

The Relationship between Accountancy Expertise and Business Performance

Key Findings



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It is widely accepted that accountants, both in public practice and in industry, play a crucial role in an organization's success. But assessing, or even quantifying, the role is complex. Understanding the relationship between using accountancy expertise and business performance requires consideration of what accountancy expertise entails, such as the type of advice provided, who provides it, and the techniques utilized, as well consideration of a wide range of performance measures. Business performance is also influenced by many internal and external factors and the role of accountancy expertise needs to be interpreted in relation to these factors.

Commissioned by IFAC, researchers at the Bucharest University of Economic Studies conducted a literature review to assess this relationship. The [full report](#) summarizes and discusses the findings of more than 90 academic research papers and relevant publications covering literature from around the world that investigates this relationship for small- and medium-sized entities (SMEs) as well as large entities. This *Key Findings* focuses on the main insights.

SMALL- AND MEDIUM-SIZED ENTITIES

SME owner-managers can view performance as a combination of financial and non-financial expectations. They may measure their performance in terms of profitability and growth but also image, work-life balance, and more. But since not all SMEs desire growth, in many instances growth may not be an appropriate measure of SME performance. For example, survival may be a measure of performance, especially for start-up companies. However, since SMEs can close shop for various reasons, not all non-surviving SMEs represent "failures." Many small companies decide to remain small and view performance as a combination of financial and personal or family-related expectations.

Accountants, usually small- and medium-sized practices (SMPs), are the most frequently used source of business advice for SMEs. Prior **studies indicate that accountancy expertise—the accounting or business advice provided to SMEs—is associated with better performance as measured by improved rates of survival, growth, improved decision-making processes, and superior financial performance.** Research also implies that advice in non-traditional areas, such as human resources, environmental issues, and business and management support, are most likely to impact SME performance.

RESEARCH FINDINGS

Growing SMEs make the most use of external advice (survey of 140 UK SMEs)

Advisory services has a positive impact on start-ups (survey of 103 Malaysian companies)

Enterprises **using an external accountant saw an 8.1% average increase in sales** growth and a 29% **decrease in the likelihood of failure** (survey of 2,004 Australian SMEs)

Companies **using accounting services saw growth** in employees, assets, and turnover/sales (survey of 85 Kenyan SMEs)

More than 50% of the SMEs with no written budgets saw sales decrease while 75% of **SMEs with detailed budgets saw sales increase** (survey of 168 SMEs in Sri Lanka)

Under the guidance of an external advisor, **adopting environmentally-friendly practices internally** leads to organizational, financial, and human capital benefits (literature review of 33 studies from around the world)

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LARGE ENTITIES

Large entities make use of accountancy expertise, both internal and external, in different ways than some of their SME counterparts. Generally, large entities use accountancy expertise to develop and further utilize accounting techniques. While there is a rich and diverse literature that deals separately with each accounting technique, and provides inconclusive results, the impact of these techniques on performance is only directly investigated in a few studies. But what literature there is supports a **positive association between using accountancy expertise and business performance**. The impact of accountancy advice provided by accountants or the accounting and finance function relates to accountants' role in or supporting organizations. In addition, **business performance appears to improve in those enterprises where the accounting function takes on a greater, strategic role** as business partner and advisor. Some studies suggest that these "transformed" roles are associated with superior business performance.

RESEARCH FINDINGS

The **professional identity of management accountants is evolving** with roles relating to **business integrator, business partner/ advisor, change agent, and decision enabler**. Management accountants also **contribute to cost efficiency and value creation** (survey of 588 professional accountants and 570 external stakeholders across four geographical regions)

Main functions of management accounting are: providing information on results and past performance, **facilitating decision making**, and directing staff behavior (interviews with 25 French managers)

Companies with CFOs focused on risk management and decision support and **"transformed" accounting functions perform better** (survey of 286 senior executives)

High-performance businesses are more likely to **report high levels of satisfaction with their finance function** and have CFOs with a higher strategic influence (survey of 617 finance executives)

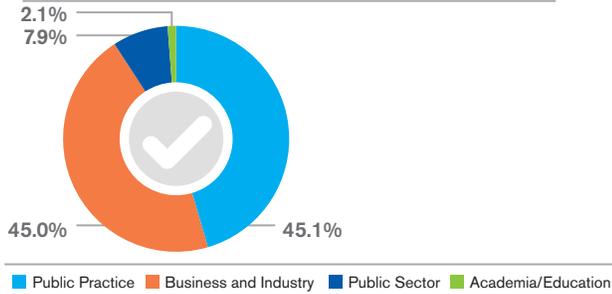
CONCLUSION

Existing literature demonstrates an association between using accountancy expertise and business performance (in most cases empirical research designs do not allow researchers to test for causality). **Specifically, organizational development and performance lead to an increased utilization of accountancy expertise, and accountancy expertise leads to superior performance and development**. Moreover, accountancy expertise plays multiple, varied roles in organizations, including information organization, analysis and communication, decision-making support, managing risks and providing control, ensuring compliance, and creating value. These roles are all related to the well-functioning of organizations and, therefore, moderate the impact of other organizational variables (e.g. innovation, strategy) on business performance. Hence, as accountants perform their various roles, they can make a positive, direct and indirect, contribution to business performance.

IFAC FACTS

ACCOUNTANTS IN EVERY PART OF SOCIETY, THROUGHOUT THE GLOBAL ECONOMY

IFAC PAO MEMBERSHIP, BY SECTOR 2013



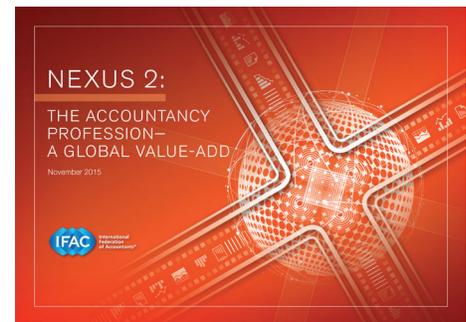
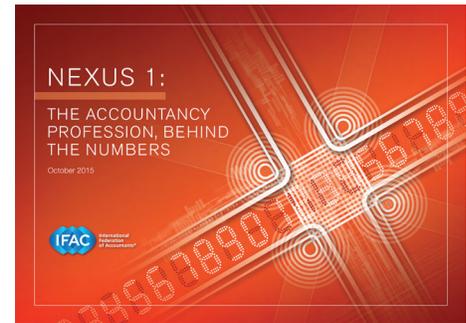
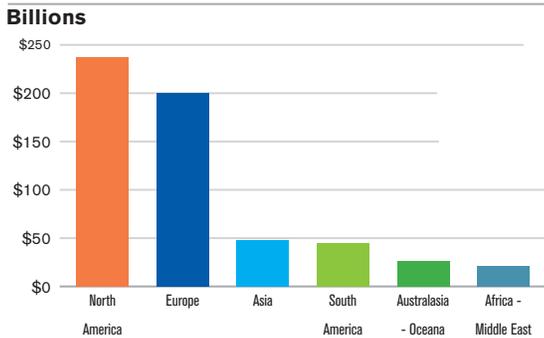
45.1% of 2.8 million IFAC member organization accountants work in public practice and 45% work in business and industry.

As business advisers, accountants are instrumental in strengthening governance arrangements and corporate reporting. Whether organizations are addressing major projects, or sustainable stewardship of the six forms of capital, professional accountants are crucial to successful, transparent, and accountable delivery.

THE GLOBAL ACCOUNTANCY PROFESSION MAKES A SUBSTANTIAL ECONOMIC CONTRIBUTION

Economic contributions are often described in "gross value added" (GVA) terms—roughly speaking, the sum of employee compensation, profits, surpluses, and taxes on production.

ANNUAL GROSS VALUE ADDED (GVA) OF IFAC MEMBER ORGANIZATIONS



The GVA of IFAC PAO members totals approximately **\$248 BILLION** or about **43%** of the global accountancy ecology



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