



**ACCOUNTANCY
EUROPE.**

SMES' DIGITAL FUTURE

What role for accountants?

Briefing paper

VIEWS.

**SMES
JUNE 2021**

HIGHLIGHTS

Many small and medium sized enterprises (SMEs) in Europe are technology innovators or have taken major steps towards digitalisation.

But many less digitalised SMEs still struggle with digitalisation. Their attention may instead be focused on immediate business survival or day-to-daywork, particularly following the COVID-19 pandemic.

This paper sets out how professional accountants help SMEs with digitalisation. It explains:

- why digitalisation is essential for SMEs
- how professional accountants can help SMEs to digitalise
- how EU and national policymakers can support the digitalisation of SMEs

The paper is intended to help policymakers and others understand how accountants can help SMEs to digitalise.

INTRODUCTION

The COVID-19 pandemic showed how important it is for SMEs to digitalise. Digitalised businesses are better placed to face the economic and social challenges of working through a crisis.

Digitalisation helps businesses become more efficient and more diverse, access new markets and clients. This makes it easier for SMEs to compete, including with large companies. Digitalisation boosts innovation, promoting services likely to help companies grow and prosper. This can also make it easier for companies to face daily business challenges.

SMEs' role in a digital economy should be recognised by policymakers and by businesses themselves. This paper explains how professional accountants¹ can help SMEs to become digital.

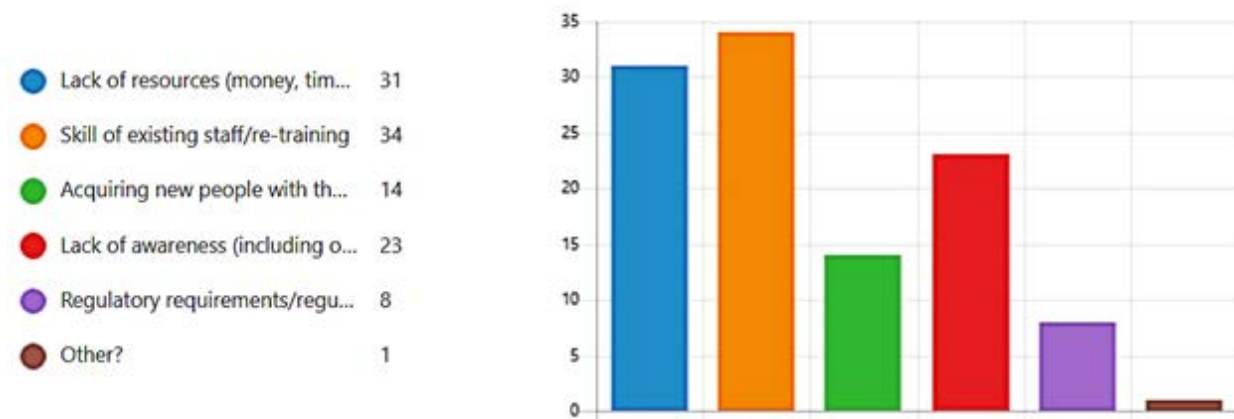
DIGITALISATION CHALLENGES FOR SMES

Many SMEs in Europe are already leaders in information and communication technologies (ICT). They may operate in a highly digitalised industry or have taken steps towards digitalising their business operations.

The [European Digital SME Alliance](#), for example, represents 20,000 digital SMEs in Europe. But with some [23 million to 25 million](#) SMEs thought to be operating in Europe, many more are missing digitalisation opportunities. The SME landscape in Europe is very [diverse](#). It includes companies that are themselves developing new technologies, and companies that have to follow and adapt. Leading, developer companies need a flexible environment to contribute to the digital transformation. The followers are SMEs that use traditional business systems and might struggle to see the immediate relevance of the digital transformation.

A successful European digital transformation will need SMEs. An important question today is how can traditional followers keep up with digitalisation? Many obstacles remain, as was shown in a [recent survey](#) by Accountancy Europe (figure 1).

Figure 1: obstacles to SME digitalisation



The main obstacles to digitalisation were shown to be a lack of resources, both financial and time, and the skills of existing staff. A lack of awareness of digitalisation and its associated business opportunities was also a challenge.

¹ Throughout the paper, 'accountants' and 'professional accountants' will be used interchangeably. In either case, the meaning is 'professional accountants', i.e. ones that have passed relevant professional qualifications and are members of a recognised professional body.

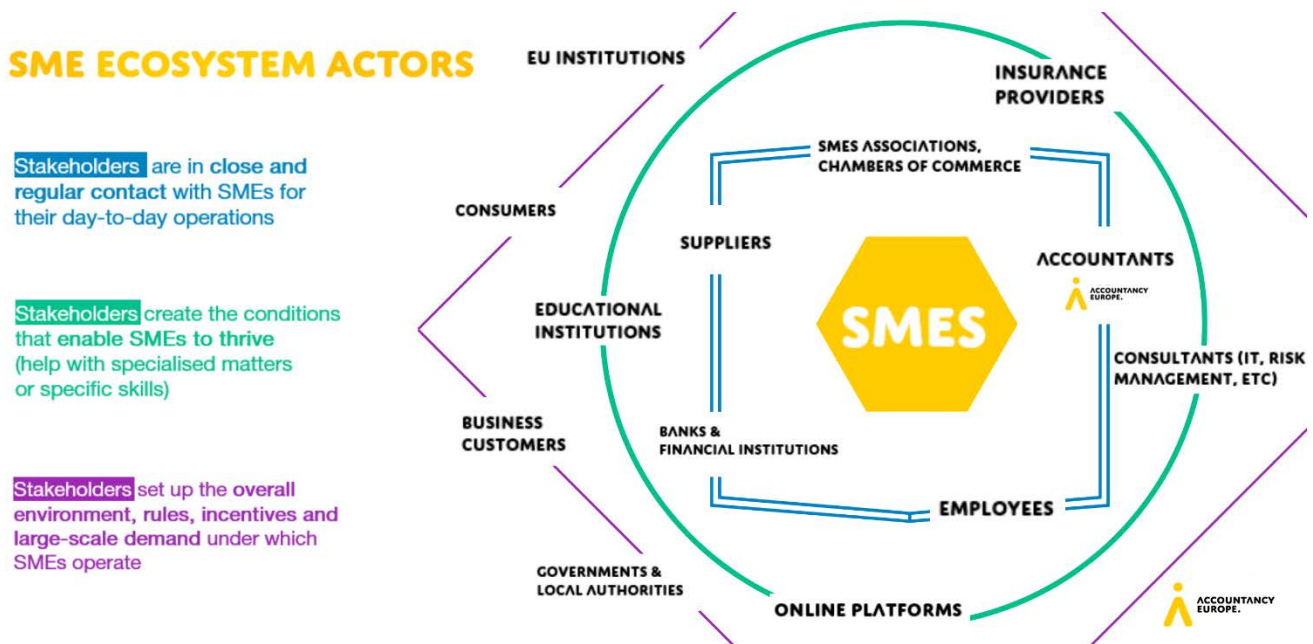
SME ECOSYSTEM

SME entrepreneurs are experts at running their own businesses. Many SMEs of different sizes are already well on their way to digitalisation. This includes some SMEs whose business models are not based around ICT, but that have already independently taken major steps to digitalise their businesses.

But many other SME owner-managers are too busy with day-to-day business survival and have no time to consider long-term digital strategy. The COVID-19 pandemic has further sharpened this focus on keeping small businesses running.

Now more than ever, it can seem difficult for SME owner-managers to plan and implement changes that have no obvious immediate benefit. It is then up to experts in the wider SME ecosystem (see figure 2) to advise, guide and support SMEs on their path towards a digital future.

Figure 2: SME ecosystem



SMES CAN COUNT ON THEIR ACCOUNTANTS

Within this ecosystem, accountants, most of whom are themselves small business practitioners, are particularly well-placed to help. They can promote businesses' digital transformation among their SME clients, advising on first steps. This is particularly relevant for those 'followers' who have not yet taken or struggle with taking major digitalisation steps.

Accountants can help with digitalisation because:

- professional accountants are [trusted advisors](#) to SMEs
- most SMEs in Europe already rely on accountants for services such as business planning, financial and cashflow management, tax and compliance, bookkeeping, and financial advice
- SME owner-managers meet with their accountants regularly
- SMEs rely on accountants to advise, and to challenge assumptions about running their business

As any individual accountant or accountancy firm may have hundreds of SME clients, they also have extensive experience of what works for businesses. Accountants thus understand the underlying fundamentals of the businesses they serve.

When it comes to digitalisation, accountants are well-placed to help SMEs by:

- using their understanding of the business to identify, assess and advise on risks and opportunities
- employing their legal, compliance, internal control, and data knowledge to propose cost-effective and tailored steps to digitalisation
- flagging potential risks and benefits, even when the accountant's core expertise does not enable them to help an SME with specific digitalisation strategy
- referring an SME owner-manager to specialist experts in the broader SME ecosystem, where appropriate

HOW CAN ACCOUNTANTS FOSTER SMES' DIGITALISATION?

Accountants can support SMEs' digitalisation in two major areas:

- digitalisation of accounting systems and data
- business model digitalisation and transformation

EXAMPLE

Cyril Degrilart (CNCC and CSOEC, France) and his small accounting practice's main objective is to provide the same quality of service for SMEs as the one larger companies get. His team helps smaller businesses build efficient digitalisation strategies through data analysis and visualisation. SMEs need smart and simple comprehensible key performance indicators (KPIs) to set up a business strategy. This accounting practice analyses SMEs' data then communicate KPIs with graphs and visuals. This allows SMEs to better understand their performance, access relevant and up-to-date information about their business and ultimately improves decision-making. [Read more.](#)

Most accountants are not and should not strive to be IT experts. It is however important for accountants to know which digital solutions, such as analytic or data cleaning tools, can help their clients' digital and business transformation. The actual implementation of solutions can then be carried out by IT experts.

Accountants, in particular small and medium sized practices (SMPs), can gain this insight by first digitalising their own accounting practices. This is often the best way to understand how to help their SME clients digitalise.

ACCOUNTING SYSTEMS AND DATA DIGITALISATION

Running any business or organisation depends on the availability of information needed for day-to-day operations. E-accounting systems and data digitalisation can make it easier to collect, make available and analyse this information in new ways.

Many accounting firms already use e-accounting systems and data digitalisation. For SMEs, this can lead to better business planning, more effective reactions to changing circumstances, and improved predictions about their own business outlook.

Accountants' efforts to help SMEs digitalise their business operations and processes can be seen as three steps:

- data collection
- data processing
- data analysis

DATA COLLECTION

The first step towards digitalisation for an SME is making sure that reliable business data is available. Digitalising bookkeeping and accounting gives SMEs more detailed and increasingly real-time data about their business performance.

Accountants can help SMEs to:

- *plan and improve cost effective data digitalisation.* Accountants can assess the business value of digitalisation measures. They can also ensure that new systems are smoothly integrated into the business
- *digitalise accounting processes* to deal with new requirements such as real-time reporting, digital tax compliance, e-commerce and e-invoicing, or online sales transactions and payment platforms
- *design internal processes* and develop SMEs' digital skills in areas such as cybersecurity, internal controls, and financial statement systems
- *support with legal aspects* such as the EU's [General Data Protection Regulation \(GDPR\)](#). This is necessary for instance for moving data to the cloud or for establishing Customer Relationship Management systems

DATA PROCESSING

The next step towards digitalised data collection is smooth and automated data processing. This means that data collected from digitalised bookkeeping, customer transactions and payments across different platforms is automatically integrated and clearly displayed in a central data system.

Accountants can also help SMEs to:

- *centralise and integrate all SME data sources into merged data sets.* This data includes online and physical transactions, payment information from banks and online payment platforms such as PayPal, and e-wallet payments .
- *set up key performance indicators (KPIs) and dashboards* to assess data visualisation, perhaps using software like [Microsoft Power BI](#). This enables better monitoring of cash forecasts, sales, revenues, expenses, and business solvency. KPIs should be based on data from the previous 3 to 5 years, when possible.
- *encouraging a shift from cash accounting to accrual accounting, if relevant for the particular business.* Accrual accounting helps businesses to manage balance sheets more effectively. This transition is simplified by automated record keeping and data centralisation.

DATA ANALYSIS

Digitalisation, in the form of automating data collection and processing, means that much of the traditional book-keeping and reporting services offered by accountants will eventually disappear. This does not mean SMEs will no longer need accountants. Digitalisation and automation will free up time for the accountant to provide services related to data analysis and business insight.

Moving forward, SME owner-managers may also need help interpreting and analysing data for business planning. This could include more accurate forecasting, or timely interpretation of early warning signs (see our publication [SME risk management: insolvency risks](#)). This business planning may also include support setting up added internal controls, or measures to mitigate identified potential future risks.

The SME should by this stage be comfortable with digitalisation, thanks to the digitalisation of accounting systems and data. This makes it possible to move onto digitalising other aspects of the business.

BUSINESS MODEL DIGITALISATION AND TRANSFORMATION

The “data-related” digitalisation outlined above should help SMEs switch to an e-business model. This can mitigate solvency risks through better forecasting, as well as using automated and centralised record-keeping and KPIs to develop better business planning. Data-related digitalisation can also make the business fit for e-commerce compliance in areas such as VAT.

Accountants can play a key role in this transition to e-business. They can explain the benefits of moving online, helping the owner-manager develop an e-business strategy. This could include a focus on:

- organisational education
 - support internal business re-organisation and simplifying processes
 - promote standardisation and inter-operability between systems and procedures
- HR
 - set in place continuous training² for SME managers' and staff
 - help HR services adapt to a digital business model
- digitalisation of core business processes
 - digitalise tax compliance systems, for instance to help the business align with EU VAT rules for e-commerce
 - introduce online expense and production costs monitoring
 - set up online sales, e-billing, marketing and customer support
- business model transformation
 - adopt a quality-focused online customer relationship management system, as part of an overarching business plan
 - encourage businesses to use online warehousing with support from third-party logistics providers when needed
 - give new meaning to the use of physical space of the business e.g.: office space, which is no longer necessarily the usual place of interaction for digitalised businesses

RECOMMENDATIONS FOR POLICYMAKERS

Policymakers, at both EU and national levels, are already making great efforts to foster the SMEs' digitalisation. We believe that the following priorities could be particularly helpful:

- **education and training systems** for a digital economy. These programmes need to be updated to include basic and advanced digital, personal and business-finance skills. Schools need to encourage adaptability and life-long learning
- **financial instruments** to cover risks linked to the digitalisation of SMEs, at local, national, and European levels. Many SMEs struggle to find traditional funding to cover intangible investments such as software and innovation
- **centralised digital expertise portals** to provide SME entrepreneurs with free information and support on all aspects of digitalisation, especially cyber risks. The portals should also help SMEs to share best practices with digitalisation experts and other SME entrepreneurs
- **bring together European experts from different SME backgrounds into innovation hubs.** to facilitate discussions on the challenges of digitalisation for SMEs, as well as to exchange best practices and recommendations from different countries
- **digitalise tax administration and company account registers** to simplify reporting and tax compliance, through real time reporting and automated tax returns
- **set up a website for registration with local, national and EU regulatory authorities** to make it possible for SMEs to sign up for regulatory obligations at a one stop shop

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² e-learning is more effective and accessible and less expensive, thanks to training platforms such as [edx.org](https://www.edx.org)



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