SMEs & SMPs
The Engine for Growth
Bodo Richardt
SMEs & SMPs  
The Engine for Growth

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Who We Are

⁃ Umbrella organisation of 14 national accounting and auditing associations
  - Represents more than 350,000 professionals
  - Professionals working as SMPs and mainly servicing SMEs
What We Do

- EFAA assists member organisations to strengthen SMPs and SMEs in public affairs
- EFAA has more than twenty years of experience in engaging with European Institutions, European SMP/SME accounting and auditing stakeholders and IFAC
What We Do

EFAA provides a high-level public affairs solution for its members in Europe

**INFORM**

<table>
<thead>
<tr>
<th>EFAA Action</th>
<th>Member Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide intelligence on policy and key political figures</td>
<td>Insights and updates for your leadership team; Content for your member magazine/website;</td>
</tr>
<tr>
<td>Provide guidance and expert opinions</td>
<td>Insights and updates for your leadership team, and for distribution to your members</td>
</tr>
<tr>
<td>Conferences and round tables</td>
<td>Take part in conferences and round tables, and/or offer participation to your members, possibly as CPD event</td>
</tr>
</tbody>
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**ADVOCATE**

<table>
<thead>
<tr>
<th>EFAA Action</th>
<th>Member Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respond to European Commission consultations</td>
<td>The SMP/SME perspective of your members is taken into account in official consultations</td>
</tr>
<tr>
<td>Policy Papers</td>
<td>Evidence-based policy papers shaping a political agenda favorable to Europe’s SMPs and SMEs</td>
</tr>
<tr>
<td>Back-channel talks</td>
<td>Direct access to policy makers and insights beyond the publicly available knowledge</td>
</tr>
</tbody>
</table>

**CONNECT**

<table>
<thead>
<tr>
<th>EFAA Action</th>
<th>Member Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide a platform for Europe’s professional associations in SME accounting, auditing and tax advice</td>
<td>Meet the leadership and members of your European colleagues; connect your members with professionals from all over Europe</td>
</tr>
<tr>
<td>Provide platform for the exchange of professional expertise</td>
<td>Work with the experts from other professional associations in one of our expert groups</td>
</tr>
<tr>
<td>Organise conferences and round tables</td>
<td>Meet policy makers, scholars and colleagues from all over Europe, and offer the opportunity to do so to your members</td>
</tr>
</tbody>
</table>
Relevance of SMEs

SMEs in the EU 28 (2013)

Stand for 21.6 million businesses (99.8 % of all businesses)

Employ 88.8 million people (66.8 % of total employment)

Generate an added value of EUR 3.666 trillion (28 % of the EU GDP)

Relevance of SMEs

- Do not overlook the small ones!

<table>
<thead>
<tr>
<th></th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>SMEs</th>
<th>Large</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of enterprises</td>
<td>19,969,338</td>
<td>1,378,374</td>
<td>223,648</td>
<td>21,571,360</td>
<td>43,517</td>
<td>21,614,908</td>
</tr>
<tr>
<td>%</td>
<td>92.4%</td>
<td>6.4%</td>
<td>1.0%</td>
<td>99.8%</td>
<td>0.2%</td>
<td>100%</td>
</tr>
<tr>
<td>Employment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td>38,629,012</td>
<td>27,353,660</td>
<td>22,860,792</td>
<td>88,843,464</td>
<td>44,053,576</td>
<td>132,897,040</td>
</tr>
<tr>
<td>%</td>
<td>29.1%</td>
<td>20.6%</td>
<td>17.2%</td>
<td>66.9%</td>
<td>33.1%</td>
<td>100%</td>
</tr>
<tr>
<td>Value added at factor costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Million Euros</td>
<td>1,362,336</td>
<td>1,147,885</td>
<td>1,156,558</td>
<td>3,666,779</td>
<td>2,643,795</td>
<td>6,310,557</td>
</tr>
<tr>
<td>%</td>
<td>21.6%</td>
<td>18.2%</td>
<td>18.3%</td>
<td>58.1%</td>
<td>41.9%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Eurostat, National Statistical Offices and DIW Econ
Key Challenges

SMEs in the EU

Key Challenges
- Access to finance
- Find skilled employees
- Competition
- Cost of production
- Finding Customers
- Regulation

Help, I need somebody! Help, not just anybody!?

Definition

Does size matter?
- Big 4 – ok, easy to differentiate
- But then? Large, Medium and small practices?
- And what about networks?

Maybe Clients and Service approach?
- Mostly SME-clients
- Full service approach?
- Trusted advisor?
Challenges for Europe’s SMPs

IFAC SMP-Survey 2015\(^1\)

- Keeping up with standards and regulations 54%
- Attracting new clients 48%
- Differentiating from competitors 43%
- Keeping up with new technology 40%

\(^1\) Data presented here are EU SMPs’ top four challenges ranked high/very high
Challenges for Europe’s SMPs

Keeping up with regulation and standards

- Ongoing EU-projects affecting SMPs (44 pieces of regulation in financial services since financial crisis – most of which interact with one another)

- Accounting directive

- Auditor’s regulation and directive

- Anti-Money-Laundering directive

- Data-Protection-Regulation

- Implementation of the BEPS package
Challenges for Europe’s SMPs

Attracting new clients, differentiating from competitors, keeping up with new technology

- Market concentration in the EU
- Big 4 firms expanding to smaller clients
- Regulation and standards, Janus-faced digitalization, Complexity of services required by the clients, Globalization of trade and services, Specialization vs. overall trusted client relationship, Increasing recruitment problems, …
- **and** the inherent resource constraints
What is the Answer?

Some Examples for different approaches

- Scenario Analysis by Backhaus/Kirsch/Rossinelli (2014)
Analysis with two-step solution

' Step 1

Compliance with minimum requirements

- Have a clear service portfolio
- A professional appearance
- CPD measures for all
- Attractive work conditions
Step 2

- Identification of 6 archetypical classes of practices, e.g. Advanced Sole Practitioner, Multidisciplinary Firm, etc.

- 6 detailed strategic plans for 9 fields of operation, e.g. tax advice, legal advice, audit, financial consulting, etc.

- Timeline for strategic objectives, e.g.
  - \(< 3\) yrs professionalization of tax advice
  - 4-6 yrs client specialisation
  - \(> 7\) yrs specialized service packages
Backhaus/Kirsch/Rossinelli - perspectives for SMPs

- Scientifically developed 8 consistent scenarios for
- Small, medium-sized, and large audit firms
- Scenario analysis - systematic development and description of complex future situations
- This research paper received the academic award of the World Congress of Accountants 2014 in Rome
For small audit firms 2 dominant strategies identified

- General Practice (family doctor)
- Highly specialized practice (niche)

<table>
<thead>
<tr>
<th>Small Practices</th>
<th>General</th>
<th>Specialised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong Personal Relationships and communication</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broad Spectrum of Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specialised in Highly Focused Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Competence in all Offered Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Know-how Cooperation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Network of Specialists</td>
<td></td>
<td></td>
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</table>
The study of the internationalization of SMPs showed:

- International Services from SMPs mainly tax related
- Request from client or wish to establish brand advantage
- Transfer of knowledge from SMP or other expert
- Trust and reliability are critical for the effective transfer
- Published under “2020 Vision: Learning from the Past, Building the Future” at the World Congress of Accountants
NRF Proposed Standard for Audits of Small Entities

- Debate on proportionality of audits continues
- EU legislation no longer requires audits for SMEs, thresholds were increased significantly
- NRF argues that there is a need for a new product
- Intended to be used within NRF jurisdiction
- Principles–based standard – how close to ISAs?
- Potentially powerful tool for experienced practitioners
The Whole Picture

Knowledge Transfer (c)

Knowledge Transfer (b)

Knowledge Transfer (a)

SME (Advisee)  Trust  SMP (Advisor)  Trust

Feedback on

Knowledge Transfer (a,b and c)

International Network of SMP

SMPs
Law Firms
Business Consultants
Bankers
SMEs

Jarvis/Stoian/Mircovic (2014)
“Coming together is a beginning.
Staying together is progress.
Working together is success.”

Henry Ford
SMEs & SMPs
The Engine for Growth

Thank you!
EFAA President Bodo Richardt

Bodo Richardt has been an accountant and auditor for over 30 years. He has worked in a variety of professional practices including practices of sizes ranging from the Big 4 to SMPs in his native Germany in addition to France and the United States. He has experienced and enjoyed working on international and national standard setting boards including the International Auditing and Assurance Standards Board (IAASB) and the Institute of Public Auditors in Germany (IDW). He has also served the auditing and accounting profession as Bavarian President of the Wirtschaftsprüfer- kammer and a member of its Advisory Board. He currently works as a consultant (SMP) to SMEs and family owned businesses where he specializes in expert opinions on audit and accounting related questions, business valuations, mediation and arbitration.
Audit Market Concentration

The revenue share of the Big 4 in the EU (all clients)

<table>
<thead>
<tr>
<th>Revenue Share</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 10%</td>
<td>Czech Republic, Estonia, Hungary, Poland, Slovenia</td>
</tr>
<tr>
<td>35 to 44%</td>
<td>Denmark, Luxembourg, Sweden, UK</td>
</tr>
<tr>
<td></td>
<td>All the others are in-between</td>
</tr>
</tbody>
</table>
The revenue share of the Big 4 in the EU (PIEs)

- Average share is 90%
- Only Bulgaria, Greece and France not or only moderately concentrated
- Share can get close to 100% in specific countries and sectors

Source: ESCP Europe: Study on the effects of the implementation of the acquis on statutory audits of annual and consolidated accounts including the consequences on the audit market.