case studies from small businesses all around the world and signposts toolkits and practical material that can be of help.



- ✓ **And ACCA Certificates** supporting finance professionals in further in-depth understanding of sustainability:

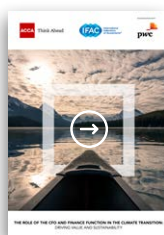
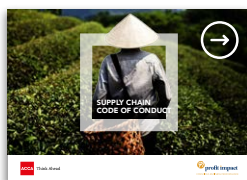
- [ACCA certificate in sustainable for finance](#)
- [ACCA certificate in integrated reporting](#)



- ✓ **Talk to your accountant.** In the context of small businesses, the role of accountants in ESG reporting and sustainable transformation is pivotal. Accountants serve as integral architects in helping small enterprises navigate the complexities of ESG metrics and reporting, ensuring adherence to sustainability standards. Their expertise is crucial in establishing transparent and credible communication channels with stakeholders, including investors, customers, and regulatory bodies.

ACCA has developed a wealth of practical material and guidance to support finance and accountancy professionals on developing the necessary capacity for leading sustainable transformation and reporting:

- [SMP leading sustainability toolkit](#)
- [The role of the CFO and finance function in the climate transition: driving value and sustainability](#)
- [Developing the skills of the sustainable business and finance professional](#)
- [Accounting for Society's values](#)



A close-up photograph of a person's hands. The left hand is holding a clear glass jar filled with rolled oats. The right hand is holding a black coffee machine's spout, pouring dark coffee into the jar. The background is blurred, showing more of the coffee machine and a warm, indoor setting.

**SMALL BUSINESSES PLAY A PIVOTAL ROLE
IN LOCAL ECONOMIES AND COLLECTIVELY,
THEY HAVE A MAJOR ECONOMIC IMPACT
AND ARE ESSENTIAL TO ENVIRONMENTAL
AND SOCIAL CHANGE.**

2. SME opportunity and innovation

2.1 Innovation at the heart of strategy – unlocking small business value

In the face of key escalating challenges such as rising costs, talent shortages and sustainability concerns, innovation emerges as a transformative force for SMEs. By embracing innovative solutions, SMEs can optimize operational efficiency, streamline processes, and develop cost-effective alternatives.

Technological advancements offer tools for automation and improved resource management, enabling businesses to mitigate escalating costs. Additionally, innovation in talent acquisition, such as remote work solutions and upskilling programs, can address talent shortages and foster a resilient workforce. Sustainable practices, when integrated into business models through innovative approaches, not only enhance environmental stewardship but also appeal to conscientious consumers. Furthermore, leveraging data analytics and emerging technologies facilitates the development of agile and responsive supply chains, which can further help reduce costs and drive operational efficiencies.

What new strategic initiatives are SMEs planning?

This survey sought to understand whether or not SME respondents were contemplating undertaking any new strategic initiatives in the next two years (Figure 2.1). Perhaps unsurprisingly innovation was the main focus for future development, with 63% of SME respondents indicating that they were considering an improvement to existing business processes (ie process innovation). A further 31% noted they were going to fully automate or digitalise some business operations. Finally, 31% also reported that they had plans to undertake new product or service innovation. Exploring new markets and the introduction of new business models were considered by 26% and 24% of businesses, respectively.

FIGURE 2.1: Possible plans for the next two years



PERHAPS UNSURPRISINGLY INNOVATION WAS THE MAIN FOCUS FOR FUTURE DEVELOPMENT, WITH **63%** OF SME RESPONDENTS INDICATING THAT THEY WERE CONSIDERING AN IMPROVEMENT TO EXISTING BUSINESS PROCESSES.

The link between strategic innovation and skills

SME respondents also indicated that specific skill sets would have to be developed to support any new strategy (see also OECD 2023). The results are presented in Figure 2.2. Critical skills to be upgraded include management skills (39% of firms) and digital skills (27%). Interestingly, 31% of small businesses surveyed indicated that training skills would also be necessary. This emphasis on education and training suggests that businesses recognise that internal training, including coaching and mentoring, is fundamental to the introduction of new technologies and organisational processes.

How can SMEs innovate?

Small businesses should view innovation as a key business strategy, and our survey suggests many SMEs see innovation right at the heart of their strategy. Innovation can provide businesses with new products and services to meet customer demands, especially in competitive and ever-changing markets. Innovation does not have to be limited to groundbreaking technological advancements. It can also involve incremental improvements, process optimisations, or creative marketing strategies. There are two broad types of business innovation that are typically considered by SMEs, new (breakthrough) processes or improvement to existing processes and new (radical) products or services or an improvement to existing products or services (OECD 2018)

Where are SMEs currently on process innovation according to our survey?

Our survey results are very optimistic regarding the level of process innovation currently taking place with SMEs with 64% of respondents to our survey suggested they had introduced new business processes over the previous two years (Figure 2.3).

FIGURE 2.3: Introduction of new business processes among SME respondents

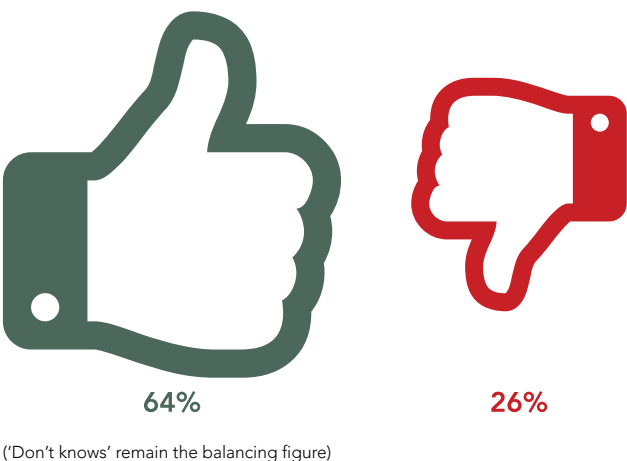
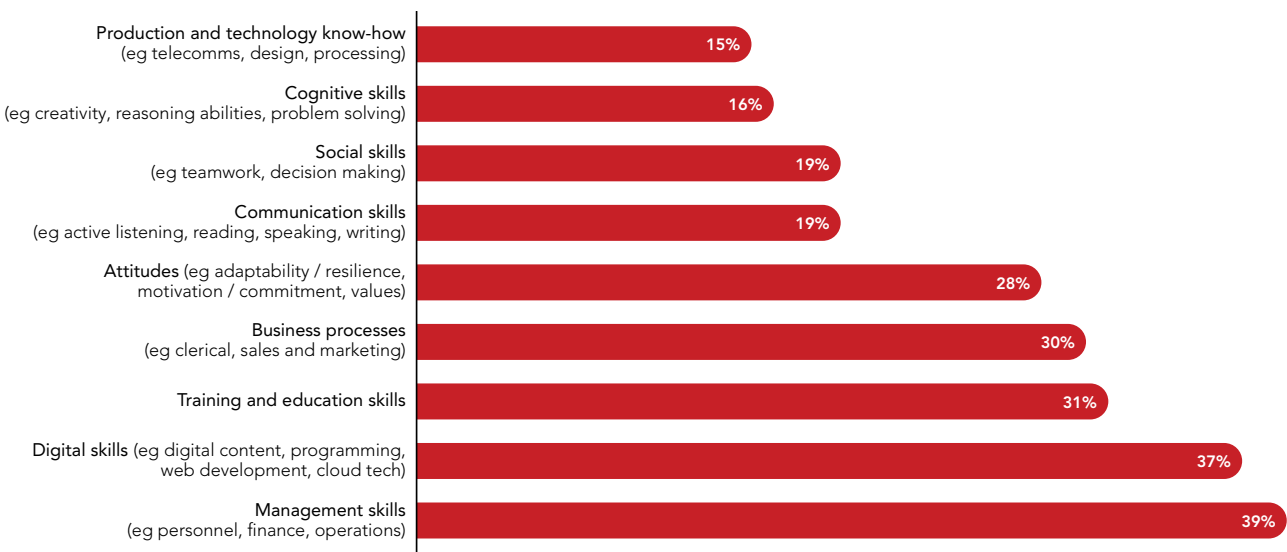


FIGURE 2.2: Skills required to help execute future plans



Process innovation explained:

Process innovation can be defined as both the development and implementation of processes which are either new or processes that are improved. Process innovation seeks to deliver many different outcomes, from improved process speed and efficiency, increased productivity, cost reduction, process flexibility or competitive advantage and value creation. Ultimately process innovation can impact how organisational activities happen, their sequencing, and how different organisational resources are deployed around the process.

What do respondents see as the benefits of process innovation?

There are different catalysts for process innovation to take place. Small businesses in the current challenging economic environment could be exploring process innovation to drive affordability or resource efficiency across the business; others can be looking at process innovation to drive enhanced product or service delivery.

Respondents were asked whether the new or improved operations or processes had delivered any measurable results (Figure 2.4). Of the 64% of respondents who had undertaken process innovation, 47% indicated that their innovation had brought about improved information and communication processes (for example, software to support data analytics). Improving quality of goods or services and increasing the speed of producing them were recognised benefits for 44% and 33%, respectively, but critically for a minority of respondents, process innovation had delivered other benefits too such as reduced costs and new opportunities to improve marketing operations.

What about product or service innovation by SMEs?

Both product and service innovation are critical for businesses seeking to differentiate themselves in competitive markets, attract and retain customers and drive growth. SME respondents were asked if they had successfully launched at least one new product or service in the previous two years (Figure 2.5). Over 30% of small firms surveyed had not developed a new product or service in the period while 58% were actively innovating products or services. For those who were actively innovating:

- **34%** had developed only a new service
- **20%** had introduced only a new product
- **4%** had launched both a new product and a new service.

Across our respondent base, this would suggest there are further opportunities for product or service innovation within organisations.

FIGURE 2.5: New product and service innovation activities among SME respondents, 2021–23

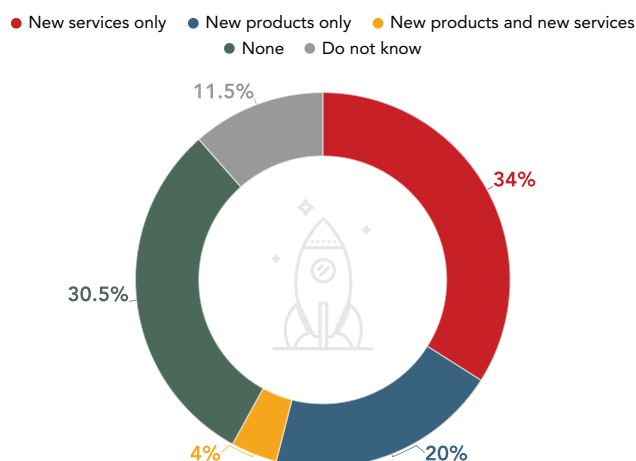
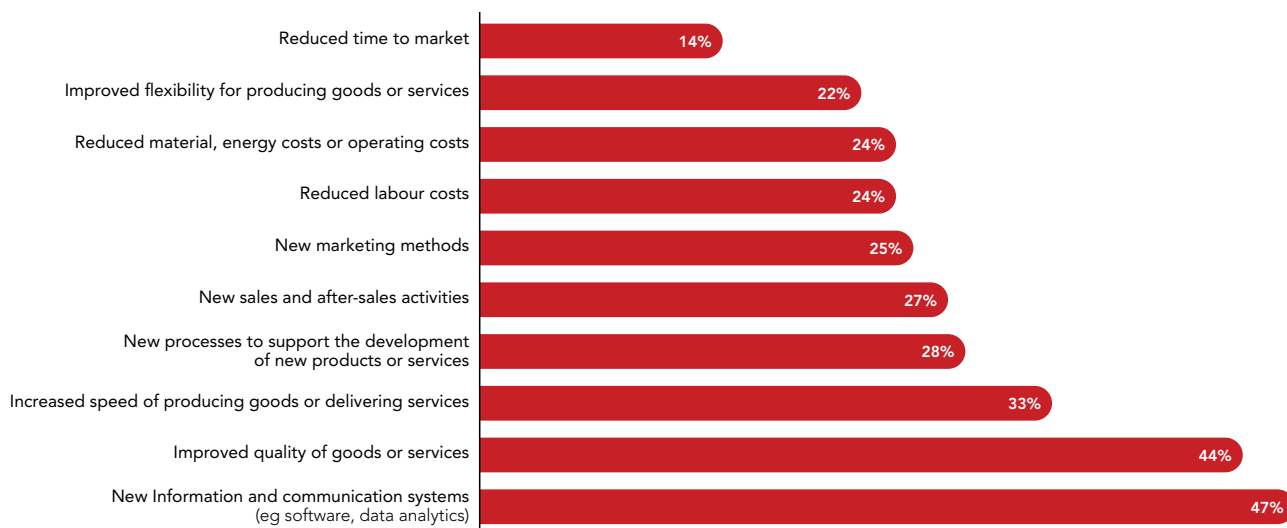


FIGURE 2.4: Measurable results from process innovation among SME respondents



Product and service innovation explained

Product innovation refers to the process of creating new or significantly improved products and introducing them to the market. It involves designing, developing and launching items that offer unique features, functionalities or benefits. Product innovation can range from incremental improvements to radical, groundbreaking changes. Examples include the introduction of a new smartphone model with advanced features, a more energy-efficient home appliance or a novel pharmaceutical drug.

Service innovation focuses on enhancing or introducing new services to meet customer needs and preferences more effectively or efficiently. Services are intangible: they comprise activities that are produced and consumed simultaneously and that change the conditions (eg physical, psychological) of users. Service innovation involves developing innovative service delivery methods, processes, or business models. Examples of service innovation include the adoption of online banking services, the introduction of ride-sharing platforms or the implementation of telemedicine applications to improve health care access.

5 step process to help SMEs innovate

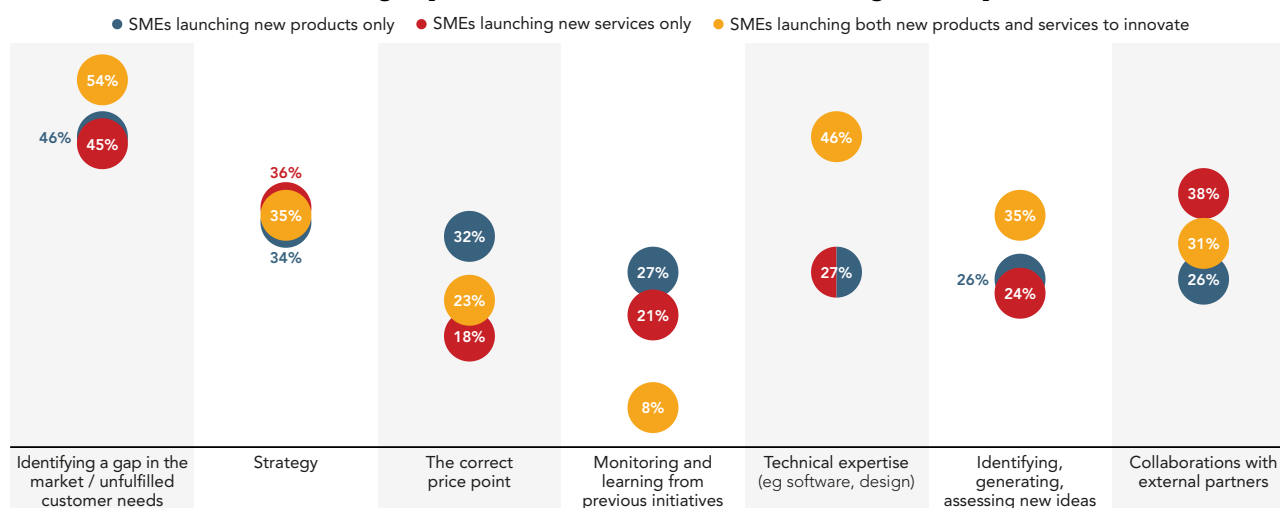
- 1. Scanning competences** to search for new ideas, concepts or technological developments. This can include the identification of customer needs or a gap in the market.
- 2. Selection stage** includes prioritising different ideas and possible scenarios. This step includes an opportunity cost analysis of other uses of the resources (eg different applications of staff, financial investments, and plant and equipment).
- 3. Implementation stage** is critical to the whole exercise: learning and technical improvements occur during the transformation from concept to prototype to design and getting ready for commercialisation. Good practices include the use of **innovation project management** practices (eg stage-gates) and **cross-functional team working**.
- 4. Market launch** includes the realisation of the financial benefits of a new product and service. Market research is critical to ensuring that the **correct price point** is aligned with customer demand.
- 5. Learning mechanisms** such as post-project reviews are mechanisms for ensuring technical and organisational experiences can be emulated in future endeavours.

The innovation process is not linear. Several reiterations, stop-gap steps and failed attempts occur during the different stages of a new product or service innovation or the improvement of a process. The development of new technologies, particularly, is often a chaotic endeavour.

What is the catalyst for developing a new product or service?

SME respondents were asked to identify the three most important factors that contributed positively to their new product or new service development initiative (Figure 2.6). The most important factor was identifying a gap in the market or unfulfilled customer needs. Of equal note was the importance of technical expertise (software, design) for those SMEs who were primarily focused on service innovation. Please, refer for Appendix II of the report to learn more about innovation enablers.

FIGURE 2.6: Factors contributing to product and service innovation among SME respondents



Taking risks to innovate

An inevitable part of the innovation process is being prepared to accept a degree of risk for the organisation. Innovation is a critical part of the entrepreneurial fabric of a small business, and essential if the company is to grow, but it is an ongoing process, and one that inevitably involves both risk taking, as well as opportunities to reduce business risk. The two most common innovation risks are market risk and technology risk. This research assessed the willingness of our SMEs survey respondents to take risks to innovate across those two dimensions – willingness to explore new or unknown markets, and willingness to invest in new technological developments outside of their current expertise. Our research demonstrated a clear relationship between both of these and the risk appetite of a particular SME, enabling us to categorise SMEs into particular risk – innovation profiles:

- i. **risk taker:** willing to take high to very high technology risk and high to very high market risk
- ii. **open to new customers but technology insecure:** willing to take high to very high market risk but low to very low technology risk
- iii. **averse to risk:** not willing to take on any market risk or technology risk
- iv. **technology competent but new-market shy:** willing to take high to very high technology risk.

FIGURE 2.7: Risk and Innovation



(It should also be noted that several respondents (33%) straddled different categories, which suggests ambivalence or uncertainty about their strategic risk).

How can SMEs mitigate against risks and uncertainties in their businesses?

✓ Conduct thorough market research

- Monitor local economic trends, regulatory changes, and consumer preferences to inform strategic decisions.
- Utilize online survey tools and social media platforms to directly engage with potential customers and gather feedback.
- Establish relationships with local business associations, chambers of commerce, and community groups to gain insights into the market.

✓ Develop a clear business strategy

- Identify and target niche markets where the business can excel and establish a unique value proposition.
- Clearly define short-term and long-term goals, emphasising realistic and achievable milestones.
- Emphasize agility in the business model, allowing for quick adjustments based on customer feedback and market shifts.

✓ Secure intellectual property rights

- Prioritise the most critical intellectual property assets for protection to manage costs effectively.
- Explore cost-efficient options for trademark registration, such as local or regional filings, and consider open-source licenses for software.
- Educate employees on the importance of respecting intellectual property, including the proper use of trademarks and copyrights.

✓ Have contingency plans in place

- Identify key operational and financial risks specific to the small business and develop contingency plans tailored to address these risks.
- Always plan for covering unforeseen expenses or disruptions.
- Establish relationships with alternative suppliers and service providers to mitigate the impact of any disruptions in the supply chain.



**BY EMBRACING
INNOVATIVE
SOLUTIONS, SMEs
CAN OPTIMIZE
OPERATIONAL
EFFICIENCY,
STREAMLINE
PROCESSES,
AND DEVELOP
COST-EFFECTIVE
ALTERNATIVES.**

3. SMPs as the trusted advisors

The challenges facing many small businesses, including SMPs, are immense. Short-term rising costs may abate as utility price stabilise and supply chain bottlenecks and peak demand level out over time. Other factors may have a longer impact. Technological change and cultural and other work patterns may motivate firms to address digital process technologies more intently. Client expectations are also changing and there is an opportunity for SMPs to provide a greater range of strategic business services. These changes will necessitate new types of skills and even new organisational structures.

The following insights are directed to SMPs mainly, although many of the issues are relevant to the wider SME community.

3.1 Accelerate the introduction of digital technologies

The implementation of digitalization not only brings substantial advantages to both the accountancy firm and its clientele but also signifies a profound shift in the nature of the practice itself. This transformative process significantly alters work methodologies and fundamentally redefines the role of accountants. The structural and functional aspects of the practice undergo considerable changes. Notably, digitalization influences the revenue model, shifting from a time-based approach to one grounded in value, emphasizing enduring client relationships. Geographical constraints are no longer limiting, as digital practices can specialize across industry segments without borders. This evolution expands the service portfolio, demanding a broader skill set from accountancy firms, extending beyond technical competencies. Consequently, fostering a continuous learning culture becomes paramount, especially for small accountancy practices navigating the digital landscape.

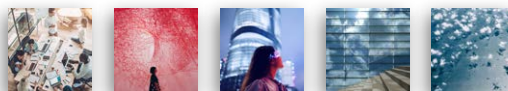
Automation and digitalisation can mitigate skill shortages, particularly in data entry tasks. Increasingly, digitalisation can complement other technical skill sets such as data analysis.

There is a danger, however, of over-reliance on automation of finance function, as the experience acquired in analytical work can be invaluable for long-term decision making. Care should be taken to avoid hollowing out all work through digital technology.

→ Explore:

- [The passionate practitioner](#) developing the digitalised small and medium practice.
- [Quick guide to AI](#) explaining why it's vital for finance professionals to understand the capabilities, limitations and potential applications of AI within their specific domains.
- [Digital horizons: technology, innovation and the future of accounting](#) offering insight into how financial professionals view the potential of digital technology for the profession as a whole.
- You may want to learn more about [ACCA's certificate in Digital Innovation for Finance \(CertDIF\)](#) that is aimed at accountancy, finance, business and advisory professionals who wish to develop their knowledge, skills and awareness of innovations in digital technology and its impact on the finance profession.

Furthermore, [ACCA Certificate in Business Analytics \(CertBA\)](#) offers foundational insights in business analytics.



3.2 Investing in talent and assessing new organisational structures

Investing in talent is of paramount importance. SMPs should also consider new organisational structures when facing workforce and skills shortages to ensure resilience and continued operations. This can involve embracing flexible work arrangements, cross-training employees to handle multiple roles, and leveraging technology to automate routine tasks. By doing so, SMPs can minimise the impact of staff shortages, maintain service levels and reduce the risk of burnout among their existing employees. Additionally, adopting a more agile and adaptive organisational structure allows SMPs to respond more effectively to changing market conditions and future workforce challenges. Furthermore, the use of internal mentoring and reversed training will ensure the wealth of internal knowledge is being shared.

The expansion of digital operations can provide businesses the opportunity to reconfigure their current services. Activities and task can be partitioned to a greater extent using digital technologies, which can enable SMPs to specialise in areas that provide higher value. For example, routine tasks and activities can be automated through digitalisation and outsourced, which can free-up resources for more strategic and advisory work.

→ Explore:

- [Hybrid working and SMPs](#) and learn about opportunities and risks of working remotely.
- [SMP Careers Toolkit](#) and get some in-depth insight about developing talent and knowledge sharing in your practice, responding to the needs of various talent groups. The toolkit is supported by a wealth of case studies and links to a wealth of ACCA's resources available.
- ACCA's [Global Talent Trends 2023](#) report provides a unique and vital view of how people feel about working in the profession right now.



3.3 Develop strategic businesses services

Not only can SMPs reconfigure their current services, they can also offer clients new strategic business services. A key point raised by many SMPs in our roundtable discussions was the importance of being trusted business advisers. Strategic support requires trust and a number of SMPs noted that clients often turn to accountants for advice on various aspects of their business, relying on their honesty and sound judgement. However, it is of ultimate importance that SMPs educate their clients about the strategic advice that they can provide so that this is not seen as occasional support. Furthermore, regular in-depth conversations with clients about their future plans and challenges can help SMPs further strengthen their positions as strategic trusted advisors and anticipate clients' future needs. Timely and transparent communication is paramount, with clients expecting real-time access to financial information and a more interactive and collaborative relationship. Evolving client expectations demand a holistic and forward-thinking approach from small accountancy practices, blending traditional financial expertise with strategic insights, technology integration, and a commitment to ethical and sustainable business practices.

The move towards the provision of strategic business services reflects a fundamental change in the way SMEs perceive and engage with SMPs. SMEs now look for partners who can offer valuable strategic guidance, expertise and innovative solutions. SMPs could consider providing the following high value services, which will embed them deeper into the business activities of their clients.

- **Market research and analysis** – the ability to gather and analyse market data is crucial. It enables businesses to identify market gaps, competitive positioning and potential areas for growth.
- **Strategic planning** – developing strategic plans tailored to each client's needs is essential. This includes setting goals, defining objectives and creating actionable plans for achieving them.
- **Innovation and creativity** – SMPs should foster a culture of innovation and creativity to develop unique solutions that can give clients a competitive edge.
- **Communication and relationship building** – effective communication and relationship management are vital for understanding clients' needs, maintaining trust and delivering services aligned with clients' expectations.
- **Change management** – SMPs should be equipped to guide clients through organisational changes, ensuring a smooth transition when implementing strategic recommendations.
- **Technology and data analytics** – leveraging technology and data analytics tools can provide valuable insights for making informed strategic decisions.

To excel in this new landscape, SMPs will have to develop a set of competencies that enable them to deliver the above mentioned strategic business services effectively.

→ Explore:

- [Leading the change](#) report that provides personal reflections of finance leaders having a key role in driving change across organisations.
- [Space to Grow](#) report and learn more about the role of accountants and SMP acting as growth partners to their clients.
- [Supply chains: a finance professional's perspective](#) and a Playbook report considers the current issues in supply chains from the perspective of the finance professional.
- [Analytics in finance and accountancy](#) report and a playbook for SMEs.
- [ACCA Certificate in Data Analytics](#).
- [Planning and Performance Paradigm](#) report.



3.4 Strategic partnerships

Capacity constraints in staff and skills prevent many smaller practices from extending and expanding their service portfolio. In addition, the costs and risks associated with developing new internal competences can put off many firms, especially those that are risk averse. An alternative or complementary strategy is to form strategic partnerships. SMPs and SMEs are increasingly recognising the importance of forming strategic partnerships to provide a wide range of business services. These partnerships enable companies to pool their resources, expertise, and competences to deliver value-added services to their customers and drive long-term success. Partnerships can be contract-based formal agreements. Partnerships can also be informal, usually through a professional network. The advantages of such collaborations include those listed below.

- **Enhanced services** – SMPs can broaden the scope and quality of the services they offer. By partnering with organisations possessing complementary skills and expertise, they can deliver a more comprehensive and sophisticated range of services to their clients.
- **Access to new markets** – partnering with organisations that have an established presence in these markets can significantly accelerate market penetration and expansion efforts.
- **Resource optimisation** – shared infrastructure, technology, and operational expenses can result in improved cost-efficiency.
- **Risk mitigation** – partnerships can help spread business risks and reduce the impact of adverse events on any single company.
- **Innovation** – collaborating with partners contributes to knowledge sharing and innovation. Exposing one's team to diverse perspectives and ideas from partner organisations can lead to creative approaches and continuous improvement.
- **Locking in customers** – client relationships are based on trust and competences. Many smaller clients will appreciate a one-stop-shop business-service provider, even if the services are provided by an affiliate.

→ Explore:

- [Space to Grow](#) report and learn about small business support ecosystems, how accountants can augment those ecosystems and connect their clients to support and business opportunities.
- [Responsible SMP Pacesetters](#) report and learn about the role of accountants as super connectors in local and business communities partnering with and supporting educational institutions, charities, NGOs.



3.5 Leading the sustainability agenda

In the context of small businesses, the role of accountants in ESG reporting and sustainable transformation is pivotal. Accountants serve as integral architects in helping small enterprises navigate the complexities of ESG metrics and reporting, ensuring adherence to sustainability standards. Their expertise is crucial in establishing transparent and credible communication channels with stakeholders, including investors, customers, and regulatory bodies. SMPs have the potential to play a key role in developing tailored ESG frameworks that align with the unique characteristics and challenges of small businesses, facilitating effective measurement and reporting of sustainability initiatives. Moreover, by integrating sustainability considerations into financial planning and reporting, accountants can contribute to cost-efficiency and risk mitigation for small businesses, promoting long-term resilience and competitiveness. In essence, accountants in small businesses serve as catalysts for sustainable transformation, aiding in the alignment of financial strategies with environmentally and socially responsible practices.

Much like the transformative impact of digitalization, a parallel opportunity unfolds for accountancy practitioners who initiate a sustainable transformation within their own practices. By first integrating sustainable practices into their operational frameworks, accountancy practitioners can gain firsthand experience and insights into the challenges and benefits of sustainable transformation. This experiential learning becomes a valuable asset

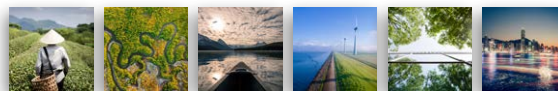
that positions them to provide informed and effective sustainable transformation advisory services to their clients. By initiating this transformation, accountancy practitioners not only enhance their own resilience but also contribute to a broader paradigm shift within the industry. This approach allows them to serve as trusted advisors, guiding their clients toward environmentally and socially responsible practices and further enabling them to effectively communicate and report on their achievements.

→ Explore:

- [SMP leading sustainability toolkit.](#)
- [How SMEs can create a more sustainable world:](#) a series of case studies and a playbook.
- [The role of the CFO and finance function in the climate transition: driving value and sustainability.](#)
- [Sustainability reporting – the guide to preparation.](#)

And ACCA Certificates that will provide you with the skills and knowledge to enable you to confidently lead on sustainability issues:

- [ACCA certificate in sustainability for finance.](#)
- [ACCA certificate in integrated reporting.](#)



Appendix: Methodology

The first phase of the research consisted of a **global survey with the number of responses being 620**.

The survey data was complemented by a number of roundtables held in different geographic regions across the world including **Africa, Asia Pacific, EMEA, Latin and South America, USA and Europe**.

References

ACCA (2020) *Space to Grow: new models of business support*, <https://www.accaglobal.com/gb/en/professional-insights/pro-accountants-the-future/space_to_grow.html>, accessed 14 December 2023.

ACCA and CA ANZ (Chartered Accountants Australia and New Zealand) and Generation CFO (2021), *Transformational journeys: Finance and the agile organisation* [online resource], available from <<https://www.accaglobal.com/gb/en/professional-insights/technology/transformational-journeys.html>>, accessed 29 October 2023.

CA ANZ and ACCA (2021), *Accountants and SMEs creating a sustainable world* [online resource], available from <<https://www.accaglobal.com/gb/en/professional-insights/global-profession/sme-sustainable-world.html>>, accessed 20 October 2023.

ACCA (2022), *Supply chains: a finance professional's perspective*, <<https://www.accaglobal.com/gb/en/professional-insights/global-profession/supply-chains-post-pandemic-world.html>>, accessed 1 December 2023.

ACCA(2023), *Global Talent Trends 2023*, <<https://www.accaglobal.com/gb/en/professional-insights/pro-accountants-the-future/global-talent-trends-2023.html>>, accessed 14 December 2023.

European Commission (2023b), 'Corporate Sustainability Reporting' [website article], accessed 20 November 2023.

ILO (International Labour Organization) (2023), *International Classification of Occupations (ISCO)* <<https://ilostat.ilo.org/resources/concepts-and-definitions/classification-occupation/>>, accessed 8 October 2023.

IMF (International Monetary Fund) (2023), 'How Pandemic Accelerated Digital Transformation in Advanced Economies' [online resource], available from <<https://www.imf.org/en/Blogs/Articles/2023/03/21/how-pandemic-accelerated-digital-transformation-in-advanced-economies>>, accessed 30 October 2023.

Knight, Frank H. (1964), *Risk, Uncertainty and Profit* (Chicago: University of Chicago Press).

OECD (Organisation for Economic Co-operation and Development) (2018), *Oslo Manual 2018: Guidelines for Collecting, Reporting and Using Data on Innovation*, 4th edn. Downloadable from <<https://www.oecd.org/science/oslo-manual-2018-9789264304604-en.htm>>, accessed 8 October 2023.

OECD (2023), 'OECD Skills for Jobs Database: Measuring Skill Needs in the New Era of Work' [online resource], available from <<https://www.oecdskillsforjobsdatabase.org/press.php>>, accessed 9 October 2023.

Tidd, J. and Bessant, J. R. (2020), *Managing Innovation: Integrating Technological, Market and Organization Change* (Chichester: John Wiley & Sons).

