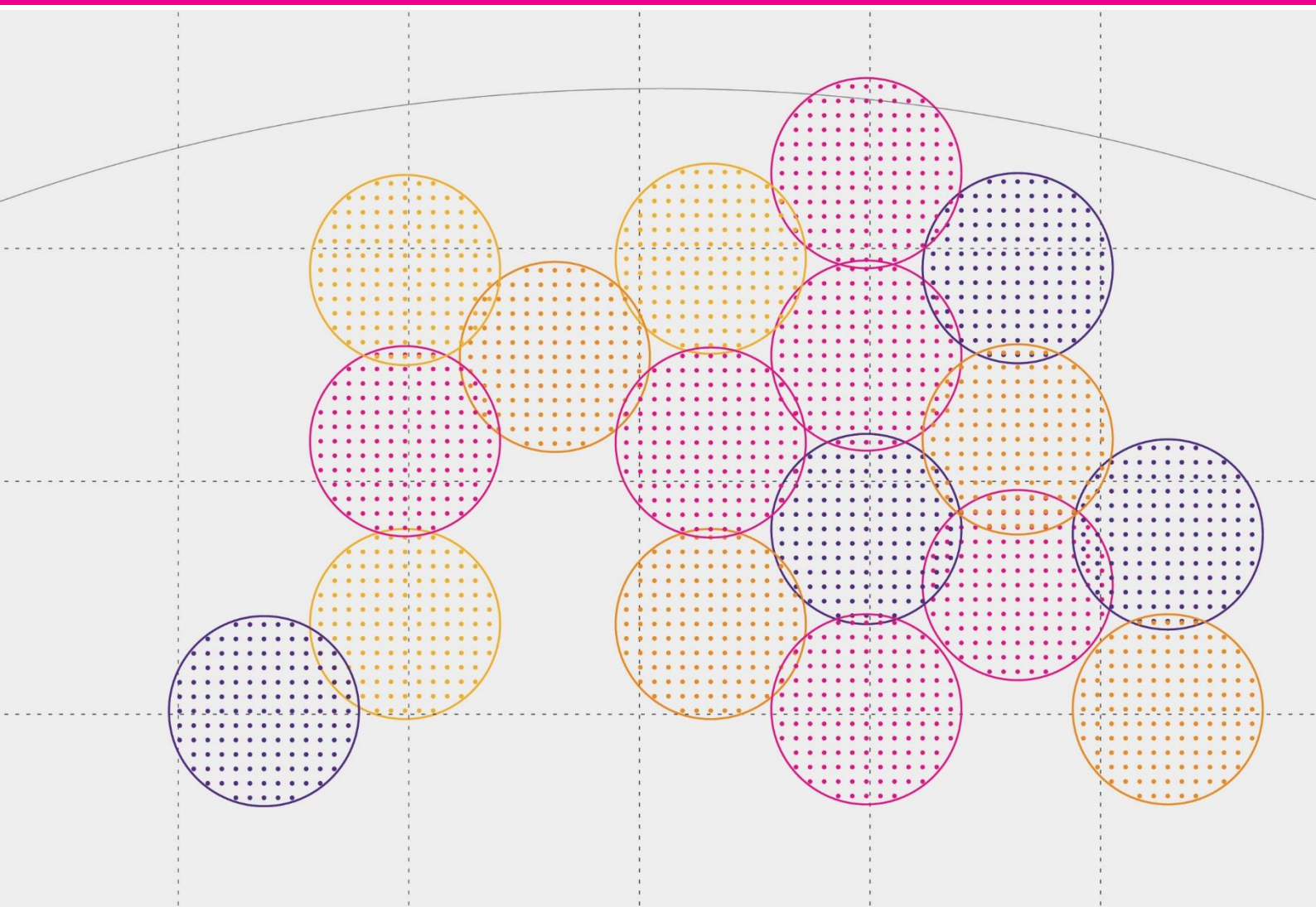


Sweating the Small Stuff: the impact of the bureaucracy burden

September 2017

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About Plum

Plum is an independent consulting firm, focused on the telecommunications, media, technology, and adjacent sectors. We apply extensive industry knowledge, consulting experience, and rigorous analysis to address challenges and opportunities across regulatory, radio spectrum, economic, commercial, and technology domains.

About this study

This study for Sage looks at the cost to small and medium-sized enterprises of administration tasks, including both operational and regulatory requirements. Analysing a survey of over 3000 companies across 11 countries, we consider whether technology can be used to reduce this burden, and how governments can encourage its take-up.

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Foreword by Stephen Kelly

What could the world's Small & Medium Businesses do with an extra 120 days a year?

I open with this question because this is how long the average small business currently spends on admin – like paperwork, accounting and recruiting.

We consistently hear from our customers the world over just how burdensome bureaucracy is for them, and how much it distracts them from the real, valuable work of growing their businesses. Because let's face it – no one started their own business because they dreamed of creating an expense report or chasing a late payment. This small stuff turns into a sizeable, worrying burden.

That's why we decided to commission the economists at Plum Consulting to undertake this piece of research – to assess the impact of this admin drain on small businesses on a global scale for the first time. You'll see that some of the findings are startling – on average, over 5% of a company's total capacity is spent on these routine tasks.

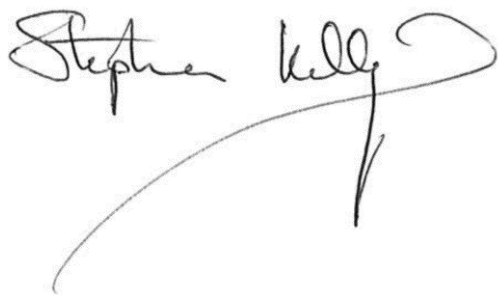
Reducing this burden is in all of our interests – it doesn't just serve to save small business owners from the drudgery of admin.

For one thing, cutting down the admin hours could help start-ups to survive for longer. Getting start-ups to turn into scale-ups has become something of a holy grail for most major economies, including the eleven countries we looked at as part of this study.

But even more than that, eliminating the admin problem has the potential to address the equally difficult 'productivity puzzle', that governments the world over have been increasingly concerned about over the past couple of decades. This needs urgently addressing if we are to maintain and accelerate global growth in the years to come. Just think – if we could redirect some of those 120 hours spent on basic administrative tasks back into attracting customers and growing revenue, we could make real headway in closing that productivity gap.

We believe that digitisation is a critical enabler in reducing the burden of admin, and this report as you'll see comes to the same conclusions. At Sage, we see it as our mission to help business builders big and small to grow and succeed through the power of technology.

By shining a light on this issue and laying bare the facts, we hope that governments will be encouraged to not only simplify their own regulations but also help Small & Medium Businesses in their digital transition, and eliminate the admin problem for good. Because when business builders do well, we all do.

A handwritten signature in black ink that reads "Stephen Kelly". The signature is fluid and cursive, with a long, sweeping underline that extends from the end of the name.

Stephen Kelly, CEO, Sage

Summary

In this report we examine the impacts of administration – including that caused by regulation – on SMEs, particularly looking at how much effort and cost these companies have to spend to comply with requirements. Across the eleven countries studied, we find that the size of the administrative burden varies considerably, but on average involves around 120 man-days and USD 50,000 per company. This represents a significant amount of manpower (around 5% of the total for an average company) and a large cost. By reducing this effort, enterprises could be expected to be more productive.

We examine four questions, which are set out in our ‘hypothesis and analysis’ section below. As above, we find clear evidence that administration is a large burden on SMEs, and this should therefore be addressed. On average across all companies surveyed, around 5% of working time is lost to administration. The exact amount varies by country, but in all cases the potential loss in productivity (even when not taking into account economic multipliers) is large.

Figure 1: Potential loss in productivity

Country	Percentage of time lost to administration	Implied loss in productivity
UK	5.6%	GBP 39.9 bn
South Africa	3.7%	ZAR 7.3 bn
France	7.7%	EUR 43.9 bn
Ireland	3.5%	EUR 2.2 bn
Australia	4.9%	AUD 31.8 bn
Brazil	6.5%	BRL 79.5 bn
Canada	1.7%	CAD 17.7 bn
Singapore	5.5%	SGD 10.1 bn
Spain	10.5%	EUR 32.0 bn
United States	4.9%	USD 335.3 bn
Germany	3.7%	EUR 28.2 bn

We further find that, for accounting tasks in particular but also across all administration, increasing use of digitalisation and software solutions can lead to lower costs. Despite this, our third hypothesis is that SMEs currently do not make full use of digital administration options, and this is reflected in the evidence; some tasks such as HR and talent acquisition have a very low uptake. Finally, we identify that there are ways that governments and regulators can intervene, but it is necessary for policy measures to be keenly targeted

1 Introduction

This report has been prepared by Plum Consulting for Sage, to examine the impact of administrative tasks on small and medium enterprises (SMEs). SMEs play a crucial role in national and global economies, but often face high regulatory and operational burdens which severely impact on their productivity. Unlike large firms, SMEs often cannot employ individuals to fulfil administrative tasks, and as a result any lost time directly detracts from value-added work that could be performed.

This report is structured as follows.

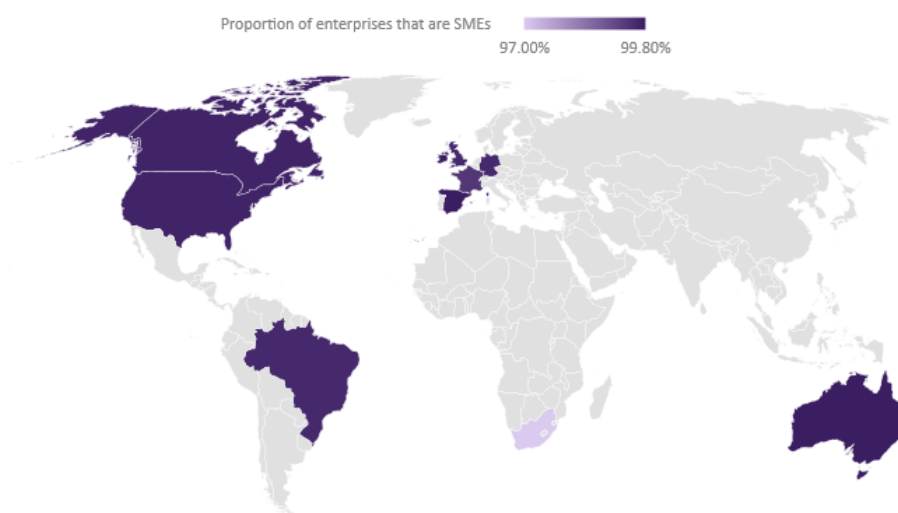
- Section 2 considers the economic contribution of SMEs. This summarises some macroeconomic research carried out by FTI Consulting and considers the size and scale of the SME economy.
- Section 3 explains what is meant by ‘administrative burden’, and how it has been defined in the context of this report.
- Section 4 outlines the survey that has been commissioned for analysis.
- Section 5 sets out the hypotheses for analysis, and how the results of the survey prove or disprove these. In particular:
 - Section 5.1 examines whether administration is an excessive burden;
 - Section 5.2 analyses whether digitisation can help to reduce the size of this burden;
 - Section 5.3 investigates whether SMEs currently use these digital methods; and
 - Section 5.4 explores whether governments are able to intervene.

2 The economic contribution of SMEs

A complementary report to this work is ‘The Importance of Small and Medium Enterprises’, a report which has been compiled by FTI Consulting¹. This examines the overall impact of SMEs across the same eleven countries included in our analysis and also sets out in detail how SMEs contribute to employment, GDP (or GVA), and tax receipts both in total and across different sectors. A high level overview of this analysis is included as an annex to this paper.

In all countries, the number of SMEs massively outweighs the number of large firms; the country with the largest proportion of firms which are classified as ‘large’ is South Africa, where 3% of companies fall into this category, while all other countries have a proportion in excess of 99%.²

Figure 2-1: Size of SME economy

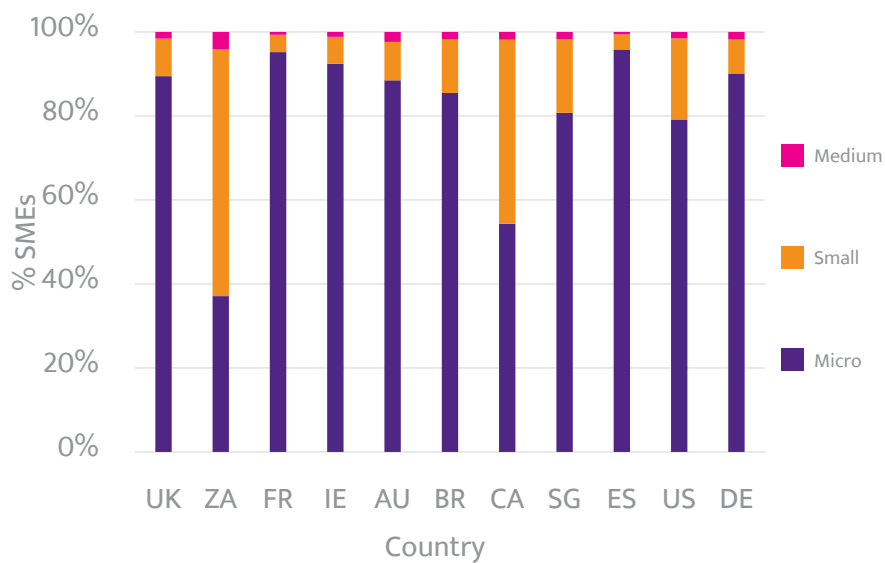


This may, however, be because company registration in South Africa is not as tightly controlled as in other countries. Looking at the composition of the SME economy, we can see that South Africa has by far the lowest proportion of micro companies³, but this may be because there are many small enterprises in more rural locations that are not formally registered.

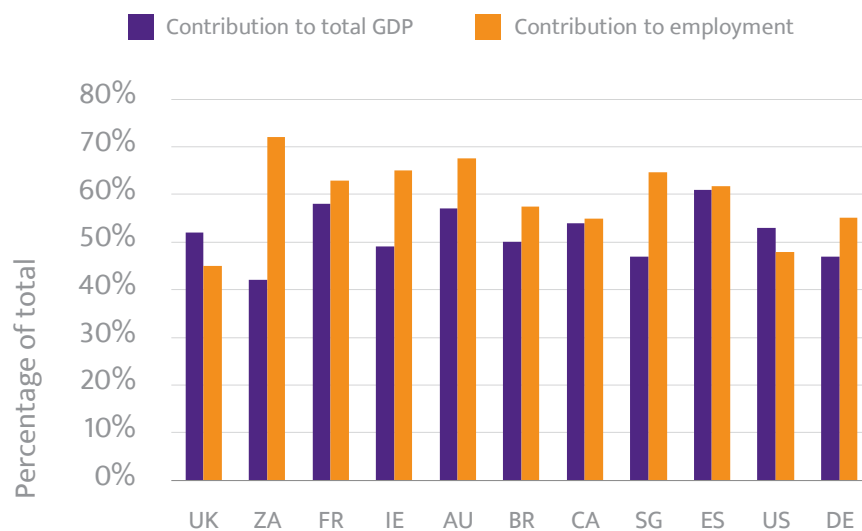
¹ This will be referred to as ‘FTI Consulting (2017)’.

² The three types of SMEs referred to in this report (medium-sized, small and micro enterprises) are defined in terms of employee number in the Annex *The importance of SMEs*. The definition varies by country.

³ Generally defined as companies with fewer than ten employees.

Figure 2-2: Composition of SME economies⁴

However, the contribution in terms of GDP and employment varies considerably. In South Africa, in particular, SMEs appear to be significantly less efficient than larger firms, with over 70% of the workforce contributing less than 45% of GDP. Conversely, in the UK and the US SMEs produce over half of GDP, but employ less than half of all employees.

Figure 2-3: Contribution of SMEs in each country

If SMEs are prevented from operating efficiently, therefore, there is a significant impact on the economy as a whole. Even a slight increase in productivity will have a sizable benefit to GDP. The remainder of this paper looks at one such inefficiency – that of administrative burden.

⁴ Note that the breakdown of SMEs in Singapore has been estimated, using an average of other countries, as no official data is available.

3 What is administrative burden?

All enterprises have a certain amount of administration that must be completed in order to stay in business. This administration comes in two forms – operational, and regulatory. Regulatory administration includes tasks which do not help directly with the running of the business, but rather are required by governments to register and monitor the enterprise.

Complying with these regulatory tasks, and completing operational administration, can represent a large cost for SMEs. This cost can take the form of lost manhours, if one of the SME's staff needs to complete the tasks internally, or the form of a direct cost if the tasks are contracted out. For many pieces of administration, the size of the task does not vary by the size of the business; for other pieces there will be a substantial fixed cost and an incremental cost depending on the number of employees, number of invoices, or so on.

In this study we have identified eight key categories of administrative tasks faced by most enterprises; these are outlined in Figure 3-1.

Figure 3-1: Types of administrative task

Type of administration	Operational, regulatory, or both	Examples
Accountancy	Both	Forming profit and loss accounts; calculating WIP; dealing with bank accounts
HR	Both	Updating staff handbooks; complying with non-discrimination policies
Payroll	Both	Organising payments of salaries and PAYE registration; payment of bonuses
Tax-related	Regulatory	Calculation of profits for the purposes of corporation tax; VAT registration
Chasing late payments	Operational	Issuing reminder and final notices; dealing with solicitors or small claims processes
Processing invoices received	Operational	Paying subcontractors, office cleaners, and rent bills; categorising invoices for management accounts
Generating invoices and processing payments	Operational	Creating and sending invoices for work done; matching payments received to invoices
Talent acquisition and training	Operational	Recruitment advertising and processes; creating training programmes

It is clear from the examples given that the cost and impact of administrative tasks can be minimised by either automating or streamlining the work that needs to be done. Both payroll and tax-related tasks can be effectively managed by certain accountancy software, for example, and WIP calculations can be simplified by automating timesheets and job monitoring. However, we are aware that many enterprises do not make effective use of these opportunities.

4 Survey methodology

In order to study the impact of administrative burden on SMEs, we posed three hypotheses.

- Hypothesis 1: Administration requires excessive time input from SMEs.
- Hypothesis 2: SMEs do not use digital methods to submit regulatory requirements.
- Hypothesis 3: Government intervention could reduce this burden.

The first of these hypotheses is designed to ensure that there is a problem to solve; if it is made clear that businesses do not find administration to be a large cost, there is no need for governments to intervene. The second hypothesis will examine the extent to which SMEs already use software to minimise the burdens, and also reasons why more enterprises do not take advantage of these techniques. Based on this, the third hypothesis will determine whether government intervention is likely to be successful.

In order to verify these hypotheses, Plum commissioned a survey from FTI Consulting which was carried out during July and August 2017 in eleven countries, gaining responses from almost three hundred SMEs in each country. The countries studied are shown in Figure 4-1 along with the two-letter codes used throughout this report.

Figure 4-1: List of countries (with two-letter codes)

Australia (AU)	Brazil (BR)	Canada (CA)
France (FR)	Germany (DE)	Ireland (IE)
Singapore (SG)	South Africa (ZA)	Spain (ES)
United Kingdom (UK)	United States of America (US)	

The questions asked were grouped into five key areas:

- Questions about the business itself, to determine suitability for the survey and to assist with disaggregated analysis;
- Questions about administrative burden;
- Questions on taxation;
- Questions on late payments; and
- Questions on business outlook.

Of these, the first two groups (and a few questions from the last group) are most relevant to this memorandum, and are shown in an annex.

The results of the survey for the three types of SMEs are analysed and weighted to give a representative picture for the SME economy. For instance, average for each of the three groups is weighted by the proportion of the company type within the SME economy and combined to arrive at statistics for all SMEs. These proportions can be found on Figure 2-2.

In the case of Singapore, no such information is publicly available. Therefore, the proportion of all SMEs that each type of company represents is calculated. This is done by average the proportions of the same type of company in the other 10 countries.

5 Hypotheses and analysis

To examine the impact of administration on SMEs, and to consider how this can be reduced, we have proposed four key questions for analysis, as follows.

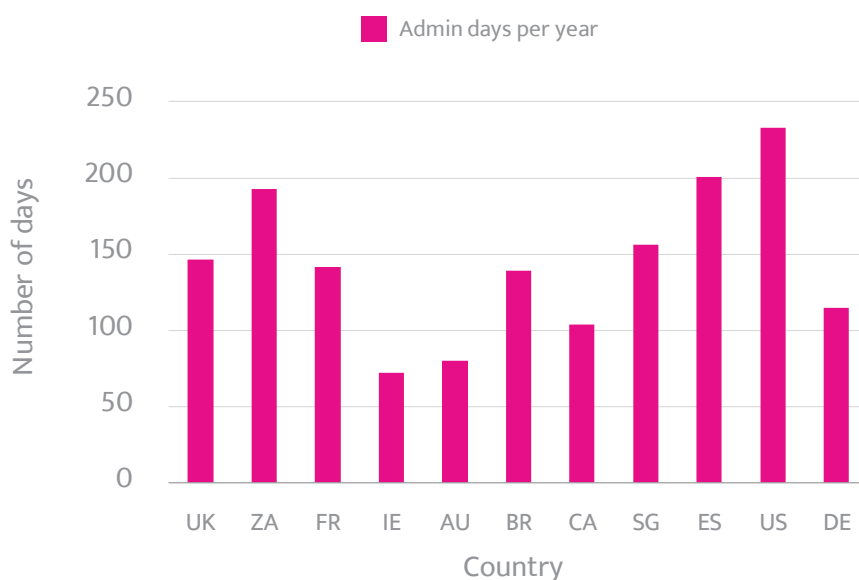
- Is administration an excessive burden on SMEs?
- Can digitisation can help to reduce this burden?
- Do SMEs not generally use digital aids for administration?
- Can government intervention help to encourage SMEs to use digital systems?

These questions are examined in turn below. For each question, we have analysed impacts from each of the eleven countries overall, and identify where countries may be outliers. We consider whether conclusions are true for all types of administrative task, or whether there are some tasks which should be the focus for governments.

5.1 Is administration an excessive burden?

Our survey has revealed that SMEs spend a considerable amount of time and money complying with administration and regulatory requirements. The number of days spent by firms varies considerably by country, with South Africa, Spain and the US standing out as the countries with the largest burden.

Figure 5-1: Weighted average manpower burden by country

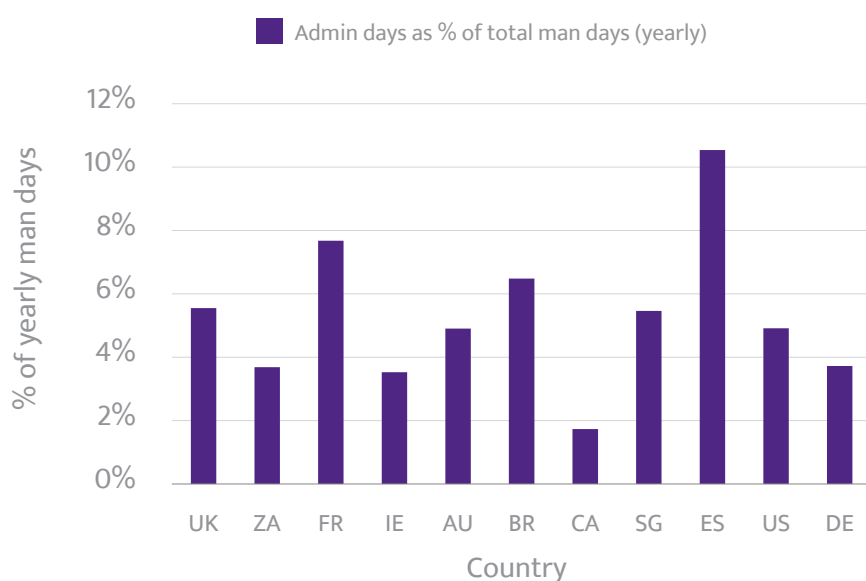


Even those countries with the lowest burden – Ireland and Australia – require over a quarter of a full-time equivalent (FTE) member of staff to complete administration. The US, seemingly an outlier here, requires, on average, each SME to have a full-time member of staff dedicated to administration. This in itself could be problematic; it would mean that there is a large barrier to entry for small businesses and the country may experience a reduction in innovation and growth.

These results are presented using a weighted average – that is, to reflect the burden on an average SME across the country. In many countries, the number of micro companies (typically those of fewer than ten employees) significantly outweighs the number of small and medium-sized companies, as was shown in Figure 2-2. Generally, it is expected that the cost of administration for smaller companies is lower: there are fewer staff to pay, less recruitment and invoicing to deal with, and costs must be kept lower to reflect the reduced revenue base.

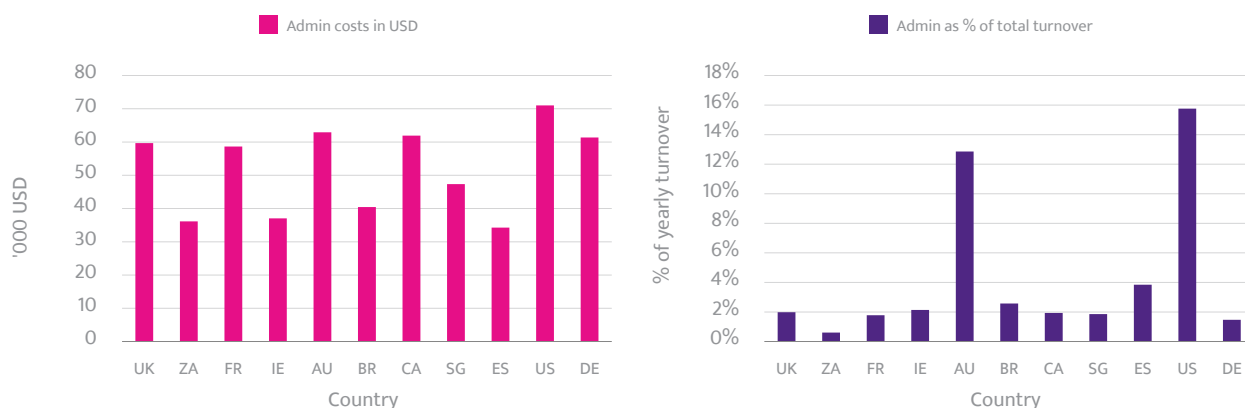
This variance in economic composition is reflected by looking at the percentage of total staff time taken up with administration. While medium-sized companies have higher total burdens, this is spread over a greater number of employees, and therefore we would expect that the proportion of time spent on administration would be lower. Given this, we could expect that companies with fewer micro companies would have a lower proportion of time spent.

Figure 5-2: Proportion of total days spent on admin



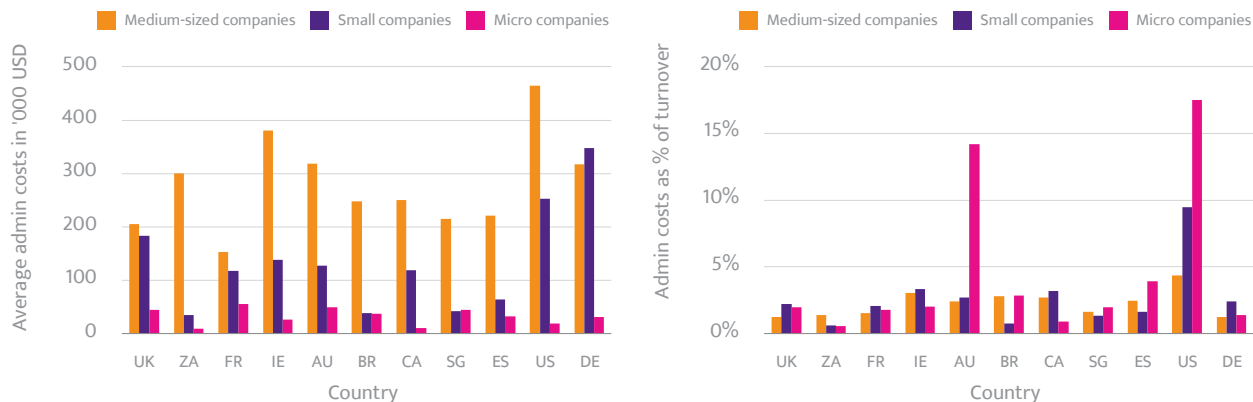
This appears to be true to some extent. Spain remains as one of the countries with the highest burden, likely due to the high proportion of micro companies in the economy. South Africa and the US, which were identified as similarly burdensome when looking at the total number of days, are more reasonable when the number of employees is considered. Canada, with one of the lowest proportions of micro companies, appears to have a very light administrative burden. With this one exception, it is clear that administration places a sizable burden on employees in all countries, and this in turn will have an impact on their contribution to the economy.

When looking at the cost of administration, not just in terms of manpower, the results appear different again.

Figure 5-3: Costs (in USD) of admin, in total and as a percentage of turnover

Total administration costs again vary considerably, again. In terms of turnover, Australian and US companies are clear outliers. Combining these results with those looking at employee time above, it appears that micro companies in Australia and the US have significantly lower turnover, which again puts these companies in a precarious position and will potentially discourage the formation of new small companies. Indeed, these graphs are slightly skewed by a number of companies who have administrative costs higher than their turnover.

When we disaggregate these results, we can see that medium companies have the highest costs in all countries except Germany, but it is not a linear relationship between total costs and number of employees.

Figure 5-4: Costs disaggregated (total costs and as a proportion of turnover)

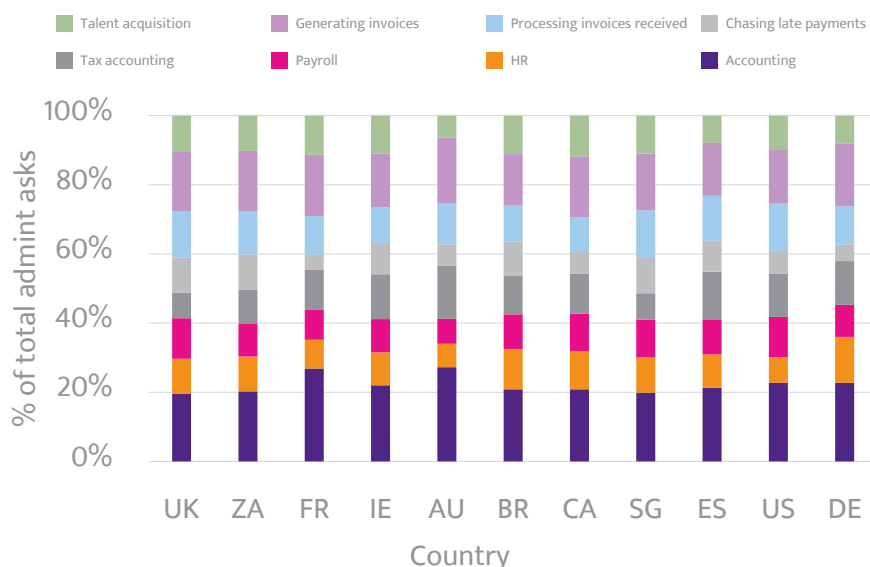
In Australia and the US, in particular, micro companies suffer from a disproportionate cost of administration, while other countries do not have such a stark relationship.

Further, administration costs are expected to increase, by an average of 12% over the next year. The expected change varies by country, from 5% in the UK to 19% in Brazil, but all countries have a positive expected growth rate. This is more than offset by expected turnover growth in most countries, with this often being twice the size or more of administration costs growth. The exception to this is France where a 7% expected increase in administration costs is only just covered by an 8% expected increase in turnover. This may reflect that fact that many SMEs are new companies, with low turnovers in the first place, for whom administration costs are particularly harmful. Any increase in these costs will again have a negative impact on SMEs, and the economy as a whole.

5.1.1 Types of administration

Of the various types of administrative tasks, the most costly is accounting, which accounts for over 20% of administration time, up to 27% of time in France. This is followed by generating invoices, and taxation.

Figure 5-5: Proportion of administration cost due to accounting tasks



Generally, across countries, the proportions of costs attributable to different tasks are similar, which means that SMEs across the world will recognise the need to reduce costs in the same key areas. It is revealing that a significant amount of costs are caused through regulatory requirements, with just under half the total costs being incurred through purely operational administration.

5.1.2 The impact of administration on output

Given the significant effort and cost that is required to meet administrative and regulatory requirements, it is clear that this will have an impact on the profitability of SMEs. Indeed, when examining the survey results, there are a significant number of companies where the administration costs exceed turnover, meaning that they are making a loss even before the cost of sales and other operating costs are included. These are more likely to be micro companies in the first year of business, but this is not exclusively the case.

Where administrative costs impact on the profitability of companies, they may lead to companies going out of business, or may lead to reductions in investment for growth. This in turn will lead to lower future output across the economy.

Further, as well as the pure financial cost, there is an opportunity cost of staff who would otherwise be available for fee-earning work being used for administration. As shown in Figure 5-2, around 5% of staff time is currently used in fulfilling administrative tasks rather than generating output. In many smaller companies, these administrative tasks are undertaken by regular members of staff; even in larger companies where there may be

dedicated administration officers, these reflect a salary cost which otherwise could be spent on other staff. If administrative time were reduced, then output could be increased in a similar proportion⁵.

There is therefore a direct impact on economic growth and prosperity from having administrative and regulatory requirements. The size of this impact will depend on the contribution of SMEs to the economy as a whole. FTI Consulting (2017) investigates the total contribution to GVA or GDP of the SME economy, and results from this analysis are discussed in the key findings at the end of this report.

This calculation is likely to underestimate the impact on the economy, however. Any direct growth in output from SMEs is likely to have significant multiplier effects across the economy – from the increased spending on raw materials used in the additional output, from the spending of increased profits, and from potential cost savings to customers if the increased efficiency is passed on through a reduction in price.

5.2 Can digitisation help reduce this burden?

The analysis above has illustrated that complying with administrative and regulatory requirements has a significant impact on SMEs, both in terms of manpower that must be devoted to the tasks and the actual cost. As many SMEs have low profit margins⁶, management of these enterprises will need to cut costs as much as possible. Our second hypothesis is that increased use of software and digital solutions can help SMEs to work more productively.

As described above, there are two ways in which administrative burden affects companies:

- Reducing manpower that can be used for output production; and
- Increasing operating costs.

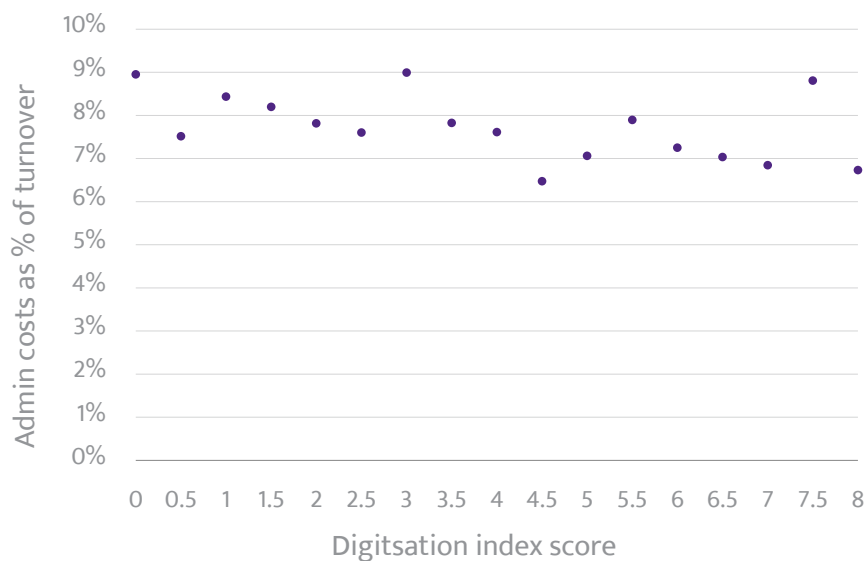
The impact of digitising administrative burden on the first of these is self-evident. The purpose of software is to replace human effort, and so introducing software solutions will free up employees to fee-earning tasks⁷. The extent to which software solutions can lead to lower costs is less evident – yet as will be explored later, companies cite cost savings as the most important factor that would encourage them to implement digital processes.

To investigate this, we have calculated a “digitisation score” for each company in our survey. Respondents were asked the extent to which each of eight administrative tasks was digitised – fully, partially, or not at all. By scoring each “partial” as 0.5 and each “full” as 1.0, we calculate a value out of 8 representing how close to full digitalisation the company is. For each digitisation score, we examine the average cost as a proportion of turnover, to obtain the analysis shown in Figure 5-6.

⁵ If the administrative burden was exactly 5%, then 95% of time is used for productive output. Increasing this to 100% represents an increase of 5.26%, and therefore if all administration time was eliminated then output would increase by more than the proportions indicated.

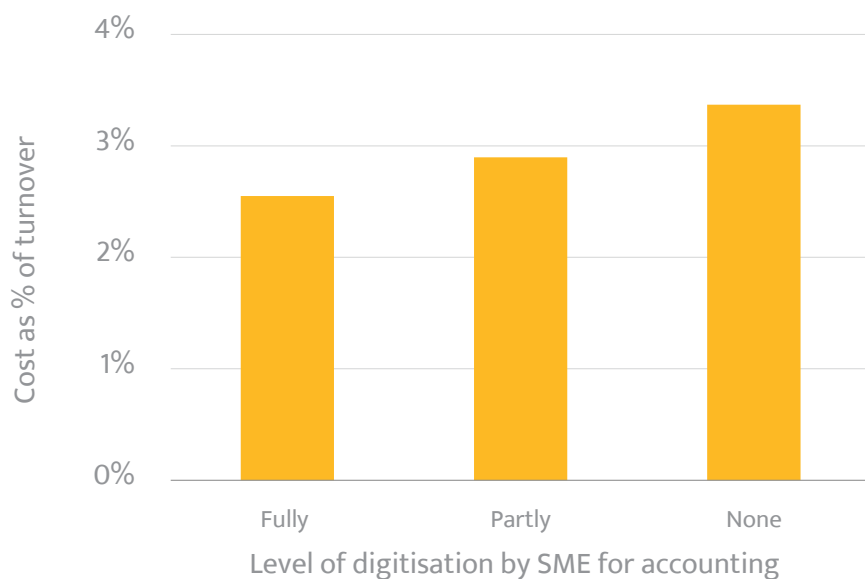
⁶ In the report ‘EU SMEs 2015-2016’, the European Commission estimates that profit margins across Europe were around 9%, ranging from 4% in Luxembourg to 16% in the UK. Further information on this can be found in FTI Consulting (2017).

⁷ In fact, companies in some countries cited this as a key factor that would encourage them to move to digital solutions – see Figure 5-14.

Figure 5-6: Administration costs varying with digitisation

Although there is no clean linear relationship here, we can observe that in general as digitisation increases, costs fall. The extent to which companies can make cost savings obviously depends on their current position in terms of digitalisation and efficiency, and each datapoint in this graph averages a wide range observations (with companies reporting costs at virtually 0% of turnover, all the way to 40%⁸).

Looking at the different types of administrative task individually, there is a less clear pattern, with some tasks showing marginal or no cost savings. However, the largest task, accounting, is very visibly impacted by the use of software.

Figure 5-7: Accounting costs as a proportion of turnover for differing digitisation

⁸ The average administrative costs to turnover ratio across all respondents in the survey is 31%. Companies reporting a ratio of between 0% and 40% represent more than 80% of all respondents. Therefore, companies with a ratio of more than 40% are most likely outliers and will skew the results.

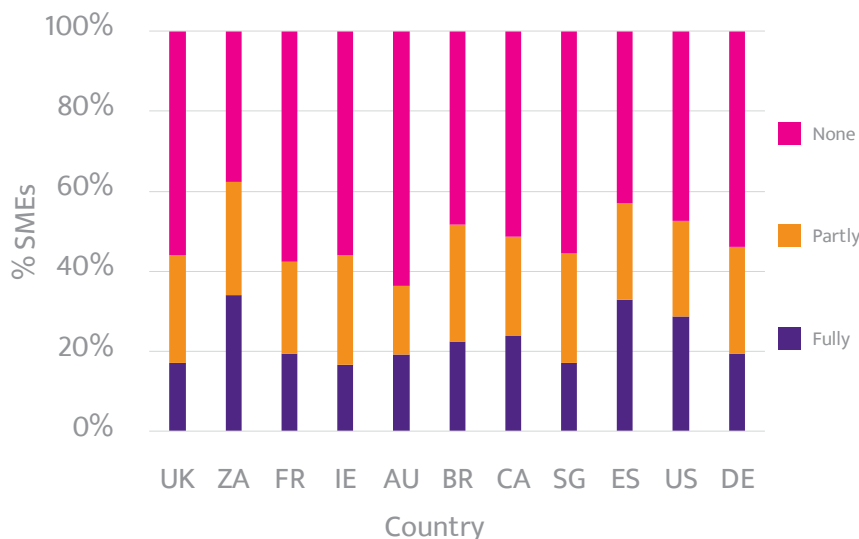
While it is unrealistic to expect that digitalisation can entirely remove the cost of administration, savings such as those above will be important for SMEs.

5.3 Do SMEs use digital aids for administration?

Given the benefits that may be realised from digitalisation of administrative tasks, it would seem obvious that companies should attempt to introduce these systems to their working. However, our analysis of the survey data has indicated that this is not the case.

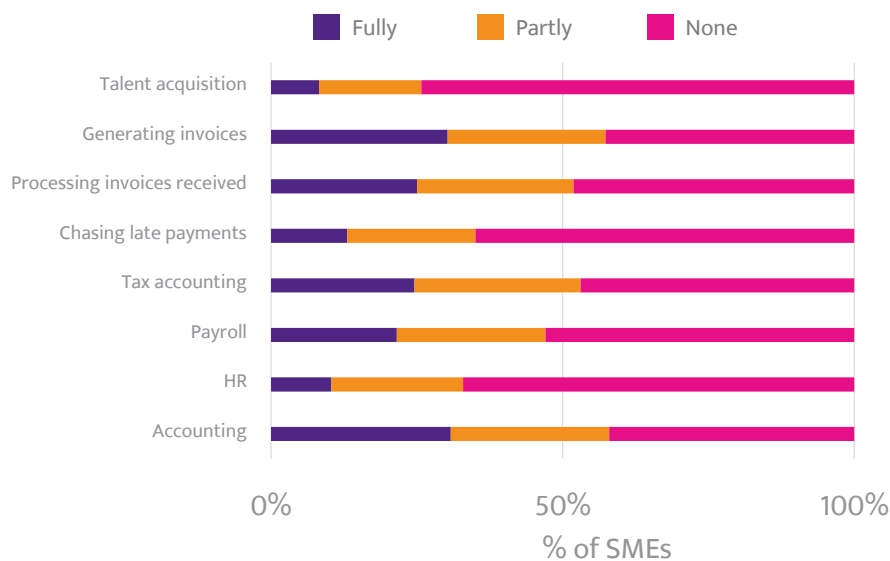
The survey asked respondents to identify whether software was used to assist with each of the administrative tasks, and if so whether this was a partial assistance or full assistance. As can be seen in Figure 5-8, which is an aggregate analysis over all tasks, around 50% of tasks globally are not performed using any kind of specific software.

Figure 5-8: Proportion of companies using digital aids across all tasks



Companies in Australia, Ireland and Singapore appear to be the least likely to use digital aids to relieve the administrative burden on their staff. In the case of Australia and Ireland, this may not be a surprise, given that these two countries reported the lowest manpower burden of administration. Even in those countries with the highest takeup of digitalisation, South Africa and Spain, only around 25% of tasks are fully digitalised, and around 40% are not digitalised at all.

The extent of digitalisation varies by task as well as by country.

Figure 5-9: Proportion of companies using digital aids for each task

Perhaps unsurprisingly, accountancy-type tasks are the most likely to be digitalised, with accounts, tax and payroll benefiting. Other HR administration, along with talent acquisition, are less likely to have any digital processes in place, with less than 40% of companies reporting a degree of digitalisation.

Given the general lack of digitisation, there is a clear opportunity here for SMEs to improve their processes for dealing with administration.

5.3.1 Reasons for not digitalising administration

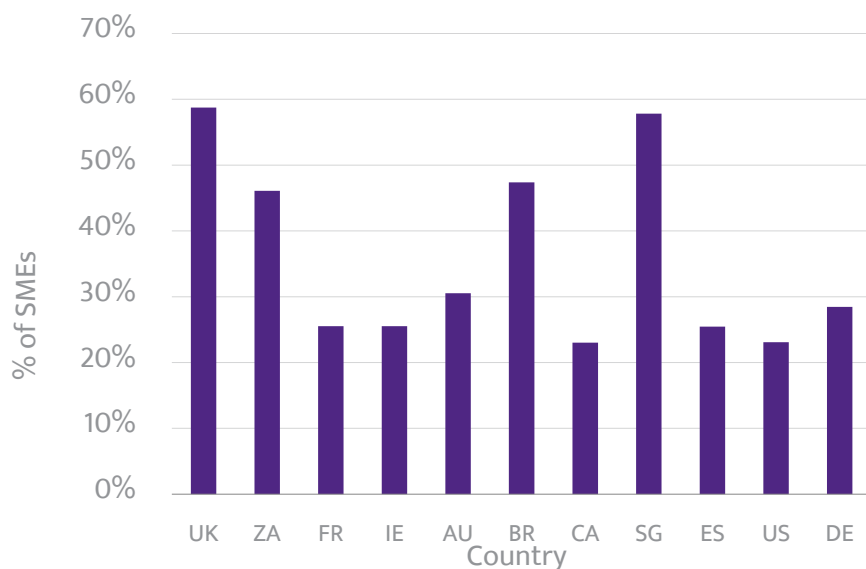
The analysis so far has shown that SMEs could benefit from increasing their use of digitised methods for dealing with administrative tasks, and yet many (if not most) do not do so. In order to examine why this may be the case, we asked respondents to the survey why they had not fully digitised their processes, choosing from the following options.

- Implementation costs
- Time consuming
- Legacy systems that are incompatible
- Planning to outsource directly instead (to accountants)
- Previous bad experiences
- Apathy
- Lack of digital skills or training
- Complicated processes
- Other

- Nothing

Almost universally the most important reason⁹ for not using digital services was that it would be too costly to implement, with the exception of the US and Canada where the most common reason was that it would be too time consuming (in these cases, implementation costs were the second most cited reason).

Figure 5-10: Concerns over implementation costs as a reason not to digitalise

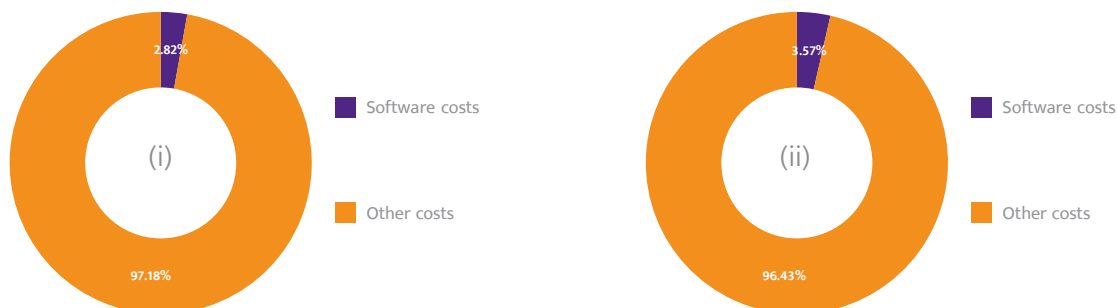


Concerns over the cost of implementation are, perhaps, one of the easiest issues to address for governments. Subsidisation of digital implementation, or direct assistance with the use of software solutions, can directly overcome the concerns of businesses. Given the importance of this factor for companies in the UK, South Africa, Brazil and Singapore, we would recommend that governments and policy makers in these countries pay particular attention to this issue.

This perception of high costs is not, in fact, reflected in the actual data. Across all administrative tasks and countries, only 2.8% of the cost is spent on software. When looking at companies who have digitalised some tasks, this proportion increases to 3.6%, reflecting the spend on software and the cost savings it causes – yet even this is a small proportion of the total cost of administration.

⁹ In a number of countries, “Nothing” was selected as the response by the highest proportion of SMEs. However, this is not informative, since it could mean that the companies are already using a digital platform or otherwise there is simply no interest. Therefore, along with the choice of “Other” as the reason, this has been excluded from this cross-country analysis.

Figure 5-11: Proportion of total administration costs spent on software
 (i) over all companies, and
 (ii) including only those who have digitalised some tasks



This proportion is fairly constant across countries, with South Africa having the highest spend at 4.35%, and Australia having the lowest at 3.02%. Even taking into account that many tasks are not digitalised, this is a very small part of the total administrative burden – particularly given that it may lead to cost savings overall. There is a clear difference between the perception and reality of the costs of software.

Figure 5-12: Proportion of total administration costs spent on software, by country

	UK	ZA	FR	IE	AU	BR	CA	SG	ES	US	DE
Software costs as a percentage of total	3.50%	4.35%	3.31%	3.96%	3.02%	3.81%	3.40%	3.43%	3.74%	3.21%	3.53%

While implementation costs are generally the most important concern, other factors varied across countries to some extent.

Figure 5-13: Top 3 reasons in each country for not using a dedicated admin software

Country	First top reason	Second top reason	Third top reason
UK	Implementation costs (59%)	Too time consuming (19%)	Too complicated (18%)
South Africa	Implementation costs (46%)	Plan to outsource (21%)	Lack of skills training (19%)
France	Implementation costs (26%)	Plan to outsource (20%)	Lack of skills training (11%)
Ireland	Implementation costs (26%)	Too time consuming (19%)	Too complicated (17%)
Australia	Implementation costs (31%)	Too time consuming (23%)	Too complicated (16%)
Brazil	Implementation costs (48%)	Plan to outsource (24%)	Too complicated (18%)
Canada	Too time consuming (26%)	Implementation costs (23%)	Too complicated (14%)
Singapore	Implementation costs (58%)	Too time consuming (20%)	Too complicated (18%)
Spain	Implementation costs (25%)	Plan to outsource (23%)	Too time consuming (17%)
USA	Too time consuming (25%)	Implementation costs (23%)	Too complicated (17%)
Germany	Implementation costs (28%)	Too time consuming (22%)	Too complicated (14%)

Percentage in brackets denotes the % of SMEs citing the reason

This analysis clearly reveals the concerns of SMEs in each country. As discussed above, globally the cost of digitalisation is a disincentive to invest, along with concerns that moving to software solutions will be too time consuming. Many countries are concerned that digital solutions are too complicated.

In a number of countries, there are plans to outsource a significant part of the administrative burden. This is an interesting statistic for policy makers. If such tasks are outsourced, they are likely to be run in a more efficient manner, probably including digital solutions. There will also be a lower manpower burden on the SMEs, potentially leading to greater output. However, these new service providers will remove some of the profit from SMEs, making them less likely to invest in innovative new goods and services. Although some of the resulting reduced growth will be made up through efficiency savings and the multiplier from the new service provider themselves, it is likely that consumers overall will be slightly worse off in the long term. Therefore policy makers should make sure that outsourcing is only done where it is due to efficiency reasons, rather than because the administrative burden is too high in the first place.

In France and South Africa, respondents believe that a lack of training in digital skills to use software is one of the main reasons for not doing so. This is a common theme across countries, in fact, with a small but significant number of respondents citing it as a reason (ranging from 6% in Australia to 19% in South Africa). As with implementation costs, this concern is again something that governments and policy makers could directly address (through training schemes).

At the other end of the scale, bad experiences with software, and the existence of legacy systems, were two of the least-cited reasons for not digitalising. Again, policy makers can learn important lessons from this:

- SMEs are not afraid to move to new systems and ways of doing administration if they feel they will benefit; and
- Few SMEs have had a bad experience with software, again showing the benefits of digitalisation.

The least-cited reason for not using software was apathy, but this may be because of the negative connotations associated with the reason itself.

5.4 Can government intervention help?

Our analysis of the way in which SMEs use software solutions to assist with administration has indicated that there are some considerable improvements that could be made, but there are some consistent reasons why companies are not willing (or do not feel able) to implement these. Given the potential benefit to the country's economy of increasing the use of software, where governments are able to intervene there is a strong argument that they should.

There are two questions that governments must answer when planning intervention.

1. What form will the intervention take, and which aspects of the market will be impacted?
2. How will companies be persuaded to take up the assistance?

The second of these questions is perhaps the more easy to answer. Across all countries the most important factor that would encourage companies to invest in software solutions is a demonstrated cost saving.

Figure 5-14: Top 3 encouragements in each country to get companies to use digitisation

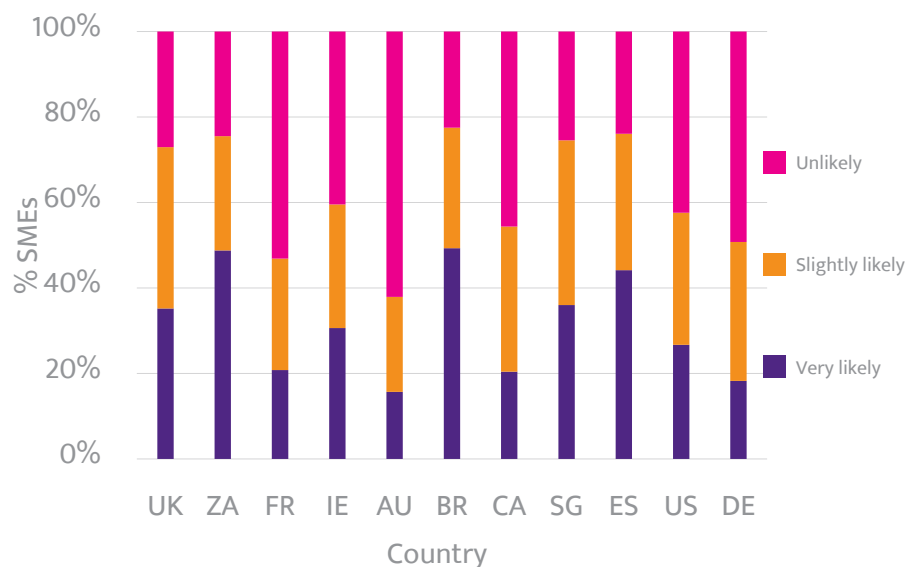
Country	First top reason	Second top reason	Third top reason
UK	Cost savings (59%)	Freeing up staff (36%)	Removing human error (34%)
South Africa	Cost savings (64%)	Freeing up staff (39%)	Automation helps deadline (35%)
France	Cost savings (30%)	Freeing up staff (16%)	Removing human error (15%)
Ireland	Cost savings (39%)	Removing human error (22%)	Freeing up staff (21%)
Australia	Cost savings (35%)	Consistency (18%)	Freeing up staff (15%)
Brazil	Cost savings (57%)	Consistency (33%)	Automation helps deadline (24%)
Canada	Cost savings (39%)	Removing human error (26%)	Freeing up staff (21%)
Singapore	Cost savings (61%)	Freeing up staff (36%)	Removing human error (35%)
Spain	Cost savings (42%)	Removing human error (23%)	Automation helps deadline (21%)
USA	Cost savings (43%)	Freeing up staff (27%)	Consistency (23%)
Germany	Cost savings (40%)	Removing human error (15%)	Freeing up staff (15%)

Percentage in brackets denotes the % of SMEs giving citing this as an encouragement

As discussed previously, there is a disconnect between the perception and reality of the cost of implementing software solutions, with many companies believing that the cost of running digital solutions will be too high while in fact software represents a very small part of total administration costs. This result further complicates that paradox: not only do companies think that software is too expensive, but they also believe that they would more readily use it if it led to cost savings.

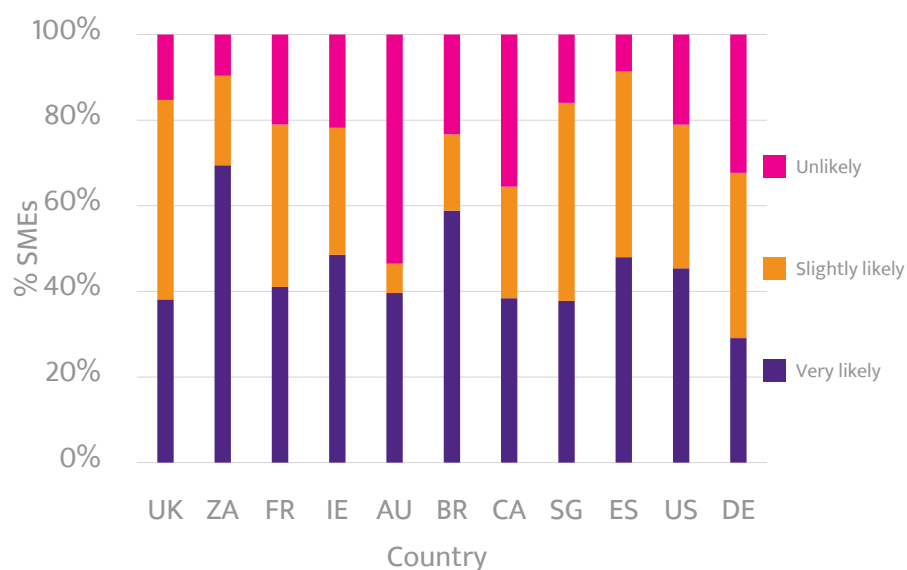
Governments can therefore capitalise on these findings by demonstrating the benefits of digitalisation, as discussed in our second question. Theoretically, if cost savings are demonstrated, then companies may begin to digitise administrative tasks themselves. To encourage this process, governments may reduce the cost of implementation through subsidies, direct intervention, or potential tax breaks. This would be justified by the benefits that increased cost savings would have on economic welfare overall.

As discussed previously, another key reason that companies give for not digitising administrative tasks is that they do not have adequate skills or training to do so. To overcome this, the government could invest in free training for these companies, again investing in SMEs in an effort to increase overall economic growth. However, despite many companies stating that a lack of skills was a barrier to implementing software solutions, a large proportion of companies in some countries would not take up free training if it were offered.

Figure 5-15: Potential take-up of training schemes

From this analysis, it would appear that the Australian, Canadian, French and German governments would be best advised to concentrate their interventions in other areas. Conversely, the governments of South Africa, Brazil and Spain, and to a slightly lesser extent the UK, Ireland and Singapore, are likely to see a reasonable uptake of training.

This analysis is, however, likely to underestimate the impact of training schemes. Those who answered that they would not take up an offer of free training are likely to be those who do not believe that a lack of skills is the reason that they have not invested in software. If we look only at those companies who do believe that they lack the skills to use digital solutions, the conclusions are very different, as shown below.

Figure 5-16: Potential take-up of training schemes among companies citing lack of skills

Appendix A The importance of SMEs

This Annex, based on work by FTI Consulting, considers the importance of SMEs across the world, and their contribution to employment and the economy. Small and Medium Enterprises (“SMEs”) are widely considered to be the backbone of the economies of all of the 11 countries that we analyse in this report: Australia, Brazil, Canada, France, Germany, the Republic of Ireland, Singapore, South Africa Spain, the UK and the US.

SMEs not only account for a significant (in many cases the majority) share of economic activity and employ a large share of the working population, but they also drive innovative and vibrant sectors in virtually all parts of these economies and in every region and territory.

In the EU, SMEs are typically defined as enterprises with fewer than 250 employees and micro enterprises are those with fewer than 10 employees. In other parts of the world SMEs and micro enterprises are often defined slightly differently. For example, in Canada and the US, SMEs include larger firms with up to 500 employees. In Canada, Brazil and South Africa, micro enterprises are smaller firms; those with fewer than 5 employees. Figure A-1 below summarises these definitions across the 11 markets considered in this report.

Figure A-1: Definition of size of SME businesses across countries (by employment)

Country	Micro	Small	Medium	Large
Australia	<5	5-19	20-199	>200
Brazil	<5	5-19	20-249	>250
Canada	<5	5-99	100-499	>500
France	<10	10-49	50-249	>250
Germany	<10	10-49	50-249	>250
Ireland	<10	10-49	50-249	>250
Singapore	<10	10-49	50-199	>200
South Africa	<5	5-49	50-199	>200
Spain	<10	10-49	50-249	>250
UK	<10	10-49	50-249	>250
US	<10	10-99	100-499	>500

Note: There are multiple alternative definitions relating to the size of businesses across countries, including those relating to income, profits, assets and amount of tax paid.

Source: National statistics authorities.

We emphasize that the definition of SMEs, somewhat counterintuitively, includes micro enterprises. Therefore, throughout the report when we refer to SMEs we do not only mean small and medium enterprises, as the term would suggest, but micro enterprises as well.

A.1 In terms of number of enterprises, SMEs dominate the economies considered

In each of the economies examined, SMEs account for over 99% of all enterprises (except in South Africa where they account for nearly 97%). The vast majority, typically over 80% of enterprises, is accounted for by micro enterprises. Canada and South Africa stand out as having significantly smaller share of micro enterprises

however in these countries micro firms represent a narrower category (fewer than 5 employees) than in most other countries (fewer than 10 employees).

The number of registered SMEs¹⁰ ranges from around 217,000 in Singapore to 5.8 million in the US.

Figure A-2: Number of (registered) SME enterprises (thousands)

	Micro	Small	Medium	Large	Total	Micro Share	SME Share
Singapore		216		1	217		99.4%
Ireland	229	16	3	1	249	92.2%	99.8%
South Africa	200	315	21	17	553	36.2%	96.9%
Canada	638	515	21	3	1,177	54.2%	99.7%
Australia	1,918	199	51	4	2,172	88.3%	99.8%
Germany	2,062	364	67	17	2,510	82.2%	99.3%
UK	2,277	227	40	10	2,555	89.2%	99.6%
France	2,928	122	19	4	3,074	95.3%	99.9%
Spain	3,097	116	18	5	3,237	95.7%	99.8%
Brazil	2,768	415	54	12	3,249	85.2%	99.6%
US	4,597	1,122	88	19	5,825	78.9%	99.7%

Note: Figures are from the latest publicly available data. Figures show registered enterprises where available (e.g. VAT or PAYE registered enterprises in the UK, enterprises with paid employees in the US, enterprises with paid employees in classified industries in Canada, enterprises with paid employees in Brazil and VAT registered enterprises in South Africa). Separate data for micro, small and medium companies in Singapore is not available.

Source: National statistics authorities.

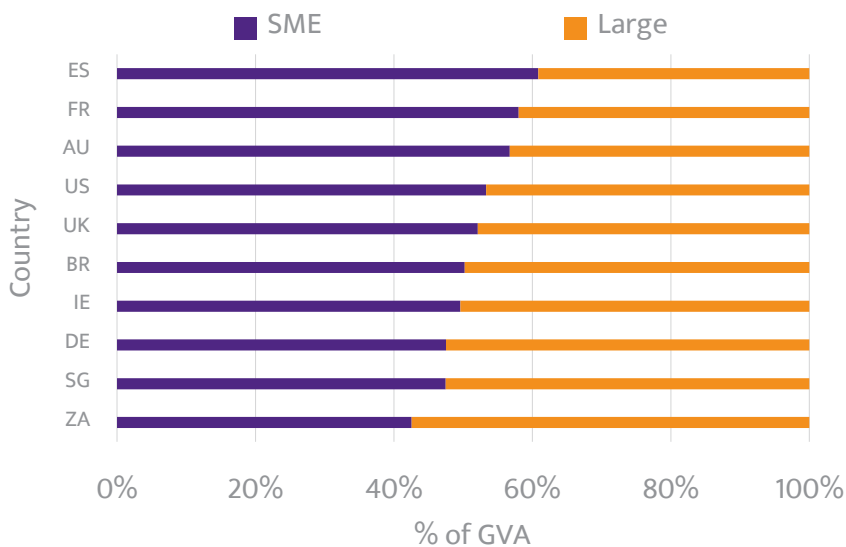
A.2 SMEs contribute a large share of economic activity and employment

Two key indicators of the importance of SMEs to their respective economies are their contribution to Gross Value Added (GVA) and their share of total employment. GVA is essentially the same as the more widely used term of economic activity, Gross Domestic Product (GDP).¹¹

In 6 of the 10 markets where data is available, SMEs contribute more to the GVA of the economy than large enterprises, and in some cases significantly so. In Spain and France, for example, SMEs contribute 61% and 58% of GVA. For Canada, the latest figure available is as of 2005 when SMEs contributed 54% of Canadian GDP. Even in South Africa, where the contribution of SMEs is the lowest in terms of percentage, SMEs contribute 43% of the country's value-added.

¹⁰ Some statistical offices separately report the total number of SMEs and the number of SMEs which are tax registered or which have paid employees. When this distinction is made, we use the figures for the latter, narrower categories as these appear more comparable across the board and have more detailed information.

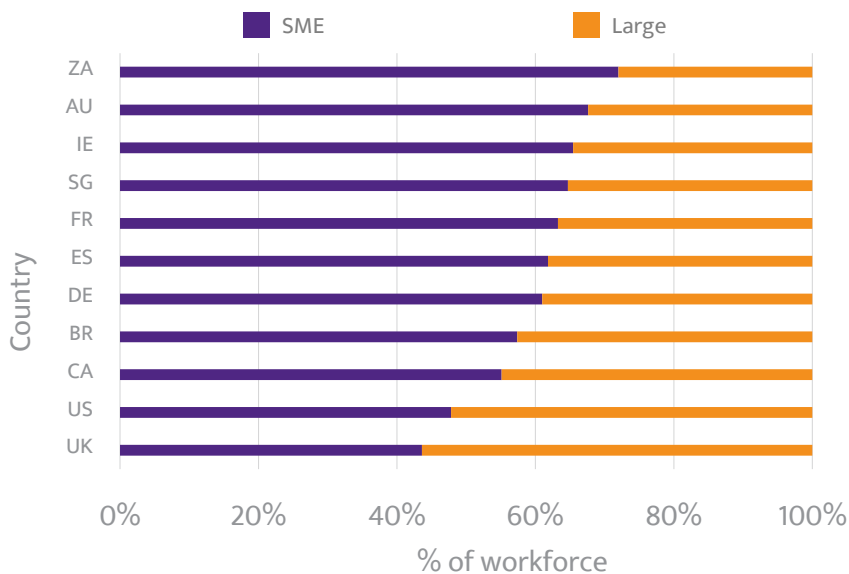
¹¹ The difference between the two terms relates to the treatment of financial intermediation services, taxes and subsidies. From the perspective of this report, these differences are not material.

Figure A-3: GVA contribution of SMEs vs large enterprises

Note: Figures are from the latest publicly available data: 2016 for Australia, France, Spain and the UK, 2015 for South Africa and the US, 2014 for Germany, Ireland and Brazil. This statistic is not available for Canada. Data for some countries exclude some sectors; typically agriculture and forestry, defence, health care, public administration.

Source: National statistics authorities

Typically, SMEs account for an even greater share of employment than of GVA across the 11 economies. More than half of the private sector workforce is employed by SMEs in all economies examined with the exception of the US and the UK. These are also the only two countries where SMEs' share of employment is lower than their share of GVA, indicating higher level of productivity of SMEs in these economies than in the rest of the sample. South Africa and Singapore stand out with high level of SME employment but relatively lower levels of SME value-added.

Figure A-4: Employment by business size

Note: Figures are from the latest publicly available data: 2016 for Australia, Canada, France, Singapore, Spain and the UK, 2015 for Ireland, 2014 for Brazil, Germany, South Africa and the US. Data for some countries exclude some sectors; typically agriculture and forestry, defence, health care, public administration.

Source: National statistics authorities

A.3 SMEs pay a substantial share of corporation taxes

The significant contribution of SMEs to economic activity also translates into government corporation tax receipts. Unfortunately, data on corporate taxes paid by SMEs is not readily available in many of the examined economies. In Spain, SMEs account for 59% of corporation taxes in line with their GVA contribution. In Australia, Ireland, and South Africa, SMEs pay around 32%-36% of corporation taxes, which is significant but well below their share of contribution to GVA. In the UK, smaller firms with profits less than GBP 1.5 million also pay around a third of corporation taxes however these companies are likely to represent only a subset of all SMEs.

Figure A-5: Share of corporate tax paid by smaller businesses

Country	Definition of SMEs for the perspective of corporation tax	Proportion of tax paid by smaller businesses
Spain	Number of employees under 250	59.2%
Australia	Total income less than AUD 100m	35.9%
Ireland	Pay less than EUR 10m in corporate tax	35.7%
UK	Profits less than GBP 1.5m	32.4%
South Africa	Income level varies across sectors	32.2%

Notes: For the UK, companies with profits less than GBP 1.5 million was used to approximate smaller firms; however these companies represent a subset of SMEs.

Source: Respective national statistics authorities

A.4 SMEs exist in multiple sectors

Across all economies where the data is available, the majority of SMEs are in services industries. The share is highest in Ireland and the US, where over 80% of SMEs are service firms. By contrast, around 30% of SMEs are in goods industries in Brazil, France, Spain and Germany.

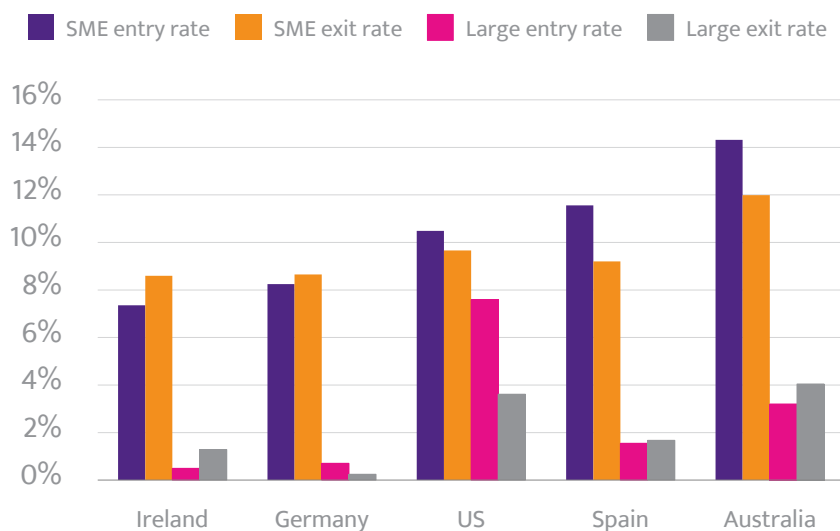
Within the services industries, the professional, scientific and technical sector, which includes legal and accounting services, management consultancies and architecture businesses, and the retail trade sector tend to be the dominant sectors in terms of SME contribution. Within the goods industries, SMEs tend to be concentrated in the construction sector.

A.5 SMEs drive growth, innovation and diversity

The number of SMEs has grown strongly in recent years in several of the countries examined. In the UK, growth in SMEs has outstripped that of large companies in recent decades – the number of SMEs has risen by 25% since 2000, while the number of large enterprises remained broadly unchanged. In Germany, between 2008 and 2014, the number of SMEs increased by 34% compared to that of large enterprises which increased by only 17%. In the US, the number of SMEs declined less steeply than that of large enterprises during the financial crisis however the recovery of SMEs has also been slower. Australia is one of the counter-examples, where the growth of large enterprises has outpaced that of SMEs since 2010.

SMEs maintain steady growth despite having significantly higher failure rates than those of large companies. As shown in Figure A-6, SMEs (micro enterprises in particular) have much higher start up and failure rates than large companies in all of the countries for which data is available.

Figure A-6: Entry and exit rates by business size



Note: Figures are from the latest publicly available data. For Germany, Ireland and Spain, SME entry and exit figures are for micro enterprises (<10) only. The data for the US is at an establishment level, which is defined as a single physical location where one

predominant activity occurs, as opposed to a firm, which can consist of several establishments.
Source: National statistics authorities¹².

In many countries, SMEs are key drivers of employment growth. For example, in Canada, SMEs accounted for 95% of the increase in private sector employment (of 1.2 million jobs) between 2005 and 2015.¹³ Similarly in the US, between 1993 and mid-2013, small businesses created 14.3 million jobs out of the total 22.9 million new jobs created in that period, accounting for 63% of the net job creation.¹⁴

SMEs are also an important driver of innovation, diversification and export growth. For example, in Germany, SMEs are highly innovative and technology driven, with more than 42% of SMEs having launched a product or process innovation in 2014.¹⁵ In the US, of high patenting firms (15 or more patents in a four-year period), small businesses produced 16 times more patents per employee than large patenting firms.¹⁶ Similarly, in Singapore, the Government has identified SMEs as an important driver of innovation of new products and services, particularly in the digital economy.¹⁷

A.6 SMEs face several challenges particularly in the areas of regulation and taxation

Across all of the countries examined, regulation and taxation are two key challenges regularly cited by SMEs. Late payments, difficulty with staff recruitment and lack of access to finance are also important obstacles for many SMEs.

In the UK, the Small Business Survey conducted by the Government in 2016 reported competition, regulation, taxation and late payments as the major obstacles to the success of SMEs.¹⁸ For example, regulatory compliance costs are much more onerous for small firms than for larger ones:

“Fixed cost elements of regulatory compliance produce higher relative compliance costs for small firms. OECD evidence reveals that small firms (with 1–19 employees) incur more than three times higher regulatory costs per employee than medium firms (20–49 employees) and more than five times higher costs than large firms (50–500 employees).”¹⁹

In the US, the cost of health insurance appears to be the most severe problem facing small businesses.²⁰ US SMEs also face a disproportionate burden of regulatory compliance:

“Research... estimates annual regulatory compliance costs businesses \$1.88 Trillion. At 11% of GDP, that’s \$280 Billion more than tax receipts... small businesses pay double per employee per year for regulatory compliance than big businesses.”²¹

In Canada, the average employee spends more than a month each year to deal with regulations:

¹² Germany – Business Register, Statistisches Bundesamt (Destatis); Spain - Harmonized Business Demography Year 2014, National Statistics Institute; US – Business Dynamics Statistics, US Census Bureau; Australia – Counts of Australian Businesses, Australia Bureau of Statistics; Ireland – Business Demography, Central Statistics Office.

¹³ Key small business statistics, June 2016, Innovation, Science and Economic Development Canada Small Business Branch, page 7.

¹⁴ US Small Businesses Administration, FAQ - https://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf

¹⁵ Translated from <http://www.bmwi.de/Redaktion/DE/Dossier/politik-fuer-den-mittelstand.html>, Federal Ministry of Economics and Technology (Germany), 2017.

¹⁶ US Small Businesses Administration, FAQ - https://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf

¹⁷ Singapore SMEs More Optimistic, SG SME, 2017 - www.sgsme.sg/news/government/singapore-smes-slightly-more-optimistic-index

¹⁸ Small Business Survey 2016: SME employers, page 10.

¹⁹ Better regulation, Federation of Small Businesses, page 8.

²⁰ Small Business Problems and Priorities survey, NFIB Research Foundation.

²¹ What Small Business Owners Think About Their Income Tax ROI, Forbes, 2014.

“According to Canada’s Red Tape Report, the total cost of complying with government rules and paperwork reached \$37.1 billion a year in 2014. In the smallest businesses, the average employee can spend more than a month each year (185 hours) just dealing with regulations.”²²

In Australia, compliance with Goods and Services Tax (GST) rules draws significant resources, particularly from SMEs:

“An SME spends an average of 84.1 hours a year to collect the tax on behalf of the Australian Government - or more than two full working weeks a year...this equates to \$6778 a year for each of the estimated 2.02 million SMEs and non-employing business in Australia – or \$13.7 billion a year across all SME...The GST represents two full weeks where the owner’s attention is dragged away from the day to day running of their business. This is a significant drain on the productivity and profitability of SMEs.”²³

The complexity of tax systems is also regularly cited as a challenge for SMEs including in France and Brazil. In Brazil companies take 2,600 hours per year to comply with taxes:

“The complexity of the Brazilian tax system in terms of number of taxes and ancillary requirements is not sustainable in the long term. The World Bank conducts an annual “Paying Taxes” study together with PwC, which places Brazil as the country in which companies take amongst the most time to comply with taxes (2,600 hours per year, against 1,025 in Bolivia, 286 in Mexico, 291 in Chile or 175 in the US).”²⁴

The failure rate of SMEs in South Africa is one of the highest in the world. Lack of finance is one of the primary reasons, followed by compliance burden and late payments. Late payments are a big problem for small businesses as the lack of cash flow stifles growth and even puts entrepreneurs out of business.

A.7 Conclusion

There are many reasons why SMEs are considered the backbone of the economies of the 11 countries analysed in this report. They typically account for the majority or close to majority of GVA and employment, pay a substantial share of corporation taxes and are key drivers of growth, innovation and diversity. Their contribution is particularly noteworthy given the obstacles they face including lack of financing, difficulties with staff recruitment, late payments and a disproportionate burden of compliance with regulation and tax rules.

²² Regulation Costs for Canadian Businesses, CFIB, 2015

²³ SME Compliance Costs, MYOB Australia, 2015

²⁴ Global Legal Insights – Corporate Tax, Fourth Edition, Global Legal Group, 2016, page 22.

Appendix B Survey questionnaire

Question	Options (where applicable)
In what age range do you fit into?	
What is your gender?	
Which of the following would you use to describe your organisation?	<ul style="list-style-type: none"> • Privately owned company • Publicly listed (i.e. on the stock market) • Government • NGO/ charity
How involved and knowledgeable are you with decision making on finances and administrative functions for your company?	
How many years has your company been in business?	
In which country are you personally based in?	
Is your HEAD OFFICE also in this country?	
Which of the following would you use to BEST describe the size of your organisation in your country?	
And approximately how many employees does your company directly employ full-time?	
By what percent do you expect the number of your full-time employees to change over the next 12 months?	
And approximately how many employees does your company directly employ on a part-time or casual basis?	
Approximately, what was your net profit (before tax) for the last 12 months?	
By what percent do you expect your net profit (before tax) to change over the next 12 months?	
Approximately, what was your Turnover for the last 12 months?	
By what percent do you expect your Turnover to change over the next 12 months?	
Approximately what percentage of your Turnover is from the country you're headquartered in?	
What geography does your company typically operate in?	<ul style="list-style-type: none"> • Nationally • Regionally • Globally

Question	Options (where applicable)
In which of the following geographies are your clients / customers based?	<ul style="list-style-type: none"> • Africa • Asia • Central America • Eastern Europe • European Union • Middle East • North America • Oceania • South America • The Caribbean
Approximately how many clients / customers have you had over the last 12 months?	
By what percent do you expect the number of your clients / customers to change over the next 12 months?	
Which of the following industries is your company in?	<ul style="list-style-type: none"> • Banking, Financial Services & Insurance • Education • Energy • Food and Beverage • Government Contracting • Healthcare / Wellness • Hospitality & Leisure • Infrastructure, Construction & Transport • Insurance • Life Sciences • Legal • Manufacturing & Aviation • Media, Sport & Entertainment • Mining • Real Estate • Retail • Technology & Telecoms • Other
Would you use any of the following to describe your company?	<ul style="list-style-type: none"> • Start-up • Technology company • Disruptive to a traditional industry • None of the above
To the best of your knowledge, what is your forecast for your organisation over the next 12 months?	<ul style="list-style-type: none"> • Rapid growth • Steady growth • Broadly Flat • Decline
Approximately what proportion of administrative tasks over the last 12 months are taken up with the following? <ul style="list-style-type: none"> • Accountancy tasks • HR tasks • Payroll tasks • Tax-related accounting • Chasing late payments • Processing invoices received • Generating invoices & process payments • Talent acquisition / training 	

Question	Options (where applicable)
With regards to all these administrative tasks, how many days of work would you estimate is spent on them in TOTAL over the last 12 months?	
What would you estimate is the overall cost (including wages and specific software) to your company on these administrative tasks?	
What percentage of these overall cost would you appropriate to specific administrative software costs?	
Looking to the next 12 months, how do you expect these administrative tasks costs to change?	
Which of the following administrative tasks are you prioritising over the next 12 months to be more cost effective and efficient?	
Which of the following administrative tasks are carried out using a dedicated software? <ul style="list-style-type: none"> • Accountancy tasks • HR tasks • Payroll tasks • Tax-related accounting • Chasing late payments • Processing invoices received • Generating invoices & process payments • Talent acquisition / training 	<ul style="list-style-type: none"> • Fully • Partly • No dedicated software
What are the reasons for not submitting or conducting these administrative tasks using a dedicated software?	<ul style="list-style-type: none"> • Implementation costs • Time consuming • Legacy systems that are incompatible • Planning to outsource directly instead (i.e. to accountants) • Previous bad experiences • Apathy • Lack of digital skills / training • Complicated processes • Other • Nothing
Which of the following would encourage your company to submit or conduct these administrative tasks using a dedicated software?	<ul style="list-style-type: none"> • Cost savings (time spent processing and submitting tasks) • Freeing up staff to undertake other tasks • Removing element of human error • Consistency in delivery • Ensuring deadlines are met through automation • Other • Nothing would encourage

Question	Options (where applicable)
<p>Assuming you were given this encouragement, how likely would your company be to submit or conduct these administrative tasks through a dedicated software over the next 12 months?</p> <ul style="list-style-type: none"> Accountancy tasks HR tasks Payroll tasks Tax-related accounting Chasing late payments Processing invoices received Generating invoices & process payments Talent acquisition / training 	<ul style="list-style-type: none"> Very likely Slightly likely Unlikely
<p>If you were offered free training on digitisation of the following tasks, would your company take it?</p> <ul style="list-style-type: none"> Accountancy tasks HR tasks Payroll tasks Tax-related accounting Chasing late payments Processing invoices received Generating invoices & process payments Talent acquisition / training 	<ul style="list-style-type: none"> Very likely Slightly likely Unlikely
<p>How strongly do you agree or disagree with the following statements?</p> <ul style="list-style-type: none"> The increase in regulatory compliance is impacting the ability of our company to compete. It is difficult to find administrative cost savings in order to be more competitive. We are looking to reduce administrative costs through technology, rather than through outsourcing. Cost savings are overlooked in pursuit of increasing revenues. 	<ul style="list-style-type: none"> Strongly agree Slightly agree Slightly disagree Strongly disagree

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