

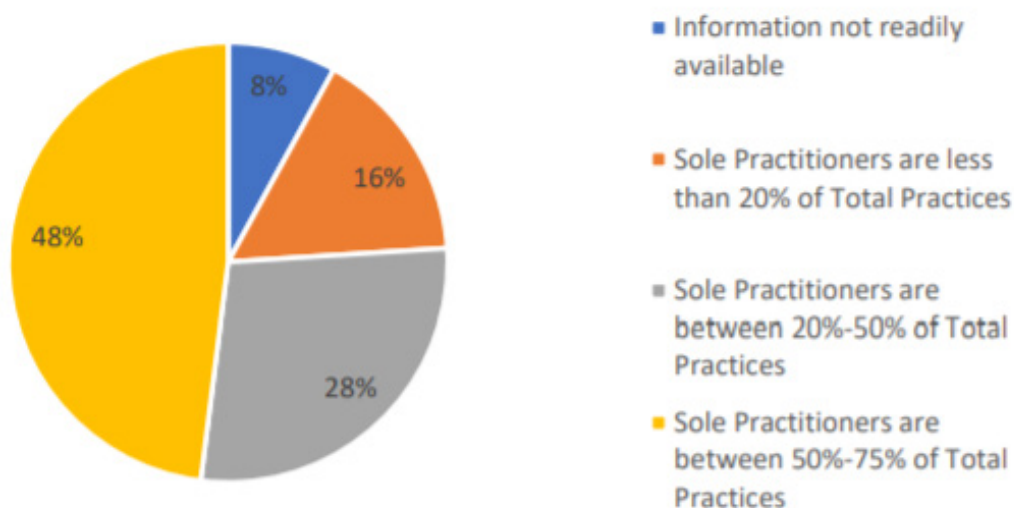
Challenges & Opportunities for Sole Practitioners--and How PAOs Can Help

Author: George Willie, Managing Partner of Bert Smith & Co. and a member of the IFAC SMP Advisory Group and Johnny Yong, Technical Manager of IFAC GAP-S Department. Sole practitioners remain a significant segment of the accounting profession in many jurisdictions. PAOs can do much more to help them to be future-ready.

Introduction

Sole practitioners are a mainstay of the profession globally. Based on an informal survey of the members of the IFAC Small- and Medium-Sized Practices (SMP) Advisory Group (AG), sole practitioners make up 50% to 75% of the practices in almost half of the jurisdictions being polled. In another 28% of those jurisdictions, they make up between 20% to 50% of total practices (please refer to the chart below).

Sole Practitioners as a Percentage of Total Practices in Select Jurisdictions



The survey gave no single definition of a sole practitioner. That definition varies around the world. Some jurisdictions include proprietors with staff in their count of sole practitioners. In others, it could be strictly sole practitioner with no staff. According to the survey above, in jurisdictions where sole practitioners with staff are included in the definition, about 57% have 2 to 5 staff either on the payroll

or employed as subcontractors. Some Professional Accountancy Organizations (PAOs), such as those from Hong Kong and Malaysia have records of sole practitioners that employ up to 30 staff at any given time.

The Challenges and Opportunities Confronting Sole Practitioners

Many of the challenges faced by sole practitioners are known to the PAOs. Based on IFAC's 2018 Global SMP Survey —the latest available data—the following are the most prominent challenges sole practitioners have reported:

- Keeping up with changes in regulations and standards (59% of sole practitioners, compared to an average of 45% across all other practice segments);
- Attracting new clients and retaining existing clients (50%, compared to 46%);
- Rising costs and managing cashflows (42%, compared to 39%).

This survey's data is limited because it captures only sole practitioners with no staff, but the broad trends are still significant for the sector.

The IFAC SMP AG has in the past produced a suite of materials that cover sole practitioners. For example, Module 2 of the **Guide to Practice Management for Small- and Medium-Sized Practices** (PM Guide) lists the opportunities and challenges for a sole practitioner's business model compared to a conventional partnership. Module 7 and 8 of the Guide includes risk management and exit considerations in relation to sole practitioners. The **IFAC Guide to Quality Control Manual** (3rd Edition) has a sample quality control manual for a sole practitioner with non-professional staff.

While a number of IFAC Knowledge Gateway articles such as "**Encouraging Successful Exit Strategies – Passing the Baton**" or "**How to Support the SMP of the Future**" were written with SME and SMP audiences in mind, many of the suggestions and initiatives will be equally practicable for sole practitioners.

Recently, there has been anecdotal evidence that sole practitioners have been particularly impacted by Covid-19 because of the level of support required by their clients, the costs of being in practice (made worse by non-payment from some existing clients), and because many small businesses have been forced to close due to the pandemic. Small business has long been a sector regularly served by sole practitioners.

The challenges for the sole practitioners are usually more significant compared to those of a partnership because:

- Sole practitioners cannot easily share ideas among peers. In a typical sole practitioner's set-up, there is no peer at the top of the organization in the first instance.
- Operations are limited by a relative lack of assets, low savings for investment necessary in the practice, and limited access to funding --though there are ways to overcome such shortfalls.
- Keeping up with the rapid changes in technology, rules, and regulations can be especially daunting to a sole practitioner because of the feeling of personal isolation.

Ultimately--as the AG has discussed--the lack of time is a major obstacle confronting a sole practitioner. As operating environments become even more complex, the major limitation to the sole practitioner might simply be the lack of time to learn or re-learn skills and concepts to deal with such upheaval.

How Can Professional Accountancy Organizations (PAOs) help?

At the SMP AG meeting in July 2020, the AG was asked about the type of support that PAOs should consider offering to this significant segment of the profession. The responses yielded many insights.

In keeping up with the rapid pace of change:

- PAOs can share information on technology tools and resources that sole practitioners can leverage. For example, SAICA has published a comprehensive **manual** on the type of software available in the South African marketplace. The Malaysian Institute of Accountants is also coming out with a similar guide.
- PAOs should consider negotiating financing packages for sole practitioners to make these technology investments. The PAO in Malta, for example, worked with information technology suppliers to offer software packages to its practitioners.
- Sole practitioners must remain engaged members of the PAO to have the support and information as needed.
- Leveraging social media will be useful for sole practitioners-- especially in attracting and retaining staff.
- Support through training and other implementation resources will be important. Sole practitioners will be looking to their PAOs to assist with the fast pace of changes in rules and regulations.

Specific guidance and advice to be given to sole practitioners to enable them to be future ready:

- Don't become too resistant to change. Seize the opportunity when it arises. The recently launched **Practice Transformation Action Plan** outlines the importance of embracing change.
- Most sole practitioners tend to have a “traditional” business model. They should consider moving out of their comfort zone. Specialization is a way for the practice to remain relevant in the marketplace. Many literatures have pointed to advisory services as a promising future for accounting practices. Gateway article such as “**Firms of the Future – Building Advisory Services**” is a good read for firms with such aspiration.
- Networking and communication with other practitioners can be an informal support for a sole practitioner. Being pro-active in developing network and alliances can help enable a firm to be futureready. Through these networks, sole practitioners can refer their clients to other specialists for services that they themselves don't provide—and receive referrals in turn.
- Sole practitioners also need to be aware of the **value of branding**. To have staying power, it is important for the firm to build up its unique selling proposition.
- As a sole practitioner, having a clear strategy over time can be a matter of success or failure. The sole practitioner must be able to ask and answer an all-important question: “What do you want to be?” Being everything to everyone is not workable over time.
- As a sole practitioner, understanding work-life balance is critical. The one and only driving force of the practice is the proprietor.

Conclusion

With proper support and guidance, the sole practitioner will continue to play a significant role within the profession in many jurisdictions. While it may not be an easy environment for sole practitioners, it can still be a rewarding business model with a proper strategy and plenty of support from the PAOs and the practitioner's formal and informal networks.

These are, and probably will continue to be, disruptive times for sole practitioners—but the business model has inherent benefits that will help sole practitioners to thrive. “One of the strong argument of being a sole practitioner is that he or she is the only focal point of decision making, and, conversely, bears the responsibility of those decisions. But, the sole practitioners will also get to keep all the fruits of his or her labor.”