

Exploring The Relationship Between Accounting Professionals And Small And Medium Enterprises (SMEs)

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ABSTRACT

This study explores the relationship between SMEs and professional accountants and the expectations that they hold for each other. The findings show that SMEs use a combination of insourcing and outsourcing to meet their accounting needs; however, how to balance the two is a very important decision making issue. SMEs' frequent reliance on external accountants extends well beyond the normal scope of accounting into other aspects of business administration. The study has important implications for growth and survival of professional accounting firms, education providers, and SMEs.

Keywords: Accounting Professionals; Professional Accountants; Management Accounting; Accountants; Small and Medium Enterprises; SMEs

INTRODUCTION

With greater awareness of the importance of Small and Medium Enterprises (SMEs) and their contribution to economic activity and growth there has been a growing research interest in the area. In Canada in 2008, 52% of GDP was generated by SMEs (Leung, Rispoli, & Chan, 2011) while in the province of British Columbia 56% of private sector employment, 55% of exports, and 29% of the gross domestic product is generated by small business according to the most recent Small Business Profile 2012.

Small business researchers articulate that the needs of the users of SMEs information should guide and inform new accounting regulations for these firms (Strouhal, Bonaci, Deaconu, Mullerova, & Pasekova, 2010). The responsiveness to this issue is evident in the development of key provisions of International Financial Reporting Standards (IFRS) for SMEs (Seifert & Lindberg, 2010) with substantially reduced disclosure requirements; property, plant, and equipment continues to be recorded at cost and a commitment to revise the standards no more frequently than every three years are examples of the responsiveness to the call to reduce the reporting burden on these organizations.

Management accounting information provides a basis for decision making, allocation of scarce resources, and a foundation for client interactions, product and service pricing and is essential to SMEs viability and survival (Coman, Coman, & Boca, 2012; Nandan, 2010). In examining the sourcing strategy of SMEs in Belgium, Everaert, Sarens, & Rommel (2007) concluded that such firms preferred a combination of insourcing and outsourcing for accounting services. Further, Hamdan (2012) reports that while automated accounting systems contribute substantially to timely decision making and business development, owners of SMEs in Jordan perceive that increases in operating expenses and enhanced levels of technological expertise are requirements for implementation; Ming & Arifin (2011) report tax compliance cost burdens to SMEs partly arise from lack of adoption of computerized accounting systems. In the investigation of different product costing approaches in relation to the size of the firm, Brierley (2011) identified that SMEs in manufacturing firms in Britain were less likely to consider activity based costing and utilized less complex systems of product costing. In the analysis of five manufacturing SMEs in German manufacturing (Lohr, 2012), the low adoption of management accounting systems is attributed to

costs outweighing benefits and the strong market position held by the industrial firms studied. However, management techniques and systems utilized in large firms are not necessarily transferable to small firms as reconfirmed in the study of TQM relative to the financial performance of 3776 Australian SMEs (Kober, Subraamanniam, & Watson 2012).

Many small accounting practices are themselves SMEs and management of knowledge, human resources, budgets, cash, and client relationships are inherent challenges for their own firms and while many of them have these skills, they have not necessarily reached out to provide service in these areas to other SMEs (Nandan & Ciccotosto, 2007 as quoted in Nandan 2010). In addition Nandan (2010) makes a clear call to management accounting educators to expand to a multi-disciplinary approach and specifically consider the needs of SMEs.

This study explores the relationship between SMEs and professional accountants and the expectations that they hold for each other.

RESEARCH OBJECTIVE AND METHODOLOGY

Two research questions (RQ) are formulated to examine the relationship between accounting professionals and SMEs.

RQ 1: What supporting roles do accounting professionals provide in serving SMEs?

RQ 2: What services do SMEs expect from accounting professionals?

To explore the above research questions, primary data is collected using two survey questionnaires. One questionnaire is designed for accounting professionals in public practice providing services to SMEs; another questionnaire is for accounting professionals employed by or operating SMEs.

The first questionnaire asks the respondents to: 1) estimate the percentage of their total business that is generated by services to SMEs; 2) estimate the percentage of the total SMEs engaging professional accounting advice in various areas of annual tax filing, annual financial statements, taxation, business planning, financing, sales and marketing, human resources planning and remuneration, accounting support, and personal taxation returns for SME owners; and 3) pass on one piece of advice to SMEs.

The second questionnaire asks the respondents: 1) how many people are employed in their organizations; 2) which of the following external sources have been used for business planning, advice or service: bank, lawyer, government agency, external accountants, trade or industry organization, and family and friends; 3) which of following factors are the main obstacles to seeking external advice: cost of service, shortage of time, unaware of service provider, and other; and 4) what is one piece of advice they wish to pass on to professional accountants.

Primary data is collected from a group of 32 accounting professionals who participated in a leadership workshop at an annual conference in September 2012. The sample size is relatively small; but fairly representative. The respondents are from different geographical regions, different sectors, and different size of organizations. About two thirds of them work in public practice to provide services to SMEs and the rest are in-house accounting professionals in SMEs. The response rate is 100%. Therefore, the quality of the responses should have high levels of validity.

RESULTS AND ANALYSIS

Ten questions in the first questionnaire are answered by the accounting professionals in public practice. Each respondent gives an estimated percentage of the total SMEs engaging professional accounting services seeking each service type. The average percentage for each service type is calculated based on their responses. The results are summarized in Table 1.

Table 1: Services External Accounting Professionals Provide to SMEs

Service Area	Average Percentage
Services to SMEs	71%
Annual tax filing	94%
Annual financial statements	84%
Taxation advice	76%
Business planning	56%
Financing	29%
Sales and marketing	31%
Human resources planning and remuneration	29%
Accounting support	46%
Personal taxation returns for owners	77%

Firstly, about 71% of the total business in public practicing accounting firms is generated by services to SMEs. The result shows that these accounting firms heavily rely on services generated from SMEs and vice versa. The relationship between external accounting professionals and SMEs is very significant. As SMEs grow, the demand for accounting services from public practitioners is also expected to increase.

The finding has important implications on how to strengthen the working relationship between accounting professionals and SMEs. From the accounting professional side, in order to provide better services to SMEs it is essential for them to have sufficient knowledge about SMEs' unique characteristics and understand SMEs' needs. There may have not been enough attention paid to this issue, which, accounting firms cannot afford to ignore. One possible solution is that accounting firms and accounting professional associations include the SME related study topics in the continuing education and professional development programs of their employees and members. By doing so, accounting professionals will be able to better serve their SME clients. Furthermore, the finding has important implications on accounting education. Are universities and colleges positioned to train more qualified accounting graduates to meet the increasing demand for accountants in the future? Does the accounting curriculum prepare students well for their future career in public practice and to provide appropriate professional services to SMEs? With the result from our survey, it is logical to integrate certain SME related topics into the accounting curriculum.

From the SME side, it would be very helpful to take the advice provided by accounting professionals in our questionnaire. They encourage SMEs to use professionals such as accountants and lawyers and to include accountants before engaging in projects, major purchases, etc. They suggest that SMEs seek advice before leaping, particularly considering tax consequences before starting to do something. They point out that failure to plan is planning to fail thus identifying the need for increased emphasis on planning. They also advise SMEs to be organized, to have quality book-keeping systems, and to fulfil information requests for filing requirements. According to the literature, the potential benefits of utilizing management accounting tools and techniques and the timeliness and accuracy of computerized record-keeping are not always captured by SMEs.

Secondly, the results show that, in addition to seeking traditional accounting services, 56% of SMEs seek advice in business planning and about one third of SMEs seek advice in the non-accounting areas such as financing (29%), sales and marketing (31%), and human resources planning and remuneration (29%). In other words, a large percentage of SMEs also expect that accounting firms provide services in non-accounting areas and they would like to have "one-stop shopping" services.

The finding suggests an expanding relationship between accounting firms and SMEs. From the accounting firm side, in order to provide comprehensive services to SMEs it is important for them to have sufficient expertise in other business functional areas. In order to meet SMEs' needs, accounting firms may want to have staff in finance, marketing, human resources, etc. Alternatively, accounting staff may expand their knowledge in these non-accounting areas through continuing education and professional development. Furthermore, the finding has implications on accounting education. Does the accounting curriculum prepare well-rounded students for their future career in public practice and to provide diverse services to SMEs? Specifically, are accounting students encouraged to choose a minor in other business areas such as finance, marketing, human resources management, small business management, etc.?

From the SME side, it is desirable to utilize accounting firms' expertise and seek their advice not only in traditional accounting areas but also in other management areas including business forecasting, strategic planning, organizational changes, etc. A "one-stop shopping" approach could potentially reduce the overall cost of outsourcing services for SMEs and also provide opportunities to take a holistic approach to management in SMEs. Besides, a gradually built long-term relationship between the two sides is mutually beneficial, which will further strengthen the work relationship between accounting professionals and SMEs.

Eleven questions in the second questionnaire are answered by the in-house accounting professionals in SMEs. The first question is about the number of employees in each SME. The responses show an average employee number of 108, which is quite representative for SMEs. The next six questions ask the respondents to identify what sources have been used for business planning, advice or service in the last year. The average percentage of SMEs using each source is calculated based on their responses. The results are summarized in Table 2.

Table 2: Average Percentage of SMEs Using Each Type of External Sources

Source	Average Percentage
Bank	64%
Lawyer	77%
Government agency	50%
External accountants	86%
Trade or industry organization	46%
Family and friends	5%

As indicated in Table 2, 86% of SMEs seek advice from external accountants despite having their own in-house accounting professionals. This type of service out-sourcing may be driven by the cost consideration or other reasons and is also consistent with the literature in that SMEs use a combination of insourcing and outsourcing for accounting requirements. Nonetheless, the result further demonstrates a high demand for accounting services, either internal or external.

The finding also shows that in-house accounting professionals in a large percentage of SMEs use other external resources including financial institutions (64%), law firms (77%), government agencies (50%), and trade or industry organizations (46%). SMEs expect that in-house accounting professionals are capable of dealing with various external service providers and using these external sources in business.

The last four questions ask the respondents to identify the main obstacles to seeking external advice. The average percentage of SMEs using each source is calculated based on their responses. The results are summarized in Table 3.

Table 3: Average Percentage of SMEs Facing Identified Obstacles to Seeking External Advice

Main Obstacle	Average Percentage
Cost of service	55%
Shortage of time	14%
Unaware of service provider	18%
Other	27%

Table 3 shows that on average 55% of SMEs consider cost of service is an obstacle for them to seek external advice. This is the single largest obstacle compared to other obstacles. Recalling from Table 2, on average 86% of SMEs seek advice from external accountants despite having their own in-house accounting professionals. Therefore it is reasonable to assume that the cost of service is the largest obstacle for SMEs to seek external accounting services. Perhaps this identifies a further need for communication of cost/benefit information in relation to these services.

CONCLUSIONS

The recommendations for strengthening of the relationship between SMEs and accounting professionals with professional development training and adding emphasis to SME in accounting education arise from the

substantial contributions that these groups make to each other. These contributions include revenues for the professional accounting firms and for services in taxation, financial statement preparation, and other functional aspects of business to improve the performance of the SMEs.

Professional accounting firms have the opportunity to expand their services further into non-accounting areas to meet the needs of SMEs. Academic and professional educational programs could better serve this objective by building knowledge and skills in marketing, human resources, finance, and other non-accounting business areas.

SMEs have an opportunity to heed the advice from the professional accounting group to engage the services of professionals as they enter projects, to plan these activities and to be organized with quality record keeping.

The results also reveal another aspect of the relationship between accounting professionals and SMEs. SMEs face a dilemma: on one hand, they either do not have their own accounting staff or do not have sufficient accounting staff perhaps because of the cost consideration; on the other hand, the cost of external accounting services is their largest obstacle when they need these services. How to balance internal accounting staffing and accounting service outsourcing becomes a very important decision making issue. Is there an optimal level of combination of the two? It is an interesting topic for researchers and practitioners to explore.

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