ACCA

THE CHALLENGES FOR MEDIUM-SIZED BUSINESSES POST COVID-19

Think Ahead

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September 2021

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Introduction

Medium-sized businesses, mid-tier companies, the 'M' in SME (small and medium-sized/ mid-tier enterprises): these are organisations that defy easy categorisation yet form the hidden core of many economies.

In the UK, for example (BDO 2020a), medium-sized businesses employed 7.6 million people in 2019 compared with 6.9 million working for FTSE 350 companies and 1.6 million in smaller enterprises. For instance, according to the Malaysia External Trade Development Corporation, mid-tier businesses represent 30% of that country's total gross domestic product and employ 22% of its total workforce.

Mid-tier businesses play a fundamental role in global supply chains, yet many of them are running on legacy systems and processes, facing long-term underinvestment in skills and technologies and have a very strong case for change that crystallised particularly after the outbreak of the Covid-19 pandemic. Neglecting their specific needs could cause considerable damage to economies in the medium term.

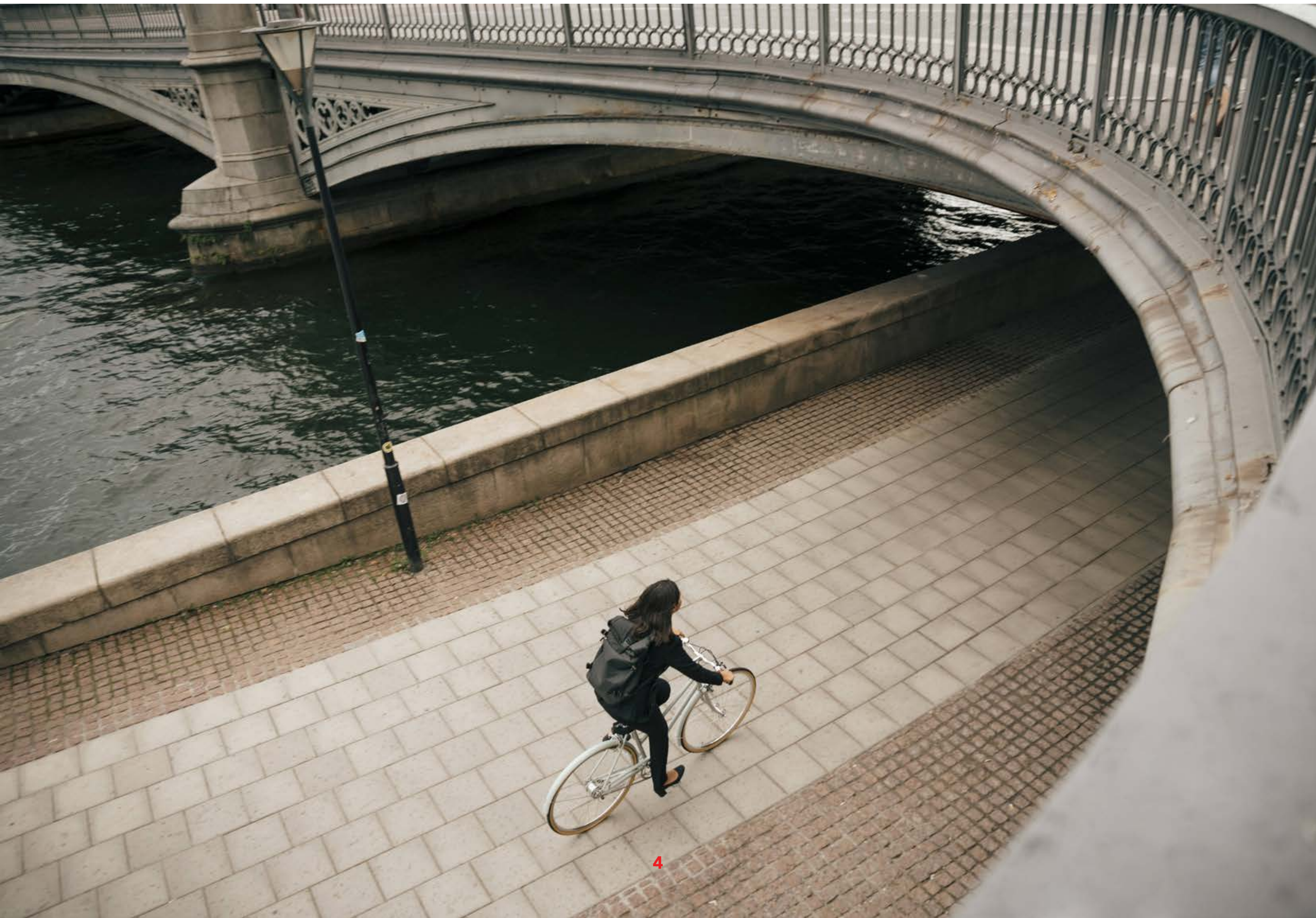
The purpose of this series of publications and podcasts is to look at some of those issues facing this undervalued sector and reflect on how they could be addressed.

A very important question is the role of accountancy and finance professionals in supporting the sector. The strategic role of the finance function has proved to be growing in organisations of all sizes, but what is the specific angle for medium-sized businesses?

In this first article in the series, we will start with a tentative definition of the sector and will present a high-level overview of the challenges facing medium-sized businesses following the outbreak of the pandemic.

Each piece in the series of publications will provide a deeper dive into some of the specific issues identified and will tell the stories of mid-tier organisations finding their way through the challenges of the recovery, putting sectoral and geographic issues in the spotlight.

Our findings are based on a range of interviews with medium-sized sector representatives and roundtables held in different countries.



What is a ‘**medium-sized**’ organisation?

Defining the term ‘medium-sized’ is challenging: a BDO survey (BDO 2020a) defines the sector as having revenue between £50m and £350m. In the US, the term generally refers to businesses with annual revenue between about £70m and £2 billion, but Dun & Bradstreet’s proprietary database sets the lower limit at £7m. Definitions vary across Europe: in the UK and Germany government definitions describe medium-sized firms as those with a turnover of between £15m and £800m, for example, but in France and Italy the range is lower.

Others take a headcount view: according to the Organisation for Economic Cooperation and Development (OECD), most countries define a small business as one with 50 or fewer employees, and a medium-sized business as one with between 50 and 250 employees. The exact centre of any sector will clearly be defined by the extremes in scale of that sector. To an extent all these definitions are arbitrary: a business with 251 employees or £50.1m in revenue will not differ materially or enjoy significant advantages over one with 249 employees or £49.9m in revenue. Yet crossing those thresholds may lead it to be treated very differently by governments or lenders, and it may face different compliance or reporting requirements.

In many cases, an absence of attention from both policymakers and other stakeholders has led to the idea that such companies are the ‘excluded middle’ or ‘the neglected “middle child” of the economy’ (Ricoh 2016).

Firms in this group lack a cohesive voice, whereas large organisations can make themselves heard while smaller entities are often the focus of official attention. Mid-tier firms are not a homogeneous mass, so their voices are fragmented and sometimes forgotten. These mid-sized organisations are vital to the success of those above and below them in the value chains. The loss of this economic capability would be potentially disastrous.

The definitions themselves can become a source of contention. SAMENTA (the Small and Medium Enterprises Association) Malaysia chairman Datuk William Ng argues that the government definition of SMEs skews policies towards smaller and micro businesses (those with fewer than five employees).

‘We think that it is time to actually revise the definition of medium companies’, he says, ‘Any manufacturer exceeding RM50m (£8.5m) would fall outside of the purview of our respective government intervention programmes, which I think is way too low. We are not advocating that the government should focus solely on the mid-tier, what we are saying is that the mid-tier is a hugely neglected part of the economy’.

While it may be a challenge to produce a common definition, the failure to do so does not mean that the voice of medium-sized companies should not be heard or that the issues should not be addressed.

Long-existent challenges exacerbated by Covid-19

Despite the plethora of definitions, the amount of survey material covering the mid-tier is small: when included in SME surveys, the overall number of medium-sized firms can be too small to be statistically significant, despite representing sizeable revenues and employment. While it may not be possible to draw quantitative conclusions from such varied material, the qualitative story they tell is compelling. What really bind the mid-tier together are the common issues these firms face.

'Too big to take advantage of government handouts and business breaks, and too small to have the influence and power of global giants, Medium-sized Business (MSBs) could be forgiven for developing an inferiority complex. No wonder some experts refer to MSBs as the 'forgotten army'…these businesses find themselves sandwiched between the increasing dominance of global giants and a new wave of small, fast-growing digital disruptors' (Lavis 2018).

As explained in ACCA and PwC's joint report *Finance Functions: Seizing the Opportunity* (Furness et al. 2021), while smaller businesses had agility and larger ones financial reserves to cope with the sudden drop in demand during lockdowns, medium-sized businesses[1] were immediately hit by their lack of liquidity and inflexible supply chains and operations (Furness et al. 2021) (Figure 1).

FIGURE 1: Responses to the question: 'Which issues, if any, are currently most significant for your organisation now?'

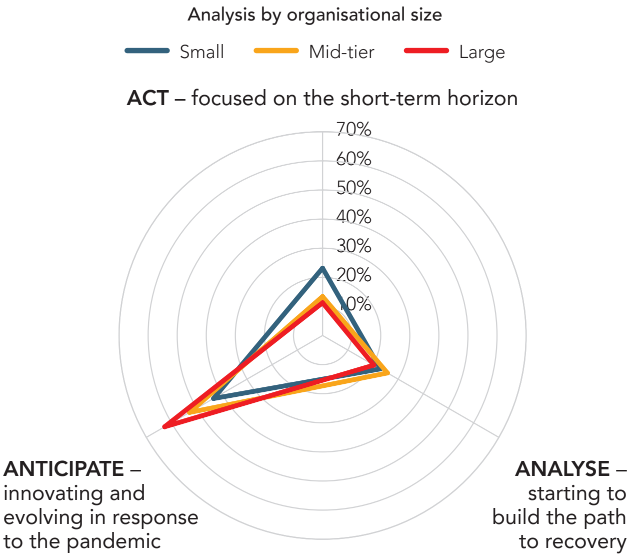
(This figure was first published in Furness et al. 2021)

WHILE SMALLER BUSINESSES HAD AGILITY AND LARGER ONES FINANCIAL RESERVES TO COPE WITH THE SUDDEN DROP IN DEMAND DURING LOCKDOWNS, MEDIUM-SIZED BUSINESSES[1] WERE IMMEDIATELY HIT BY THEIR LACK OF LIQUIDITY AND INFLEXIBLE SUPPLY CHAINS AND OPERATIONS.

1 For the purposes of the analysis of the survey response data, those organisations where the respondent indicated that there were 249 or fewer employees are categorised as 'small', those between 250 and 999 employees are categorised as 'mid-tier' and over that level as 'large' (Furness et al. 2021)

Whereas the immediate reaction of smaller companies was to use their agility to adapt in the short term, and larger companies were more likely to innovate and evolve their business, medium-sized companies skewed strongly towards analysis, reflecting their limited ability to transform their businesses in the shorter or longer term, which at times was crucial for their survival in the disrupted realities of lockdowns and growing uncertainty. Despite this, an ACCA/PwC survey in March 2021 showed that the greater proportion of respondents from mid-tier organisations were in the longer-term recovery phase of managing the pandemic (Furness et al. 2021). This shows that the segment has a level of resilience in operations, more akin to that of larger organisations than their smaller business counterparts.

FIGURE 2: Responses to the question: 'Which of these phases most closely describes the current situation in your organisation in response to the pandemic?'



(This figure was first published in Furness et al. 2021)

During the pandemic, many medium-sized companies found themselves inextricably linked to locations (hotels, building sites, small factories) that do not lend themselves to either social distancing or working from home, and that represent a significant overhead. Smaller companies were often able to dispense with premises altogether, while larger enterprises were able to use their technology platforms to support homeworking and use the space freed for social distancing.

Many medium-sized businesses have made significant redundancies because of the constraints with liquidity and will struggle to rebuild staffing levels in a tightening labour market. Others have either depleted financial reserves or taken on debt: according to BDO (BDO 2020b), the number of medium-sized businesses taking on external debt had doubled (although it could be argued that at least some of this government-backed debt may have been drawn down to fund future growth).

Covid-19 has also brought opportunities. Intricate global supply chains were rapidly recognised as a source of vulnerability (particularly as governments struggled to source medical and protective equipment) and the importance of local suppliers has been highlighted, potentially creating new opportunities. Covid-19 has also emphasised the importance of collaboration, which enables many companies to offer integrated solutions to problems, and these are more valuable than individual point approaches. Some medium-sized businesses have experienced unexpected levels of growth and have managed to digitalise and reimagine their business models rapidly.

It is important to speak about the mid-tier sector at this critical moment of both growing risks and emerging opportunities. The specific needs of the mid-tier sector are different from those of either smaller business segments or large corporates and need to be clearly articulated and addressed collectively by governments and global supply-chain stakeholders in the short-to-medium term to avoid severe damage to this highly important sector of the economy. Accountancy and finance professionals can potentially play a strategically important role in both articulating those needs and addressing them appropriately.

> **COVID-19 HAS ALSO EMPHASISED THE IMPORTANCE OF COLLABORATION, WHICH ENABLES MANY COMPANIES TO OFFER INTEGRATED SOLUTIONS TO PROBLEMS, AND THESE ARE MORE VALUABLE THAN INDIVIDUAL POINT APPROACHES.**

The **challenges** of the **medium-sized organisation**

There are several challenges that the medium-sized organisation may face. Not all will face each of these challenges to the same extent and there will be variations in how they can be addressed. The challenges, which in turn can also be seen to be opportunities, can be split into two groups.

The first group is **strategic**. These challenges are related to the nature of the organisation, its market, the access to finance and investment and the growing impact of the environmental, social and governance (ESG) agenda on its operations.

The second group is **operational**. The pandemic has demonstrated that organisations that are agile and have access to data accompanied by the technology and skills to exploit it are those that have been able to manage the situation relatively comfortably. For many finance teams, their relatively small size has been a challenge in that they lack expertise and experience.

There are clear links between the two groups but exploring these groups individually may serve them best.

The strategic challenges

Access to finance

In accessing finance, medium-sized companies face the classic 'missing middle' issue: they have outgrown the numerous loans, schemes and grants available to small and micro business, but they do not enjoy the access to equity and bond markets of the large companies. Banks could fill this gap but they don't, so mid-tier companies may have to pursue other sources of finance and liquidity that are expensive (credit cards, bridging loans, invoice discounting) or dilute their ownership.

'If you're a small business, and you need a very small amount of liquidity, you've got a reasonable chance of success on the high street, where the banks have local business managers who might be able to do some very small business lending', says Ben Barbanel, head of debt finance at OakNorth Bank, which launched in 2015 in the UK to target the mid-tier.

> 'If you're a large business, and you need a large amount of bank debt, the banks are there to serve you. But in the middle, there's a void'.

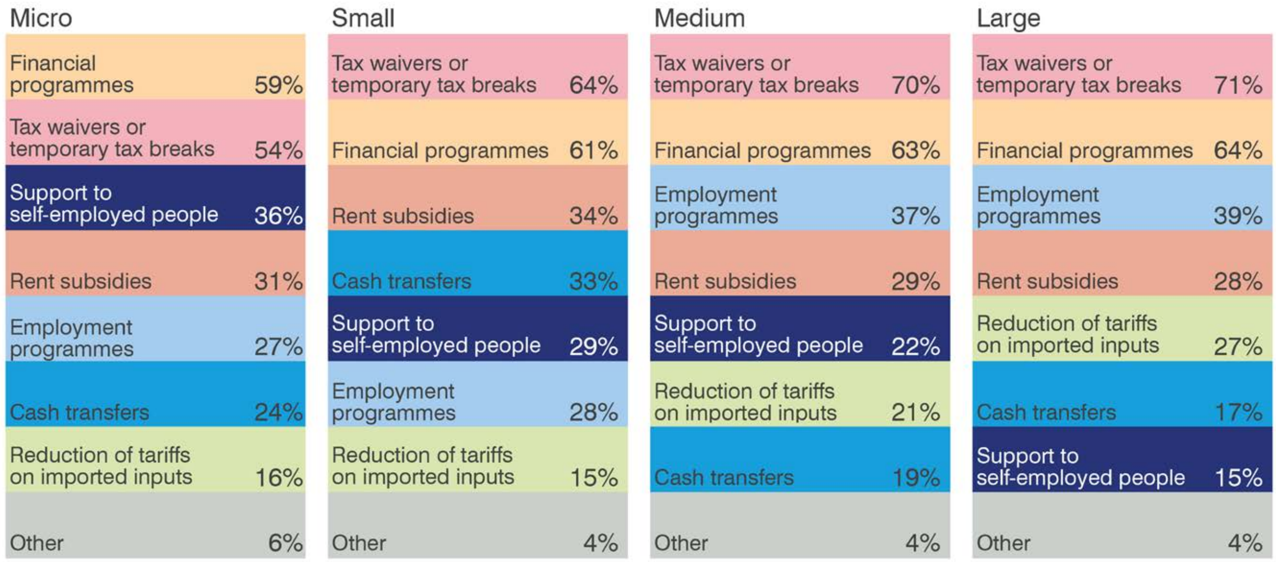
One issue is cost of sale: banks lack the resources to support mid-tier businesses at a granular level.

'Banks tend to lump all businesses into one of a dozen or so sectors', says Barbanel. 'Bars, restaurants, hotels, fall under hospitality. But take retail, how can you compare the experience of supermarkets to online yoga stores or to bespoke tailors? It's impossible'.

Government support programmes and funding

Funding is a major issue for medium-sized companies, whether to support growth or survive hard times. A lack of government support and tailored programmes was another common complaint expressed by the interviewees, many of

FIGURE 3: Most firms favour financial programmes and tax waivers (ITC 2020)



Note: Respondents were asked 'Please select the top three government measures that would be most helpful as you cope with the COVID crisis' and 'How many full-time employees does the business have?' Figure indicates the percentage of respondents who chose that option as one of the top three measures. Data on 2,458 businesses in 125 countries; response rates vary across countries and regions.

Source: ITC calculations based on ITC COVID-19 Business Impact Survey. Data collected from 21 April–2 June 2020.

them reporting that those programmes were not tailored to the specific needs of the mid-tier companies' sector.

Governments around the world have responded to the challenges of Covid-19 with a variety of support programmes, although levels of support have varied widely between countries and coverage can be patchy.

According to the International Trade Centre (ITC) publication, *Covid-19: The Great Lockdown and its Impact on Small Business* (ITC 2020):

> 'Companies that responded to the ITC Covid-19 business survey said that tax waivers, temporary tax relief and financial programmes would be the most helpful government measures. This confirms the liquidity crisis accompanying the health crisis. A third of small enterprises highlighted the importance of cash transfers, signalling their concern about surviving the pandemic. Yet surveyed companies were also concerned about retaining their workforce for future production: indeed, 37% of medium-sized businesses and 39% of large companies favoured employment programmes to support the income of their workers'.

The role of the finance function, particularly of its leaders, is therefore crucial in helping mid-tier companies navigate through the myriad of government support initiatives available.

Questions to be addressed in this series of publications

- What government support programmes are tailored for medium-sized businesses?
- Are there any programmes by international organisations tailored for supporting growth and recovery of medium-sized businesses?
- What are the non-governmental organisations supporting medium-sized businesses? Are medium-sized businesses' needs clearly articulated to those organisations?

Growth, going international and recovery

In 2015, the Confederation of British Industry (CBI) estimated that it took the growth of only 3,000 medium-sized firms to bring the UK out of recession after the financial crash and, following the pandemic, medium-sized firms are now planning to hire more staff and invest, using the 'super deduction' that the UK government introduced for capital allowances between 2021 and 2023.

But very little appears to have happened in the intervening period even though the mid-tier clearly has the ability to boost jobs and growth. It is particularly well-placed to boost exports by expanding sales to new territories, compared with smaller companies, which lack the resources to develop overseas sales, and larger enterprises that are already mature in export markets.

Business support ecosystem-acceleration and incubation programmes mainly target smaller businesses and start-ups or specific sectors, while medium-sized businesses have been neglected by the providers because of the sector's perceived complexity, which makes them more costly to service than small businesses.

According to Malik Mirza, managing director of Finman Group, based in Pakistan, Covid-19 acted as a wake-up call for many medium-sized businesses:

> 'Exports from Pakistan have actually increased during the pandemic, particularly textiles, and home furniture, because India and Bangladesh were closed due to Covid-19. So now the government considers that the medium[-sized] enterprises have potential of actually generating exports. There are now a lot of discussions going on [about] cashflow lending, credit guarantees, supporting women-led businesses, so they're putting in efforts to see how they can stimulate the medium[-sized] enterprises without a lot of hassle'.

Mirza says that when corporate and certain mid-tier companies win big export orders, they segment and subcontract the orders to smaller factories in their own supply chain.

'So, in that manner, the system of the economy keeps working by engaging medium-sized enterprises', he says. 'And the government has stated publicly that SMEs are the engines of growth and job creation. So, they have to show that they are able to access finance when needed. Having said that, it's very difficult, but at least they are trying'.

Other governments have taken targeted actions to boost or protect exports.

'In Bangladesh, for example, the government committed to pay[ing] the wages of employees in export-oriented industries. The Philippines has exempted export-oriented industries and business process outsourcing from the shutdown. In Pakistan, accelerated tax refunds are being granted to companies in export industries. Trade finance can help cash-strapped small businesses keep their export clients and is particularly relevant for firms that export to compensate for lower local demand. For example, the Export Credit Bank of Turkey extended its credit repayment periods by two to six months and stretched its rediscount credit terms to two years. To facilitate trade and reduce domestic prices, many countries are waiving customs fees' (ITC 2020).

According to ACCA's *Growing Globally* report (ACCA 2018), accountants are most likely to be used by SMEs when looking for support on international tax, regulatory compliance, foreign exchange and accessing external finance. Therefore, this challenging moment also provides opportunities for accountants and the leaders of finance teams to take up this strategic role in supporting medium-sized organisations involved in foreign trade or that are ambitious to expand into international markets.

Outsourcing of services and functions can be a powerful tool for medium-sized businesses, resulting into cost reduction, driving operational synergies and helping tap into emerging areas of expertise and talent. Although outsourcing is commonly used by large businesses, medium-sized companies are often slower to adopt. Converting fixed costs into variable costs, using outsourcing helped some businesses release capital for investment that was needed for business model transformation after the outbreak of the pandemic, but the majority of medium-sized businesses still find it challenging to make this business model work.

Some medium-sized businesses use the services of outsourced finance functions: small and medium-sized accountancy practices (SMPs) that provide services varying from compliance to portfolio chief financial officers (CFOs), looking beyond compliance and providing the expertise and insight needed to drive business growth.

Questions to be addressed in this series of publications

- How can accountants support the growth and internationalisation of mid-tier companies?
- What is the role of SMPs in supporting medium-sized companies' growth and internationalisation?
- How can we leverage the ACCA international network to support mid-tier internationalisation?

The operational challenges

Data challenges

The use of data made readily available by digitalisation is key to the post-pandemic survival of medium-sized businesses, states Jonathan Byrnes, in his *Harvard Business Review* article analysing the opportunities for medium-sized business post pandemic (HBR 2021).

Because many medium-sized companies have grown organically, they have not prioritised linking and integrating their disparate systems and governance models, which leads to a crucial weakness in obtaining and using data.

'Your company's data is your lifeblood', says Karen Rudich, CEO and co-founder of Elementary B, creating an intelligent working capital system to help medium-sized companies. 'If your technology and your systems are disconnected, it's really not a CFO problem, though it is left to them to wrangle with systems that are no longer fit for purpose. It's the not understanding whether you have enough stock, whether the expectations of revenues have been set correctly, what the turnaround is between receiving your raw materials and actually then selling out [of] your products that is the key issue and affects everyone.'

While organisations will still run a variety of systems, moving to a data architecture in which data can be aggregated and analysed is essential.

> 'Businesses are still going to need to make the tough decision and do the hard work to digitise their operations. Only then will you know everything that affects your numbers in real time, such as being alerted to a cash shortfall when forecast payments are late the day it happens and before they become an issue because your systems are integrated into your transactional banking data'. **Karen Rudich**

Nonetheless, having access to the data and the tools is not enough. Absence of capacity and skills for dealing with the data can be another big issue for mid-tier companies. These problems need to be addressed through reskilling programmes and broader adoption of a continuous learning culture.

Questions to be addressed in this series of publications

- What are the main risks associated with data in mid-tier companies?
- What are the strategies used by mid-tier companies in data analytics?
- What is the role of the medium-sized practices in supporting the medium-sized businesses managing the data?

Technology: opportunities and challenges to be addressed

The challenging period after the outbreak of the pandemic has proved a tipping point for digitalisation as firms that had previously been slow to adopt technology rapidly understood the benefits for resilience, flexibility, scalability and cost. Those medium-sized businesses that managed to fast-track transformation benefited from additional demand for their products and services in local markets and managed to transform their business models. In practice, medium-sized businesses do not always possess the expertise that is necessary to choose and properly implement digital tools. As many medium-sized businesses are still running on legacy systems, a question mark can hang over their future. As ACCA comments in its Race for Relevance report (ACCA 2017), the legacy of a lack of investment is a technology deficit and the greater the deficit, the harder it is to recover from it.

'For the business to benefit fully from technology, the CFO needs to drive implementation with strong and consistent leadership. It's essential, for example, to engage users early if the CFO is going to gain their buy-in, provide reassurance and expedite change. Many in the finance function feel threatened that technology adoption will potentially lead to job losses and CFOs will need to confront this issue early in the process' (ACCA 2017).

The growth of 'software as a service' (SaaS) and Cloud systems is greatly easing this situation, meaning that mid-tier companies are increasingly benefiting from same sort of scalability and digital flexibility as other enterprises.

'Covid-19 has shone a light on the gaps in our organisational capability, but it has also given us the opportunity to act – and we need to act fast. What has been clear from our work supporting this report is that the finance teams who had successfully adopted new technologies and moved up the digital curve coped best with the challenges they faced. Those who had strong data and analytics capabilities, made use of data visualisation and collaboration tools and who had modern, Cloud-based ERP [enterprise resource planning] systems were able to adapt better when working became remote and the demands on finance grew', commented Karen Rudich.

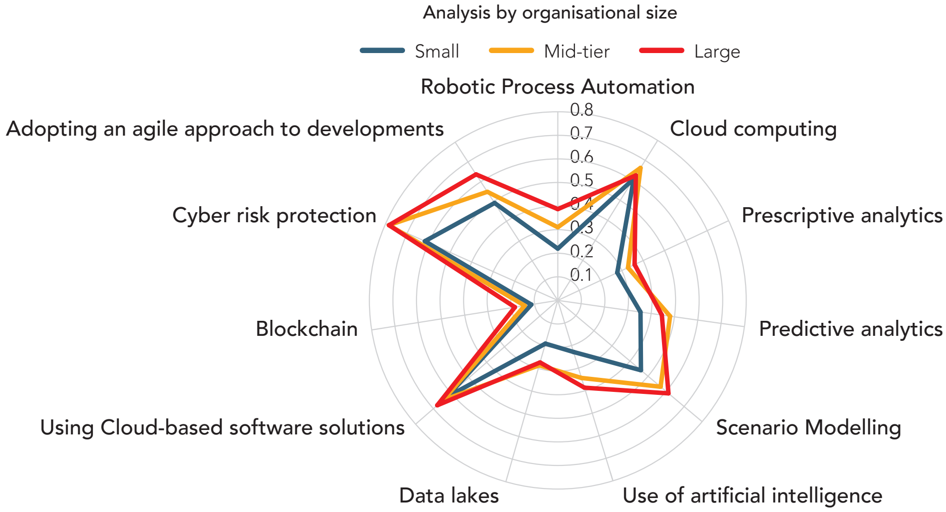
A number of technology providers currently targeting the smaller business segment (Xero, Sage and QuickBooks) or larger corporates (Oracle, SAP) are looking to tailor their solutions to accommodate the specific needs of medium-sized businesses, but the success of these efforts needs to be analysed in more detail. There are challenges for the mid-tier firms in that they require a greater level of formality than smaller organisations but do not have the complexity of the larger firms, which means that they can often be ill-served by the existing technology solutions. Many mid-tier organisations operate in specific sectors and benefit from more tailored solutions, however without the backing of a large software vendor these too come with their own risks.

The ability to be able to use technology to develop a story that accurately conveys its current situation is essential for organisations.

'I cannot state enough that the role of the future of the CFO is a partner with the CEO, they [the CFOS] are the ones that bring them [the CEOs] down to reality', says Karen Rudich. 'It's not a negative thing, it's giving them the tools and the means to say, this is how we're going to best set ourselves up for success', she says.

The results of a recent ACCA and PwC survey (Furness et al 2021) show that mid-tier organisations are strongly aligned with their larger cousins in their plans for post-pandemic use of data and technology, particularly in the areas of scenario modelling, Cloud applications and cyber risk: for mid-tier organisations, digitalisation represents a genuine opportunity to 'level up' (Figure 4).

FIGURE 4: Responses to the question: 'Considering the use of data and technology in the finance function, how have your plans for the use of these areas been changed by the pandemic?'



(This figure was first published in Furness et al. 2021)

Information protection is a significant issue in this sector. The risk of a cyberattack is ever present and the nature of potential attacks is becoming more sophisticated. As supply chains increasingly integrate and share information digitally, so the vulnerabilities increase. The Cloud is not a panacea for cyber risk. Rather, there is a need to apply standards and protocols to manage and mitigate the risk no matter how, or where, the data is stored. Legislation covering the protection of personally identifiable information applies equally to these organisations, and the costs of compliance can be relatively high.

Questions to be addressed in this series of publications

- What technology applications are tailored for medium-sized companies? What are the specific needs of medium-sized companies? And what are the risks in the current landscape?
- How can technology support medium-sized finance teams in leading the net-zero agenda?
- What are the information protection and cybersecurity risks and how can they be managed?
- What application stacks are used by medium-sized businesses?

The people challenges

As a sector, medium-sized companies employ a large proportion of the workforce and therefore have massive potential for job creation.

Attracting talent

The sector provides some appealing opportunities for those with an entrepreneurial mindset. The opportunities enabled by digital transformation or growing localisation of supply chains in responding to the outbreak of the pandemic provide some exciting professional development chances for those who are ready to roll up their sleeves and take concerted action to take medium-sized businesses to the next level.

Nonetheless, the sector faces a lot of barriers for recruiting and retaining top talent. It faces significant competition from larger players. Bigger firms can offer higher starting salaries and benefits packages and have the reassurance of high-end human resources (HR) processes and training programmes. Simply by virtue of scale, they can also offer greater opportunities for geographical mobility and career progression.

Although Covid-19 has provided a push towards modern working practices, many medium-sized firms have struggled to implement flexible working fully. This is a shame, because one arena in which the mid-tier can compete is company culture.

'Our culture would be the biggest selling point: I'm very transparent with my accounts, I pay bonuses based on KPIs [key performance indicators], my sales team is even aware of the profit and loss that we make', says Jonathan Tham CEO of Guard my Ride (GMR) a medium-sized company providing extended warranty services for used cars in Malaysia. 'Whenever the company makes a profit, you know, we distribute up to 45% to everyone, right down to the admin team. And my promise to them is that if everything goes to plan, if this company is able to reach an IPO [initial public offering], everyone will have a share'.

A focus on culture enables the mid-tier company to benefit from loyalty and strong teams rather than engaging in futile attempts to match salaries:

'I'm not a great believer in hiring rock stars, their tendency to jump and move towards a larger game plan is always high', says Ajay Sethi, managing partner of mid-tier Indian accountancy company, ASA & Associates LLP. 'But if you pick up above-average guys, and you groom them, and you build … their loyalty and their desire to perform and be part of this intimate circle and culture which we have created becomes higher. It's a loyalty play, it's about, you know, having all sorts of things that appeal to people', he says. 'If somebody is simply driven by one motivator, they want to rule the world, they want to earn the highest salary, they want to, you know, work in 15 different countries, that's fine, they can pursue that goal, but we're offering a more rounded package'.

Managing people

Many of the mid-tier companies outgrow the personnel management style of the small enterprise and may require adoption of formal HR procedures and recruitment of HR functions. The challenge is to provide a solid underpinning for future growth without ossifying the company with bureaucracy – and to achieve this with limited resources. After the outbreak of the pandemic, in line with the expanding scope of responsibilities of the finance professionals, some finance directors/ CFOs within the medium-sized sector were forced to take on responsibilities for HR, but it is highly questionable if they have the skills and knowledge to manage those processes and address the issues that arise in the context of remote working. This issue is particularly pressing, given the increasing complexity of the HR issues that they have to deal with, including mental health issues.

Addressing mental health issues

Mental health has become a massive issue for all sizes of organisations and medium-sized companies are not an exception.

On the one hand, employees are dealing with the loneliness and disconnectedness of lockdowns, on the other hand with the fear of returning to physical contact in the workplace and on transport systems.

Covid-19 has taken a toll on staff, whether they are still working in the office, trying to work remotely or simply waiting for work to resume. Finance teams have been particularly stretched, even if their status has also increased.

Under lockdown, the Farncombe estate, a private estate in the Cotswolds, comprising three luxury hotels, set up regular keep-in-touch calls and buddy systems to maintain the connection between staff. 'There's a danger, when you're not in touch with people for months on end that you lose some of that business culture', says Melanie Proffit, CFO of the company. 'Re-opening, is like opening a brand new business, because some haven't worked for five months, some have left, some are new… They can't remember their passwords, there have been new Health and Safety procedures to adopt, added to which some of their basic know-how has to be relearnt'.

Working at home has led to a 'decline into constant connectedness', says Bertie Newman, an audit partner specialising in owner-managed businesses at Cambridge, UK-based PEM Accountants. 'There's been a real loss of work–life balance – perhaps people haven't got the luxury of a study or spare bedroom. As people think about returning to work models and hybrid working, there's a recognition that for many a benefit of being back in the workplace could see that balance being regained'.

This is a complex issue with which all sizes of organisations are currently dealing. It is unknown territory. No methods have proved to be completely efficient in this challenging situation, so managing this complexity is a learning exercise that requires a lot of compassion and readiness to act in an agile manner. The results of the lockdowns are unknown and hard to predict. It is a huge responsibility to bear. Finance teams, in particular CFOs and finance directors, often step up and get involved in dealing with this strategically important issue for the organisation, but do they have sufficient expertise for that?

Questions to be addressed in this series of publications

- What type of talent are mid-tier companies looking for?
- How can medium-sized companies attract best talent?
- How do we develop a strong culture in a mid-tier organisation? What is the role of the CFO/ finance director?

Compliance and reporting challenges

Compliance is becoming another perennial issue, starting to crystalise more clearly in particular on the European continent. Smaller enterprises are exempt from many compliance requirements: as they enlarge, mid-tier companies find themselves facing the same regulatory burdens as the largest players but without the resources to support dedicated compliance teams or advisory support. And this is going to increase: for example, in March 2021 the UK's Department for Business & Industrial Strategy (BEIS) released its consultation white paper *Restoring Trust in Audit and Corporate Governance* (BEIS 2021), setting out its proposals for a UK version of Sarbanes–Oxley (SOX) legislation. This will have an impact on the internal control of medium-sized organisations and increase the cost of compliance.

On exiting lockdown Farncombe Estate employed just under 250 people (June 2020), pre-Covid-19 it employed around 270: passing this threshold brings additional compliance requirements often resulting in additional costs, for example in areas such as audit and assurance. CFO Melanie Profitt found that employing more than 250 people created challenges as the regulatory burden increases.

'We were just slightly over, and that's an interesting dynamic, when you find yourself in that position, where you're hitting a lot more compliance criteria', says Profitt.

> 'There are all these additional disclosures, for example, the gender pay gap reporting comes into play. From a statutory reporting point of view, the asset value of the estate also pushes us over the threshold requiring additional disclosure. You can find yourself with quadruple the work and lots of new complexity to understand.' **Melanie Profitt**

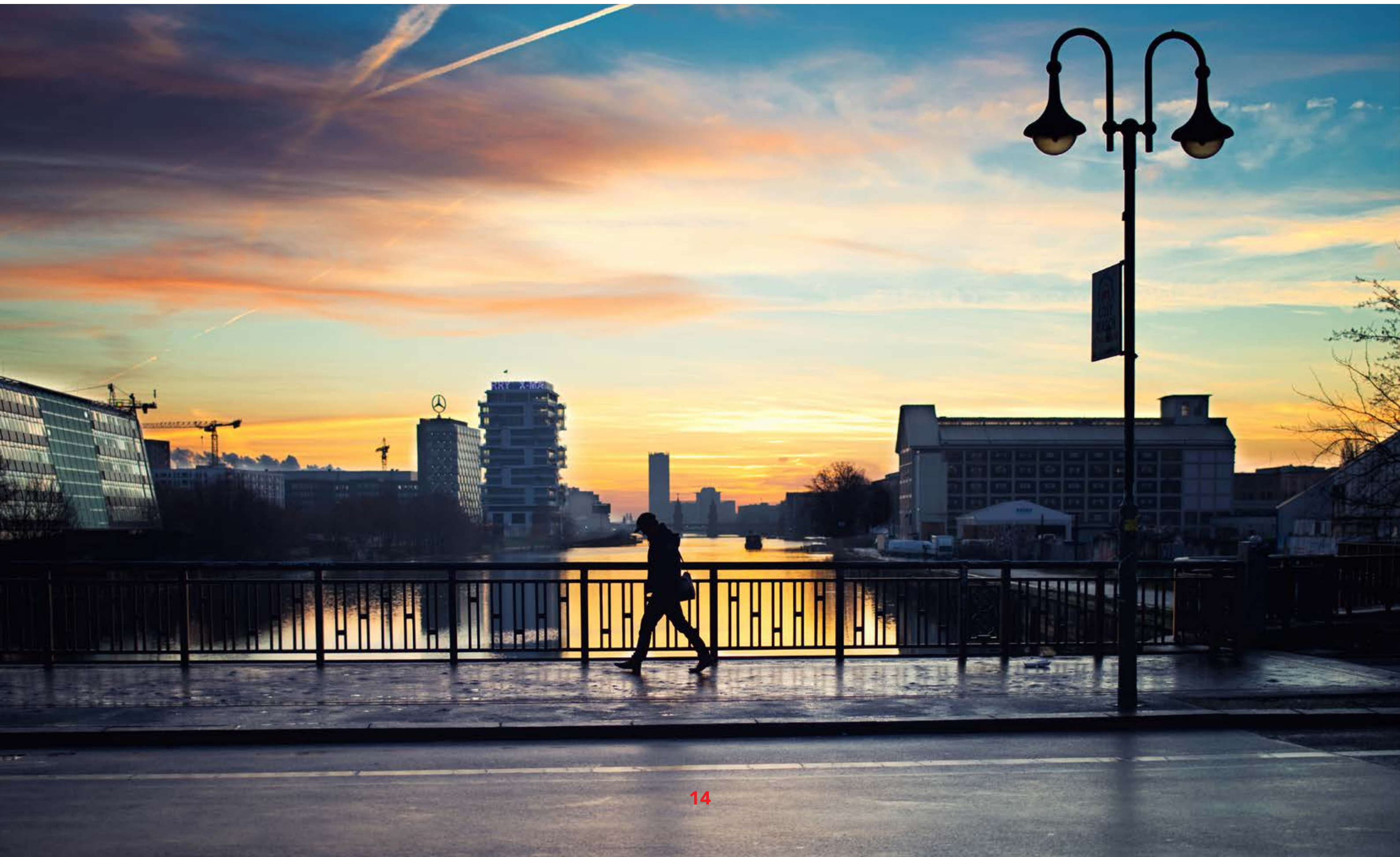
Environmental, social and governance (ESG) agenda

Being part of the supply chains of larger organisations that are required to achieve sustainability targets, medium-sized companies are facing growing demands on ESG reporting. In addition to the existing supply chain imperatives, employees, clients, and investors ask searching questions about climate change, inclusion and diversity, societal impact and human capital that require responses from mid-tier firms, and lenders are increasingly looking at green finance. This represents a challenge and can become the next significant compliance burden for the mid-tier sector, but can equally be an opportunity for the finance function and result in access to new sources of finance.

It is clear that finance teams of medium-sized companies are at the very start of their journey dealing with net-zero and ESG reporting and more awareness raising and upskilling is clearly needed to support them in this area, which is gradually becoming an operational imperative. Building capacity in ESG reporting and working towards net-zero require time and considerable investment that should be collaboratively supported by governments and global supply-chain stakeholders.

Questions to be addressed in this series of publications

- ESG reporting for medium-sized companies: how different is it from such reporting in large corporates?
- What is the role of mid-tier finance teams in leading the ESG agenda?
- What is the role of SMPs in supporting the ESG agenda?
- The cost of compliance: do mid-tier firms have sufficient resources and what type of support do they need?



The **future** of the **finance function**

The pandemic has focused business owners' attention on the importance of the finance function.

> 'The pandemic made a big difference in…how we were perceived as a function. It became very apparent early on that the two functions that management needed at the table were IT and finance. It is interesting, as we have always been perceived as back-office functions' as one Canadian CFO put it when interviewed for the joint ACCA and PwC report: *Finance Functions: Seizing the Opportunity* (Furness et al. 2021).

According to the survey reported in that publication, mid-tier finance functions see the pandemic as an opportunity (Figure 5).

The future of the finance function is, like many other functions, built around the three core elements of transactional efficiency, compliance and control, and business insights. For mid-tier organisations attaining a balance can be challenging, especially when existing systems and processes do not promote transactional efficiency, leading to less resource being available for insight generation. Yet, the need to be agile and respond to trends has been an essential part of the lessons learned from the pandemic. Finance functions in the mid-tier need to face up to this challenge and identify innovative strategies for managing the cost of the function against the benefit delivered. Clear vision and purpose are needed.

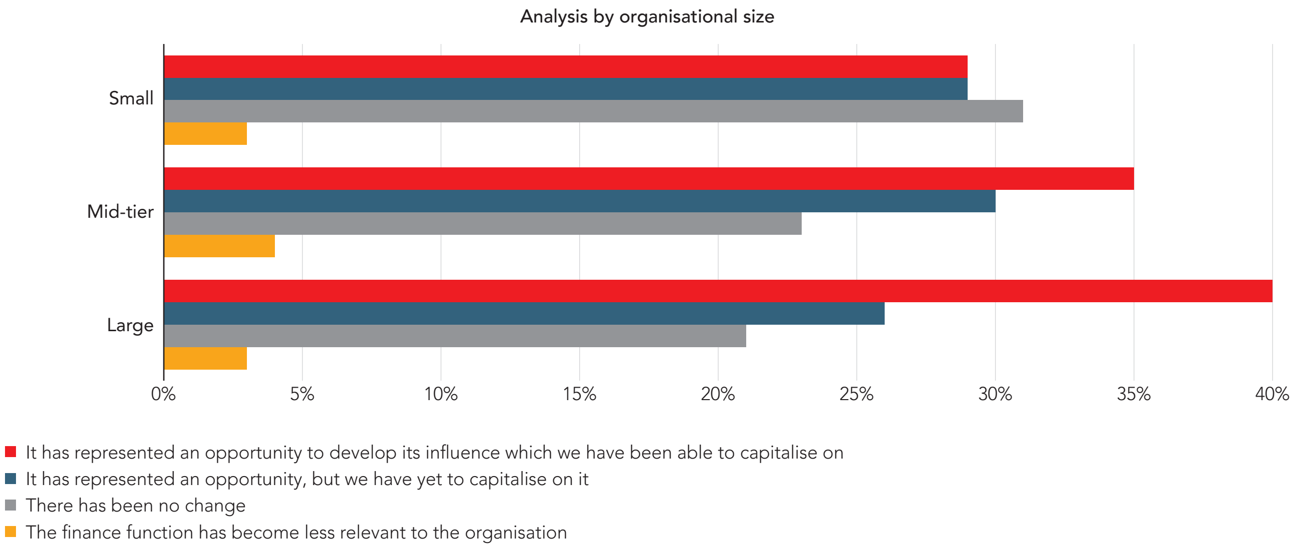
The pandemic has alerted medium-sized companies to the need to think more about risk culture and how it contributes to long-term success. Operational risks depend on the organisation's activities but require constant assessment, analysis and adaptation. The finance function could help organisations manage risk better by putting a greater focus on the practicalities, by considering the possible outcomes of a wide range of scenarios and by forming a plan of action for addressing such analyses (ACCA 2021),

At this challenging moment, finance teams within the mid-tier sector realised that collaboration is an essential component of progress for their organisations and enables them to build the expertise needed for their expanding role. Collaboration across the organisation and partnerships within the broader business ecosystem is crucial for finance professionals willing to embrace the opportunity to take up a more strategic role within organisations.

Pivotal role of the CFO

'You have to start thinking collaboratively', says Chris Argent of thought leadership, training and transformation community Generation CFO. 'And this is business-wide change, not just finance change, but you get a much bigger impact if you collaborate: you go from finance, thinking "We want to fix my invoicing and payments, use less spreadsheets" to something bigger, better, but not necessarily harder; all of a sudden you've got a project that looks at customer and supplier experience, the end to end processes including procurement and treasury, and the consolidated tools that easily support wider transformation.

FIGURE 5: Responses to the question: 'What is the impact of the changing nature of the work that finance functions have been asked to undertake during the pandemic?'



(This figure was first published Furness et al. 2021).

Digitalisation has a special part in elevating the role of the CFO or finance director in medium-sized companies:

'Digitalisation is giving them [CFOs] the tools and the means to say, "this is how we're going to best set ourselves up for success"', says Chris Argent.

For many organisations the CFO role is becoming the lynchpin not only of the finance function itself but also of the entire back-office activities of the organisation. CFOs also need a clear vision to achieve the strategy. The essential role of the CFO is explored in ACCA and IMA's report *The CFO of the Future* and the strategy for the role outlined there is particularly pertinent for this sector (Webb and Lawson 2020).

Questions to be addressed in this series of publications

- What are the examples of finance strategies for medium-sized businesses?
- What is the role of SMPs in supporting medium-sized companies to access finance?
- Where do you look for information about accessing finance for mid-tier firms? What are the key areas of focus?

FOR MANY ORGANISATIONS THE CFO ROLE IS BECOMING THE LYNCHPIN NOT ONLY OF THE FINANCE FUNCTION ITSELF BUT ALSO OF THE ENTIRE BACK-OFFICE ACTIVITIES OF THE ORGANISATION.

Preliminary **conclusion**

Mid-tier businesses have shown themselves to be adaptable and resilient in the face of Covid-19, but many have also been stretched to breaking point and beyond.

When a mid-tier business fails it leaves a hole which is not easily filled, whether in local employment or complex supply chains. Governments need to be aware that the economic impact of their mid-tier businesses cannot simply be measured in headcount and turnover, but in relation to a much wider ecosystem of stakeholders, large and small. Support schemes need to be carefully designed not only so that mid-tier companies do not fall through the gaps, and also to reflect the individual nature of the specialisms in which they operate.

But mid-tier businesses need to be aware of their own internal shortcomings, which the pandemic has exposed. Individuality is one thing, but attitudes towards changes in the workplace, such as hybrid working and digitisation, cannot be allowed to be dependent on the whim of the owner-manager. Many such companies are underpowered or underinvested in technology, processes and skills. The role of finance has been brought into sharp focus by recent events: it is just as much up to finance to step up to the opportunity as it is to entrepreneurs to invest in the finance team.

Sectoral weaknesses can also be a source of strength: mid-tier companies realise they will never be financially strong enough to outbid larger rivals for staff, and so must invest more deeply in culture and staff engagement to become an employer of choice.

The mid-tier has the potential to emerge from Covid as not just a stronger sector but also a more visible one, whose achievements and potential are better acknowledged. What is the role of accountancy and finance professionals in that important process? What about the government and international organisations? Do we need a tailored support ecosystem for mid-tier businesses? How can technology be a game changer for these businesses?

In future publications we will look at some of the ways in which the sector can achieve that potential.

> **SUPPORT SCHEMES NEED TO BE CAREFULLY DESIGNED NOT ONLY SO THAT MID-TIER COMPANIES DO NOT FALL THROUGH THE GAPS, AND ALSO TO REFLECT THE INDIVIDUAL NATURE OF THE SPECIALISMS IN WHICH THEY OPERATE.**

Acknowledgements

We are thankful to the following individuals for their contribution to the research:

Chris Argent, Generation CFO, UK

Karen Rudich, Elementary B Ltd, UK

Datuk William Ng, SAMENTA, Malaysia

Ben Barbanel, OakNorth Bank, UK

Malik Mirza, Finman Group, Pakistan

Jonathan Tham, Guard my Ride, Malaysia

Ajay Sethi, ASA & Associates LLP, India

Melanie Proffit, Farncombe Estate Ltd, UK

Irene Hamilton, Manchester Central, UK

Chad Saikaley, GGFL, Canada

Aaron Ackerman, HoganTaylor, US

Bertie Newman, PEM, UK

Rachel Nutt, MHA MacIntyre Hudson, UK

Andrew Moyser, MHA MacIntyre Hudson, UK

Brian Furness, Global Head of Finance, PwC

Gavin Hildreth, Finance Benchmarking Lead, PwC

ACCA experts who supported the development of the report:

Clive Webb

Aaron Saw

Jamie Lyon

Anton Hosein

Amanda Thurlow

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Gaurav Kapur

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