

## How to Support the SMP of the Future

*Small and medium-sized practices (SMPs) face many challenges in today's fast-changing world. Take digital technologies, which will replace many entry-level roles in the profession and are changing the mode of delivery for some traditional services, such as audit. Regulation and deregulation also have an impact on SMPs. For example, deregulation in business through the introduction or raising of audit thresholds, has led to changes in the provision of traditional audit services by accountancy firms. In addition, there is increased competition between accountants and other professions. SMPs are also facing challenges in relation to attracting and retaining the skilled staff they need, and responding to competition from larger firms now seeking to enter the market serviced by SMPs and win business with small and medium-sized enterprises (SMEs). This article highlights the position and role of SMPs in future perspective based on a recent global research by Edinburgh Group. Read on...*



In 2017, the Edinburgh Group (EG), a coalition of 16 accountancy bodies from across the world, commissioned research looking at the challenges and opportunities that SMPs and professional accountancy organizations (PAOs) face in this volatile and uncertain environment. The extensive research included an SMP survey eliciting 1,906 responses from 52 countries, a survey of and interviews with staff in EG PAOs, and a series of SMP case studies. It also drew on existing professional and academic literature on SMPs. The findings, including recommendations for PAOs and SMPs, are presented in the January 2019 report, *'The SMP of the future in a changing world'*.



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The findings indicate that SMPs worldwide expect environmental factors to continue to present both challenges and opportunities for their practices in future. However, SMPs have limited access to the resources, networks and expertise required to invest continuously in assessing the consequences of the incessant environmental changes affecting the accountancy profession.

### Response Gap

The SMP survey found that a troubling minority of the respondents' SMPs are not currently addressing the challenges and/or capitalising on the opportunities associated with environmental change. For example, of the practices facing or expecting to face challenges associated with digital technologies, 26% are not responding to, and have no plan to respond to, these challenges. In addition, 22% of SMPs have not capitalised on, and have no plans to capitalise on, the opportunities associated with digital technologies.

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Similarly, of the practices facing or expecting to face challenges associated with regulation or deregulation, 23% are not responding to, and have no plan to respond to, these challenges. Meanwhile, 17% of the SMPs have not capitalised on, and have no plans to capitalise on, the opportunities associated with regulation or deregulation.

**The findings of the Edinburgh Group SMP research indicate that SMPs worldwide expect environmental factors to continue to present both challenges and opportunities for their practices in future. However, SMPs have limited access to the resources, networks and expertise required to invest continuously in assessing the consequences of the incessant environmental changes affecting the accountancy profession.**

SMPs appear too passive in relation to seizing new opportunities: 30% of SMP survey respondents said their practice 'rarely' or 'never' seeks out new markets and opportunities to launch new services.

### PAOs' Role

Previous research has found that Professional Accountancy Organizations (PAOs) play three primary roles. They create a space for interaction between members, publicly represent their members, and monitor members' compliance with PAO expectations. Most PAOs focus on the latter – but the EG research shows that in order to support the accountancy profession properly, they need to undertake coherent activities in all three areas.

In particular, because of their own limited resources, SMPs expect PAOs to play a proactive role in offering guidance and support in addressing the challenges and opportunities associated with a changing world. For example, SMPs look for support in relation to developments in digital technologies and changing regulation. The EG research found that the majority of PAOs since 2013 have developed guidelines and

tools to support their SMP membership in addressing challenges and opportunities specific to their jurisdiction, such as tools for integrated reporting or integrated thinking, auditing software tailored for SMPs or tools related to the General Data Protection Regulation (GDPR). Even so, more could be done.

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### Recommendations for PAOs

The EG report recommends that PAOs should segment their membership in order to better understand the needs of their SMP members. They should also:

- Be proactive in anticipating and understanding evolutions in the accountancy profession and support SMPs in obtaining and/or developing the skills needed now and in future to meet the ever-changing expectations/needs of their clients;
- Help SMPs identify and address national/regional challenges and opportunities;
- Provide their SMP members with advice on managing their practice;
- Consider supporting SMP innovation in, for example, the services provided by introducing new qualifications and certificates;
- Promote, encourage and facilitate networking among SMPs and between SMPs and SMEs;
- Partner with IT companies to create and

# SMPs

expand awareness of new technologies among accountants;

- Publicly support and represent the accountancy profession by, for example, collaborating with relevant government agencies and supporting initiatives with universities and high schools to create awareness of opportunities in the accountancy profession.

## Recommendations for SMPs

SMPs need to take their own steps to help build a successful future. The EG research report recommends that they should:

- Be proactive in seeking out new markets for their services and consider growth and diversification of their service offerings;
- Consider in-house training, hiring of accountancy-qualified and non-accountancy expertise and/or collaborations with other accountancy firms and service providers;
- Use networking to offset their limited internal resources for addressing challenges and opportunities;
- Apply understanding of their competitive environment to inform strategic decisions on the services they provide;



- Identify new service offerings (and determine firm structure and hiring decisions) based on a well-informed strategic response to environmental challenges and opportunities associated with, for example, digital technologies and regulation/deregulation;
- Develop, within a diversification strategy, niche expertise;
- Exceed client expectations and develop a close relationship with clients;
- Be more efficient to reduce costs;
- Manage client expectations by, for example, being specific about the service(s) provided for specified fees;

**SMPs need to take their own steps to help build a successful future. The EG research report recommends that they should be proactive in seeking out new markets for their services and consider growth and diversification of their service offerings; consider in-house training, hiring of accountancy-qualified and non-accountancy expertise and/or collaborations with other accountancy firms and service providers; and use networking to offset their limited internal resources for addressing challenges and opportunities.**

- Promote their advantages better when competing with larger firms for talent (including for the younger generation), for example, by offering a better work-life balance and promoting their entrepreneurial spirit and opportunities for faster promotion and being more involved in the business;
- Focus not only on services offered, but also on financial and commercial discipline;
- Build a brand, particularly firms with multiple partners and staff;
- Develop a strategy to counter competition. ■

*(Courtesy IFAC Global Knowledge Gateway)*