SMES AND DEMAND FOR BUSINESS SUPPORT
SMEs represent a very significant part of the world’s economy. These entities represent 85% to 99.9% of the business population, account for more than half of the private sector value added and two-thirds of employment. SMEs are heterogeneous in size, growth intentions, and business goals. A significant proportion of SMEs are family enterprises, characterized by family involvement in ownership, governance, and management and by family values.

Only a subset of SMEs is interested in growing or in seeking maximum return and many choose to remain small or not to grow. This group may attach considerable importance to non-financial objectives and pursue a range of other goals in addition to, or alternatively to, growth.

Factors driving SMEs’ demand for business advice from SMPs, among others, include company-related factors (i.e., size, debt, age, growth, and available resources) and environment-related factors (i.e., economic conditions, including regulations, and competition).

Personal characteristics of the SME owner-manager also impact the decision of whether to purchase accounting advice. Some owner-managers are more open than others to seeking and utilizing external advice. Furthermore, personal factors, including the relationship, trust, and perceived value of services, moderate the impact of company- and environment-related factors on SMEs’ demand for business advice.

In general, recent literature indicates that the SMEs most likely to purchase business advice are larger, younger, carry higher levels of debt or have greater aspirations to obtain new funding, and exhibit higher growth rates or intentions to grow. Market segmentations (e.g., start-ups, SMEs with an ambition to grow, SMEs with lifestyle expectations, and steady-state SMEs) facilitate an understanding of the demand for business advice from SMPs by these types of SMEs.

In summary, SMEs face economic, regulatory, social, and cultural pressures that may impact their utilization of accounting information and advice.
SMPS AND BUSINESS ADVISORY SERVICES

In general, the majority of SMPs’ revenue is generated by traditional services including compliance, audit, and taxation. However, recent literature identifies an increase and diversification in the provision of business advisory services and highlights the associated potential for future revenue growth. Recent research furthermore reveals that differences exist in SMPs offering of business advisory services by geographic region, size, and strategy. Larger and more proactive SMPs offer more business advisory services.

The evolution of SMPs, coupled with the growing demand for business advice, suggests that SMPs currently, and more so going forward, may play the roles of advisor, confidant, analyst, facilitator, and educator to their clients.

The literature indicates that networks play a growing role in the expansion of SMP expertise, especially in attracting new clients and providing new services. SMP networks and networks of SMPs with other professionals (e.g., bankers, lawyers, HR, and environmental specialists) facilitate the broadening of expertise and visibility to clients.

Recent literature shows SMPs have differing expansion strategies. Some SMPs are reluctant, while others proactively seek, to expand their service offerings. The desire to expand is influenced by factors including size, level or availability of competencies (e.g., networks and training), clients’ demands, and geographic location. SMPs’ expansion choices are also influenced by level of diversification, appetite for risk, and growth aspirations.

IFAC GLOBAL SMP SURVEY 2015

The vast majority of SMP respondents (84%) provide some form of business advisory and consulting service. The top three most commonly provided were:

- tax planning (52%);
- corporate advisory (advice on financing, mergers, due diligence, valuations, legal issues) (45%); and
- management accounting (planning, performance, risk management) (41%).

(Alam and Nandan 2010; Blackburn et al. 2010a and 2014; Carey 2008; Devi and Samujh 2010)

“"The evolution of SMPs, coupled with the growing demand for business advice, suggests that SMPs currently, and more so going forward, may play the roles of advisor, confidant, analyst, facilitator, and educator to their clients.”

RESEARCH HIGHLIGHTS

Business services provided by SMPs to SMEs include, but are not limited to: acquisition, succession, financial management, business strategy, tax planning, cash-flow advice, financing advice and debt administration, business valuation, forensic accounting, bankruptcy, costing and pricing, financial planning and budgeting, human resources, pensions, remuneration schemes and payroll, environmental sustainability, IT services, secretariat, training and skill development, and risk management.

(IFAC Global SMP Survey 2015)
**SME-SMP RELATIONSHIP**

Research indicates that irrespective of jurisdiction, accountants, and especially SMPs, continue to be the preferred advisors to SMEs. The main factors SMEs consider when determining whether to purchase SMP services include any prior relationship with the accountant, the image of the accountant, and the SME’s perception of the roles and competencies of accountants. Industry, type of advice, and personality of the SME owner-manager may also impact the selection of an advisor.

Due to the multitude of factors involved, interactions between SMEs and SMPs are complex. In general, the desired interaction embodies a long-term, personal relationship based on trust and communication. A successful SME-SMP relationship requires a thorough knowledge of the client’s business, as well as mutual understanding. However, the literature reveals complexities in that trust is not easy for SMPs to obtain and is linked with other factors, e.g. integrity, competence, and empathy.

Research also indicates that communicating with the SME owner-manager is challenging for SMPs, because of perceptions associated with the low level of readability of traditional accounting documents (i.e., financial statements). While the development of digital communication channels has created new ways for accountants to communicate with their clients, research suggests that the preferred form of communication between SMEs and SMPs remains face to face.

Recent literature additionally suggests that traditionally SMPs have been passive, as opposed to active, marketers. Conventionally, formal promotion such as media advertising has rarely been employed. Indeed, some accountants view marketing and promotion as incompatible with the profession or as not worthwhile as the hours spent on it are not billable. Others, especially the younger generation, embrace marketing and promotion to counter competition. Researchers have recently emphasized the need for greater proactivity from SMPs in gaining new business.

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**RESEARCH HIGHLIGHTS**

Accountants are perceived as the most trusted advisor, with almost 60% of SMEs responding accordingly, in comparison to business network (less than 20%) and consultants, lawyers, and bankers (less than 10%).

Seventy-two percent of respondents believe accountants add value in the relationship.

(ICAEW 2014)

“A successful SME-SMP relationship requires a thorough knowledge of the client’s business, as well as mutual understanding.”
THE ROLE OF SMPS IN PROVIDING BUSINESS SUPPORT TO SMES—KEY FINDINGS

IMPLICATIONS FOR SMPS

Practices should identify ways to address increased competition and market challenges. Coping mechanisms include expanding expertise through networks and partnerships, providing staff training and hiring experts. More proactive SMPS seek market niches, employ marketing techniques, and diversify the services they offer. Communication with SMEs and their owner-managers is important to achieve an understanding of their needs, enhance trust, and help with introducing new services.

One recommended strategy to gain new business is to provide opportunities that encourage more frequent interaction with clients. For example, a significant opportunity for differentiation in the market is available to SMPs that market themselves as experts in technology and capable of meeting SMEs’ expectations as providers of strategic advice.

RESEARCH HIGHLIGHTS

Five strategies to cope with opportunities and challenges in the current environment are:

• forming strategic alliances;
• diversifying services;
• focusing on relationship building; and
• focusing on market positioning and outsourcing.

(IFAC 2011)

IFAC GLOBAL SMP SURVEY 2015

Only 28% of the SMPs surveyed indicated they belong to a network, association, or alliance.

The benefits associated with membership in a network, association, or alliance are:

• attracting new clients (36%);
• broadening client service offerings (34%);
• branding and marketing (32%);
• training, conferences, and workshops (30%);
• technical and practice management assistance (30%);
• attractive to international clients (29%);
• retaining clients expanding in size or operations (28%);
• strong networking opportunities (28%);
• risk management and quality control reviews (25%); and
• attracting and retaining staff (22%).

(IFAC 2015)

IMPLICATIONS FOR PROFESSIONAL ACCOUNTANCY ORGANIZATIONS

SMPs expect professional accountancy organizations (PAOs) to help them promote the value of their services to clients and identify new market opportunities. This translates into the need for PAOs to provide advice and guidance on how to market existing services and offer new client services. In addition to training sessions and educational materials, SMPs seek opportunities to network and share information, insights, and ideas with one another. Finally, there are benefits from PAOs’ campaigns to promote the role of the accountant and to consolidate institutional trust in the profession.