

## How Much Roadmap into the (Digital) Future is there in Europe for SMPs?



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*In this special write-up for The Chartered Accountant journal, he presents an overview of the challenges to SMPs, examines some significant technological trends relevant for SMEs and SMPs and concludes with how SMPs and their professional organisations might best respond to those challenges. Read on to know more...*



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It is a privilege and honour for me as president of EFAA to be invited to contribute to the **70<sup>th</sup> Anniversary Issue** of the Magazine of the Institute of Chartered Accountants in India ICAI. On behalf of EFAA, the European Federation of Accountants and Auditors for SMEs, I bring the best wishes and commend ICAI and Indian accountancy profession

for the impressive and successful development of the last 70 years.

## The Relevance of SMEs and SMPs in and for Europe

Small-and medium sized enterprises (SMEs) are the backbone of the European and almost every other economy in the world. 99.8% of all entities in Europe are SMEs and they employ two thirds of the European workforce. Small-and medium sized practices (SMPs) play a vital role as their trusted advisors. In the wake of digitisation there is an intensive discussion about the future of SMEs and SMPs. Many professional accountancy bodies and organisations like EFAA are supporting SMPs on their way into the future by thinking ahead. But just how predictable is the future for the profession and how much roadmap is there?

## Are Challenges for European SMPs different from those for All SMPs?

A very reliable source of evidence is the annual IFAC Global SMP survey. In this survey, practitioners from SMPs across the globe are asked about the impact of technology, personnel and staffing issues, environmental factors with impact over the following five years, their current and projected revenues, key performance indicators and the consulting services they provide. An interesting insight is provided by the SMP-practitioners commenting on the challenges facing their SME-clients. Typically, the answers come from more than 5000 professionals in more than 150 countries. The collated results, therefore, are robust. In the following paragraphs, the responses from European SMPs are compared with the totality of all responses from around the globe including Europe.

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According to the IFAC Global SMP survey, the European SMPs seem less optimistic about their fee increase in the next 12 months than SMPs globally. A moderate or substantial increase is expected from 28% to 43% of the European SMPs for Accounting/other non-assurance services, Tax and Advisory whereas the corresponding expectations of SMPs globally range from 36% to 51%.

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28% to 43% of the European SMPs for Accounting/ other non-assurance services, Tax and Advisory whereas the corresponding expectations of SMPs globally range from 36% to 51%. Quite dramatic is the low expectation of only 20% of European SMPs for a moderate or substantial increase for Audit and Assurance compared with 36% of SMPs globally. This might be the reflex of ever increasing thresholds for statutory audits in Europe, the latest case just being announced in France.

The top challenges facing European SMPs are keeping up with new regulations and standards (61% consider this a high or very high challenge) and attracting new clients and retaining existing clients (54%). Only around 45% of SMPs globally consider these two challenges as high or very high. They are more concerned with pressure to lower fees (47%) and succession planning (24%) where their European counterparts seem more relaxed (39% and 18% respectively).

The war for talent or attracting the right candidates is a challenge for around 50% of the European SMPs and their colleagues worldwide but for different reasons. The lack of candidates with the right mix of skills are seen as a high or very high challenge by 74% of European SMPs but only by 66% of all SMPs. Work-life balance and flexibility also seem more a European concern (50% vs. 41%) as well as increased opportunities in other fields (51% vs. 44%). SMPs globally are facing more competition from larger practices (57% vs. 51%) but all these numbers show that SMPs are seriously concerned about all these challenges. It is, however, surprising to see that SMPs in general are much less concerned about technology impacting jobs and opportunities (25% and 27%). That seems like the real surprise and the question is if SMPs are well equipped for the future or underestimate the possible impact.

## How much Digital Roadmap is there for SMPs?

The advent of new technologies is nothing surprising for accountants. "Accounting" itself

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was a new technique thousands of years ago and combined writing, counting and the concept of money or valuation. In the 11<sup>th</sup> century AD, the innovative “double-entry bookkeeping” technology introduced the use of accounting equations as error detection tools, later codified in detail by Luca Pacioli in his famous work of 1458. At the end of the 15<sup>th</sup> century<sup>1</sup> it was widely used by bankers and merchants of Florence, Genoa, Venice and Lübeck. The introduction of machines, first mechanical and later electronic, was lately followed by the introduction of so called digital technologies. One of the most challenging questions is which and how these new technologies will affect SMPs. In various articles<sup>2</sup>, the potential impact of automation on SMPs was examined. Selected relevant trends will be highlighted in the following and their potential impact considered.

## Intelligent automation and the Impact of Artificial Intelligence

One of the most important trends in the development of digital technologies in the professions is Intelligent Automation as a combination of artificial intelligence (AI) and automation. Automation is not new to the profession and we have seen the significant influence of technology in accounting, financial reporting and auditing but also tax advice. Through AI Intelligent Automation effectively can become the new essential co-worker to help less experienced staff to higher levels of output and at the same time to better quality and fewer errors. Examples are the identification and correct application of financial reporting requirements, the

strategy of an audit and the resulting audit program, business sector expertise, compliance with rules and regulations even if they involve professional judgement or scepticism, or complex tax issues. SMPs could leverage their existing human resources both in quantity and quality and in a way can replace otherwise necessary specialists. But will SMPs be able to finance the serious investments, maintain the systems and find skilled persons to train their staff? Will SMPs even be informed enough to make the right choices in selecting the best tools and apply them most effectively?

## Extended Reality or the End of Distance

Extended Reality (XR) is a technique which immerses the user mainly through visuals and audio and thus blurs the line between the real and the simulated world. Its two major types are Virtual Reality (VR) and Augmented Reality (AR). Although XR seems to be coming from the entertainment industry, it basically removes the hurdle of distance and increases the access to people, to information and to experiences. It therefore marks another disruptive step in the technology evolution to the end of distance, like before the wheel, carrier pigeons, snail mail, telegraph, automobiles, telephone, mobile phones and the internet<sup>3</sup>. It will be extremely relevant for many businesses including SMPs having scarce resources. It erases the distance to people since the employee can “be” anywhere. Employees can sit in their office while meeting with the customer, being trained by an expert or with expensive systems or equipment anywhere on the globe. This technology also supports an on-demand workforce approach, which not only saves recruitment costs, but also helps businesses to apply the right talent at the right location. Companies can hire the best candidates, regardless of where they live. XR is also helping to eliminate the distance between the employee and the information they need for the job while achieving higher accuracy rates. And XR can help visualise data by producing 3D images of buildings, objects or complex data sets, but also patients in a critical medical treatment. XR is not only delivering the needed information but changes how people see, communicate and extract value from data. Perhaps the greatest potential for XR-based disruption, and the easiest to imagine, is through delivering experiences as a service, like



<sup>1</sup> Wikipedia Double-entry Bookkeeping System

<sup>2</sup> for example, “Digital Technologies’ Implications for SMPs”, 14 July 2017, <http://www.efaa.com/>

<sup>3</sup> Accenture Technology Vision 2018, Figure 4

SMPs may have a relative advantage by dealing with limited data quantities. At the same time, they may **struggle to find the necessary expertise to design an adequate solution. And having an adequate access to sufficient uncompromised data might prove to be the biggest challenge in the first place. Potential** elements of a roadmap into the future might be addressing which data can be collected and how or forming partnerships with other businesses.

secure and maintain data (integrity). SMPs may have a relative advantage by dealing with limited data quantities. At the same time, they may struggle to find the necessary expertise to design an adequate solution. And having an adequate access to sufficient uncompromised data might prove to be the biggest challenge in the first place. Potential elements of a roadmap into the future might be addressing which data can be collected and how or forming partnerships with other businesses.

### Frictionless Business or Built to Partner at Scale

Gaining an advantage over the competition means forging strong and plentiful partnerships, built and maintained through technology. 36% of businesses report working with double or more partners than they were two years ago<sup>5</sup>. Two technologies will play key roles: microservices and blockchain. A microservices approach breaks down applications to their simplest component function, to a single service. Applications become more modular, enabling rapid integration with many new partners. For example, every Google search calls more than 70 microservices to generate results. Blockchain will play a key role creating, scaling, and managing those relationships through its ability to hold partners accountable without the need to first build trust. If microservices are the key to scaling and integrating partnerships, blockchain will be critical to managing and operating them. In an early blockchain pilot a large retailing company reduced the time to trace fruit to their source of origin from six days to 2.2 seconds<sup>6</sup>. 60% of the executives in a survey reported that blockchain and smart contracts will be critical to their organisations over the next three years. SMPs may benefit from reducing the complexity of tasks and from the substantial increase in the number of partnerships for smaller technology-based tasks.

### Raising AI to Benefit Business and Society

AI is not merely a technical tool but has already grown to the point where it often has as much influence as the people putting it to use. AI systems assist insurance companies in making pay-out decisions, are the public face of the business by handling everything from initial interactions via chat, voice, and email, through to filling vital customer service roles, or even have a position on the leadership team



travel, recreation but also education. XR creates new solutions to overcome distance-based challenges and SMPs might especially benefit by being able to dramatically expand their reach without having to physically move to distant places.

### Data Veracity or the Importance of Trust

Data is the lifeblood for digital companies, but inaccurate and manipulated information threatens to compromise the insights that companies rely on to plan, operate, and grow. Without verifying the veracity, or accuracy, of the data, businesses are severely vulnerable, a threat that is critically overlooked. A recent study estimated that 97% of business decisions are made using data that the company's own managers consider of unacceptable quality<sup>4</sup>. Even the most advanced system is only as good as the data it is fed with. The old saying "garbage in, garbage out" holds truer than ever. Every business must therefore build a "data intelligence" practice and verify the history of data from its origin throughout its life cycle (provenance), consider the circumstances around data's use (context) and

<sup>4</sup> Nagle, T., Redman, T.C., & Sammon, D. in Harvard Business Review, 2017 September 11

<sup>5</sup> Accenture Technology Vision 2018, p. 50

<sup>6</sup> Forbes, 22 August 2017, <https://www.forbes.com>

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to help the team become more data driven. As if this does not sound futuristic enough, IDC forecasted that global corporate spending on cognitive/AI systems will increase at a 54 % compound annual growth rate between 2015 and 2020<sup>7</sup>. In the past, the performance of AI was driven by rules-based analytics programs, statistical regressions, and early so called expert systems. Today deep neural networks give the ability to do the unexpected. This “simply” is the change from systems that are programmed to systems that learn.

As AI-based decisions have increasing impact on human lives, businesses now need to consider to “raise” their AI systems so that they reflect business and societal norms of responsibility, fairness and transparency. Raising AI requires addressing many of the same challenges faced in human education: fostering an understanding of right and wrong and what it means to behave responsibly. Only carefully raised AIs will be able to scale operations, but also adapt to new needs—similar to how continuing education enables employees to adapt to new tasks. Recent research from Accenture suggests that with AI growing in its reach throughout society, any business looking to capitalise on AI’s potential must also acknowledge its impact<sup>8</sup>. Even if this does not sound like a SMP topic, it certainly has reached the SMP reality and will trickle down even more from larger businesses described above.

## The (changing) role for SMP Accountancy Bodies and Organisations

Not only investments but even just obtaining all relevant information about technological developments might be too challenging for the individual SMP, as described above. Access to sufficient uncompromised data, either by collecting or purchasing, is another serious challenge for the

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individual SMPs or SMEs. It, therefore, seems that groups or networks of SMPs might play an important and growing role in supporting the individual SMP. National professional organisations like the ICAI in India, regional organisations like EFAA or SAFA and IFAC as global professional organisation should play an important role in informing their members and in coordinating initiatives. Even more, it might be necessary that the professional bodies and organisations need to become more engaged in the interest of SMPs to provide a level playing field in comparison with larger entities. Cooperative initiatives or funds for SMPs might be another approach and should be considered starting now.

## Conclusion

The rapid development of new technologies demand from SMPs a totally new level of information, equipment and collaboration with other businesses than ever before. This will require that SMPs follow developments intensively, including those which seem at first to only matter for large businesses. Another area, not analysed in this article but with undoubtedly large influence, is human resources and attracting and training the right persons able and willing to keep up with a rapidly changing environment. The described technology trends offer tremendous opportunities for SMPs in extending their reach and mitigating their local and quantitative resource limitations. Many of the newly developing challenges for SMPs, however, can perhaps only be addressed successfully by addressing them collectively with the active involvement of accountancy bodies and organisations. ■

<sup>7</sup> IDC, 3 April 2017, <https://www.idc.com>

<sup>8</sup> Accenture Technology Vision 2018