

What can the Asian Profession learn from the 2016 IFAC Global SMP Survey (Conclusion)

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This article on the 2016 International Federation of Accountants (IFAC) Global SMP Survey with an Asian perspective continues with a discussion on the small- and medium-sized practices (SMP) 2016 revenues and projected 2017 revenues; key performance indicators, namely collection and employee utilization ratios; and the consulting services they provide.

A slight majority of Asian SMPs (52%) reported an overall increase in practice fee revenues during 2016, identical to the global picture. Changes in total practice fee revenues between 2015 and 2016 varied significantly by region: while a greater proportion of respondents from North America (64%) and Africa (58%) reported an increase in revenues compared with Asian respondents, growth in Europe (48%) and the Middle East (44%) was lagging that of Asia.

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 Asian SMPs the picture was slightly more positive: between 31-37% of respondents reported an increase. Interestingly, Asia was out of line with the global picture: accounting, compilation, and other non-assurance/related services experienced the slowest growth for Asian SMPs compared with the highest for SMPs globally while audit and assurance was showing the strongest growth for Asian SMPs compared with the weakest growth for SMPs globally. However Asian SMPs, in concert with SMPs from other regions, are witnessing robust growth in advisory and consulting services. Professional Accounting Organizations might need to think how they can help SMPs build their revenue base, possibly by building their advisory services in the region. After all, advisory services appear to have recently propelled the prosperity of North American SMPs.

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 17% for Asian SMPs, much more than the global average of 12%. This suggests Asian SMPs are operating with significant spare capacity: this means they have the capacity to grow or else have scope to boost efficiencies. Another question revealed that 26% of all respondents' SMPs experienced an average receivables collection period of 0 to 30 days. Asian SMPs reported a lower figure of 18% indicating a less timely collection of receivables than the global norm.

Respondents from Asia were, in general, more optimistic regarding increases for all four service lines with advisory and consulting services alongside audit and assurance expected to show the highest growth rates. A higher proportion of Asian SMPs than SMPs globally anticipated revenue increases for all four service lines with Asia ahead most significantly for audit and assurance services (47%, 38% for all respondents) and advisory and consulting services (47%, 45% for all respondents). PAOs need to consider whether they are doing enough to help SMPs realize the growth potential in these service lines, especially advisory and consulting which is considered by many to offer the greatest growth potential. The most frequently provided business advisory and consulting services by Asian SMPs in 2016 were in line with that for all respondents. The two most commonly provided were corporate advisory (50%, 48% for all respondents) and management accounting (44%, 46% for all respondents). Fewer respondents from Asia (13%) reported that their SMP offers human resource policies and procedures/employment regulation services suggesting that there might be untapped potential for growth in this area.

Small medium enterprises (SME) continued to face many challenges, with a majority of all respondents' viewing economic uncertainty (61%), rising costs (59%), competition (53%) and difficulties accessing finance (51%) as a high/very high challenge for their SME clients. By comparison in Asia only rising costs (54%) was considered a high/very high challenge by a majority of respondents. Rising costs are arguably the one challenge where accountants stand to have a direct role in helping SMEs mitigate and manage. Though it is still a significant concern, economic uncertainty (49%) was much less a challenge for Asian SMEs than SMEs globally. While across all challenges a lower percentage of Asian respondents than all respondents assigned a rating of high/very high, the top challenges facing Asian SMEs are very similar to the top challenges facing all respondents.

Overall Asian 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 Asia 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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