



EUROPEAN FEDERATION OF ACCOUNTANTS AND AUDITORS FOR SMES

# WHAT CAN THE EUROPEAN PROFESSION LEARN FROM THE 2016 IFAC GLOBAL SMP SURVEY?

HOW DO THE IFAC GLOBAL 2016 SMP SURVEY RESULTS FOR EUROPE COMPARE TO THE GLOBAL VIEW?

AND WHAT CAN PROFESSIONAL ACCOUNTANCY ORGANIZATION LEARN?

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The [2016 IFAC Global SMP Survey](#) asked practitioners from small- and medium-sized practices (SMPs) across the globe about: their challenges, with a close look at the impact of technology, personnel, and staffing issues; how various environmental factors may affect them over the next five years; their 2016 revenues and projected 2017 revenues; key performance indicators, namely collection and employee utilization ratios; and the consulting services they provide. It additionally reports on practitioners' views on the impact of challenges faced by their small- and medium-sized entity (SME) clients.

Some 5,060 respondents representing 164 countries completed the survey. This article provides a summary of the Europe results, selected comparisons with the global picture and potential implications of the

findings for European professional accountancy organizations (PAOs).

## Respondents

The largest groups of respondents to the survey were from Europe (38%), giving a large representative sample. Consequently, of the 164 participating countries, European countries featured prominently in the list ranking countries by respondents: Romania is 3<sup>rd</sup> with 365, Turkey 4<sup>th</sup> with 259, Poland 6<sup>th</sup> with 191, France 7<sup>th</sup> with 168, Italy 9<sup>th</sup> with 142, Finland 10<sup>th</sup> with 134. Germany, the UK, and Spain were also in the top 25 countries.

The high response rate from Europe was partly due to [European Federation of Accountants and Auditors for SMEs \(EFAA\)](#) and our member organizations –

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including the [Association of Chartered Certified Accountants \(ACCA\)](#), [Chamber of Auditors of Azerbaijan Republic \(CAAR\)](#), [Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili \(CNDCEC\)](#), [Institut des Experts-comptables et des Conseils Fiscaux – Instituut van de Accountants en de Belastingconsulenten \(IEC-IAB\)](#), [Royal Nederlandse Beroepsorganisatie van Accountants \(NBA\)](#), [Ordem dos Contabilistas Certificados \(OCC\)](#), and [Wirtschaftsprüferkammer \(WPK\)](#) – encouraging SMP members to participate.

A majority (73%) of European respondents were either sole practitioners (37%) or practitioners from practices with two to five partners and staff (36%); most of these were a partner, sole proprietor, or owner; and 65% were male.

### Challenges Facing SMPs

The top four challenges faced by European respondents were keeping up with new regulations & standards (47% as a high/very high challenge), attracting new clients (47%), experiencing pressure to lower fees (41%), followed by differentiating from competition (37%). These results echo the global top four of attracting new clients (46%), keeping up with new regulations & standards (41%), experiencing pressure to lower fees (41%), and differentiating from competition (39%). Keeping up with new regulations & standards was a relatively greater challenge for European SMPs than SMPs globally.

### IMPACT OF 11 CHALLENGES ON SMPs\*

	Europe	Global
Attracting New Clients	47%	46%
Keeping Up With New Regulations and Standards	47%	41%
Experiencing Pressure To Lower Fees	41%	41%
Differentiating From Competition	37%	39%
Rising Costs	33%	39%
Technology Developments	36%	35%
Serving Clients Operating Internationally	27%	34%
Personnel and Staffing Issues	30%	33%
Managing Cash Flow and Late Payments	31%	32%
Retaining Existing Clients	27%	23%
Succession Planning	16%	23%

\*Combining high and very high

The survey addressed in more detail the impact of technology and personnel and staffing issues on SMPs. Regarding technology issues, the survey revealed variation between Europe and global results. European SMPs said investing in and staying current with software (45% as a high/very high challenge) and determining what technology is best for the practice (40%) were the technological issues having the most impact, as compared with investing in and staying current with software (38%) and achieving a digital, paperless environment (37%) for all respondents.

In relation to personnel and staffing issues, European SMPs considered finding and retaining qualified staff at all levels to have the greatest impact, with 47% and 40%, respectively, viewing the impact as high/very high, almost identical to that of all respondents (45% and 41%). **This suggests PAOs may need to consider whether they are doing enough to assist SMPs to attract and retain talent.**

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### Environmental Factors Impacting SMPs

Respondents rated eight environmental factors to assess the extent to which they believe each may impact their SMP over the next five years. Consistent with 2015 and the global picture, the regulatory environment (62% as high/very high impact; 58% in 2015; 56% for all respondents) and technological developments (55%; 39% in 2015; 52% for all respondents) were viewed as having the highest potential impact on European respondents.

#### FACTORS IMPACTING SMPs OVER NEXT FIVE YEARS – COMPARISON OF 2016 AND 2015\*

	Europe	Global	Europe	Global
	2016	2016	2015	2015
Regulatory Environment	62%	56%	58%	52%
Technology Developments	55%	52%	39%	43%
Competition	47%	48%	47%	46%
Capability to Adapt to New Client Needs	51%	45%	40%	36%
Perceived Trust & Credibility of the Profession	49%	43%	40%	35%
Political Instability	41%	40%	37%	37%
Globalization	30%	38%	25%	33%
Mergers, Acquisitions, and Consolidation in the Accounting Industry	32%	33%	26%	29%

\*Combining high and very high

Technological developments (55%; 39% in 2015), capability to adapt to new client needs (51%; 40% in 2015;) and perceived trust and credibility of the accountancy profession (49%; 40% in 2015) were considered to potentially have a high/very high impact on European SMPs during the next five years—a substantial increase since 2015. **PAOs need to ask themselves whether they are doing enough, or have plans in place, to help their SMPs prepare for changes**

in technology and client needs, as well as to promote trust and credibility in the profession.

### SMP Performance In 2016

Changes in total practice fee revenues between 2015 and 2016 varied significantly by region. A slight minority of European SMPs (48%) reported an overall increase in practice fee revenues during 2016, compared with a slight majority (52%) for all respondents. Europe was generally exhibiting slower growth than other regions: by contrast a significant majority of respondents from North America (64%), Africa (58%) and Australasia and Oceania (57%) reported an increase in revenues. **PAOs might need to think how they can help SMPs build their revenue base, possibly by building their advisory services in their region.** After all, advisory services appear to have propelled the prosperity of North American SMPs since the Global Financial Crisis.

For all four service areas (audit and assurance; advisory and consulting; tax, including compliance and planning; and accounting, compilation, and other non-assurance/related services), fee revenues increased for 30-35% of all respondents' practices. For European SMPs the picture was less positive: between 23-32% of respondents reported an increase with audit & assurance and tax showing the slowest growth. European SMPs, in concert with SMPs from other regions, are seeing most growth in advisory & consulting services and accounting, compilation, and other non-assurance/related services.

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### INCREASE IN FEE REVENUE FROM 2015 TO 2016 BY PRACTICE AREA\*

	Global	Europe	Global	Europe
	2016	2016	2015	2015
Accounting, Compilation, and Other Non-assurance/Related Services	35%	32%	30%	27%
Tax (e.g. Compliance and Planning)	33%	24%	29%	23%
Advisory and Consulting	35%	32%	32%	26%
Audit and Assurance	30%	23%	27%	18%

\*Combining moderate and substantial increase

For the first time, the annual survey included questions on key performance metrics. A question on utilization revealed that nearly half (49%) of all SMP respondents had a utilization percentage (chargeable hours divided by total hours) of 61-90%, while 9% had a utilization percentage exceeding 90%. Utilization at less than half of capacity was just 8% for European SMPs, less than the global average of 12%. This suggests European SMPs are operating with limited spare capacity. Another question revealed that 26% of all respondents' SMPs experienced an average receivables collection period of 0 to 30 days. European SMPs reported a higher figure of 33% indicating a more timely collection of receivables than the global norm, an apparently good result given that European economies are growing so slowly.

#### SMP Outlook for 2017

Respondents from Europe were, in general, less optimistic regarding increases for all four service lines. Barely 25% of European SMPs (38% for all respondents) anticipated revenue increases for audit and assurance services and 31% for tax (42% for all

respondents). A lower proportion of European SMPs expected revenue growth for accounting, compilation, and other non-assurance/related services (37%, 44% for all respondents) and advisory and consulting services (38%, 45% for all respondents). **PAOs need to consider whether they are doing enough to help SMPs realize the growth in these service lines and might learn from those jurisdictions, like the US and Australia, where SMPs have already witnessed significant growth in these areas.**

### FORECASTED FEE INCREASES BY PRACTICE AREA\*

Service	Europe	Global
Accounting, Compilation, and Other Non-assurance Related Services	37%	44%
Tax	31%	42%
Advisory and Consulting Services	38%	45%
Audit and Assurance	25%	38%

\*Combining moderate and substantial increase

#### Business Advisory and Consulting Services

The most frequently provided business advisory and consulting services by European SMPs in 2016 were in line with that for all respondents. The two most commonly provided were corporate advisory (52%, 48% for all respondents) and management accounting (41%, 46% for all respondents). The next most frequently provided services included human resources and employment services (40%, 30% for all respondents) and business development (27%, 29% for all respondents).

#### Challenges Facing SME Clients

SMEs continued to face many challenges, with a

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majority of European respondents' viewing economic uncertainty (66%, 65% in 2015 and 61% for all respondents), rising costs (59%, 57% in 2015 and 59% for all respondents), competition (57%, 58% in 2015 and 53% for all respondents), and difficulties accessing finance (52%, 55% in 2015 and 51% for all respondents) as a high/very high challenge for their SME clients.

One can see that, except for economic uncertainty, a lower percentage of European respondents assigned a rating of high/very high to all of the top challenges. Economic uncertainty continues to cast a shadow and likely will continue to do so long as broader social, political, and security concerns prevail. While policymakers are still vexed about access to finance, the survey indicates that this challenge is comparable with the global position and has eased over the past year. Rising costs are arguably the one challenge

where accountants stand to have a direct role in helping SMEs mitigate and manage. In general, the top challenges facing European SMEs are very similar to the top challenges facing all respondents. Significantly, less than half of European respondents viewed keeping up with new technology, compliance with regulation, and attracting and retaining staff as a high/very high challenge for their SME clients.

Overall European SMPs and their SME clients have found 2016 better than 2015 and, moreover, expect 2017 to be better still. The business environment continues to be challenging but SMP fee revenue is growing. **PAOs in Europe will find the survey data useful for helping them to determine how best they can help their SMPs realize their potential for growth.**

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### ABOUT EFAA

The European Federation of Accountants and Auditors for SMEs (“EFAA”) represents accountants and auditors providing professional services primarily to small and medium-sized entities (“SMEs”) both within the European Union and Europe as a whole. Constituents are mainly small practitioners (“SMPs”), including a significant number of sole practitioners. EFAA’s members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs.

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