Strategic Analysis of the Development of Small and Medium-Sized Accounting Firms in Jing Zhou

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Abstract

The main body of accounting services in the market economy of Jing Zhou City is currently mainly composed of small and medium-sized enterprises; each year, small and medium-sized accounting firms mainly provide its traditional class audit, proxy bookkeeping, capital inspection and other services. However, due to the fact that current small and medium-sized accounting firms in Jing Zhou have the characteristics of a single structure, a large number of organizations, fierce competition and so on, these probably result in the slow development of small and medium-sized accounting firms in the local market. Based on an analysis on the current status of the development of small and medium-sized accounting firms in Jing Zhou, and the problems that may be encountered in their further development, this article proposes a series of targeted development recommendations to seek the long-term development of small and medium-sized accounting firms in Jing Zhou.

Keywords

Small and Medium-Sized Accounting Firms, Development, Influencing Factors, Recommendations

1. Introduction

With the rapid development of China’s economy, the number of accounting firms is also growing, especially the small and medium-sized firms, who have great market growth potential because of their flexibility in the development; however, due to the late establishment of small-sized accounting firms, and small number of talented person, fierce competition in the market and other
factors, it is more difficult for these accounting firms to develop (Xu, 2009) Jing Zhou City, as a prefecture-level city, with a majority of small and medium-sized enterprises, most of which provide services to small and medium-sized accounting firms; such as no central enterprises and no famous accounting firms in Jing Zhou. Therefore, the purpose of this paper is to analyze the current situation of the development of small and medium-sized accounting firms in Jing Zhou City, to explore the existed problems and put forward strategic recommendations for its future long-term development, providing the reference recommendations for the healthy development of small and medium-sized accounting firms in Jing Zhou City.

2. Development Status of Small and Medium-Sized Accounting Firms in Jing Zhou

Jing Zhou City has a large number of small and medium-sized accounting firms which are in a stage of rapid growth and development; according to the incomplete statistics, there are about fifty accounting firms in the city, except for a very small number of accounting firms about 10 firms begin to take on a certain scale, the rest of them are small accounting firms, and most of the size of the staff between 20 to 50 people; the survey shows that the proportion of CPAs in the CPA industry belonging to Jing Zhou City is not high, accounting for only 55% of the number of total employees, which is lower than the well-developed areas in the CPA industry. Even though Jing Zhou’s economy has grown somewhat in recent years, it’s still not enough relative to the number of accounting firms. And the services provided by the small and medium-sized accounting firms are very limited and singular, and some firms are competing with each other through undercutting prices and meeting the improper demands for clients in order to get clients and survive, which is not conducive to the healthy development of the entire small and medium-sized accounting firm in Jing Zhou.

Jing Zhou, as the main battlefield of Hubei’s Yangtze River Economic Zone, has a more prominent strategic position and a broader development space (Outline of the Thirteenth Five-Year Plan for Jing Zhou City’s National Economic and Social Development, 2016); In 2019, the municipal party committee and the municipal government closely focused on the strategy of the economic waist-strengthening project and actively dealt with the continuous downward pressure of the current macroeconomic situation, and the city’s economy operated smoothly under the new normal, showing a good development trend of steady progress, structural adjustment, quality improvement, and enhanced momentum. According to preliminary calculations, the city will achieve a gross regional product of 251.648 billion RMB in 2019, increasing by 7.5 percent compared to the previous year, which provides the necessary economic foundation for the better development of small and medium-sized accounting firms in Jing Zhou.

The CPA profession is an inevitable product from the local market economy,
and serving the healthy and sustainable development of the local market economy at the same time. Jing Zhou, recently has a large number of small and medium-sized enterprises being in a stage of rapid growth and development, and these companies urgently need relevant professional advice, agency accounting and bookkeeping services provided by professional accounting firms. This is an area that can be fully exploited and developed by small and medium sized accounting firms to gain more profitability; meanwhile, local these small and medium-sized accounting firms have become a very appropriate and preferred choice for small and medium-sized enterprises due to their relatively low operating and labor costs, as well as their ability to provide a variety of flexible services at economically reasonable rates. Currently, the rapid economic development in Jing Zhou, which needs the corresponding services provided by accounting firms for the local firms’ long-term development, so creating unlimited business opportunities for the small and medium-sized accounting firms; at the same time, the CPA profession and the entire accounting firm’s income will also be growing with the continuous development of the economy trend.

3. Problems in the Development of Small and Medium-Sized Accounting Firms in Jing Zhou

3.1. Threat of Potential Entrants, Fierce Competition in the Market

Since the accession to the WTO in the 21st century, the market economy in China has become progressively more active, and with more and more multinationals pouring into China, most of whom were international accounting firms with strong capabilities, excellent professional skills and extensive experience such as “Big Four” and large domestic accounting firms; by virtue of their advantages, these large accounting firms occupy a major share of the domestic market, With the national economy and social development needs in Jing Zhou, large domestic and foreign accounting firms will also gradually enter the Jing Zhou market. According to incomplete statistics of Jing Zhou, a total of about fifty accounting firms excepting for a very small number of accounting firms in a certain size, the rest are small accounting firms. They are inherently less resilient to risk than those firms moving in from the outside, due to their own weak practice qualification levels and limited scope of practice, which severely constrains the survival of the local small and medium-sized accounting firms in Jing Zhou without doubt, and affects their sustainable development. Also, fierce competition can also lead to company close down, if in some time no contracts were obtained from other businesses. So, this also leads to bad competition of accounting companies.

3.2. Poor in Integrated Practitioners and Difficulties in Expanding New Business

The accounting advisory services industry is a knowledge-intensive industry, with accounting firms providing professional services for a wide range of clients,
and CPAs being the primary providers of accounting service. Because of the few local colleges and universities in Jing Zhou, coupled with its location in a fourth-tier city, so it is not easy for these small accounting firms to attract foreign graduates and certified public accountants. The survey showed that the CPA profession in Jing Zhou does not account for a high percentage of practitioners, only 55% of the workforce, which is lower than the well-developed areas in terms of CPA profession. Besides, CPA distribution is very uneven and composed of singular personnel, because most of CPAs are only proficient in accounting, auditing, but lacking of knowledge in finance, investment, management and other aspects, so that it is difficult to identify problems in practice in a timely manner (Fan & Liu, 2011). The accounting firms do not give high priority to this issue and is still more interested in recruiting people with some financial or audit-related expertise and background, and the candidates who are able to conduct relevant business quickly; besides, these firms are also less concerned with ongoing diversity training for employees. As a result, even if accounting firms are sufficiently motivated to continue to expand into other financial and non-audited engagements, there are few professionals who are able to directly qualify it (Zhang, 2016). Therefore, the lack of high-quality personnel of small and medium-sized accounting firms in Jing Zhou, and the lack of follow-up personnel training system, which has a greatly negative impact on the development in the local accounting firms.

3.3. A Single Scope of Practice and a Highly Competitive Market

The sources of income for China’s small and medium-sized accounting firms are mainly traditional auditing, bookkeeping, capital inspection and other services, while non-audited services, including management consulting and asset valuation, are not sufficiently developed in the current market, and the scope of practice is relatively homogeneous as well. According to the incomplete statistics, Jing Zhou has a total of about fifty accounting firms, and the number of small and medium-sized accounting firms with qualified securities is very limited, excepting for a very small number of accounting firms, which begin to have a certain scale, and the rest are all small and medium-sized accounting firms. Therefore, these small and medium-sized accounting firms can undertake the business, which the types of products and accounting services provided are basically the same; and they will even compete to survive, undercut prices, charging even much lower than market-directed prices, as well as “high rebates, high profit-sharing” market strategy, this vicious competition greatly undermines the healthy development of the entire industry of small and medium-sized accounting firms in Jing Zhou.

3.4. Weak Audit Independence and Inadequate Internal Control Management

The internal risk governance mechanism is directly related to the quality management and risk control of the entire firm, which is an important foundation
for the sustainable development of the firm, and making it bigger and stronger. The survey shows that accounting firms in Jing Zhou exist the problems including being failure to scientifically and uniformly manage the firm’s statutes, agreements and its systems in accordance with the law, resulting in the firm’s inefficient operation and management of the problem, which is extremely detrimental to the sustainable development of accounting firms; In addition to this, most of the staff size within small and medium-sized accounting firm in Jing Zhou belongs to between 20 - 50 people, which makes the three-tier review system is only a formality; besides, some small and medium-sized firm management dictatorship, have the absolute right to speak, and even intervene the appointment in certified public accountants and audit fees payment, so this “inherent interest” relationship between management and certified public accountants which affects the independence, objectivity and impartiality of the audit (Liu & Guo, 2003). what’s more, some small and medium-sized accounting firms blindly pursue and expand their business volume without attaching great importance to their business quality, and with no regard for internal business quality control at all, in order to survive and continue to develop as far as possible in the fiercely competitive market, thus constraining the long-term development of accounting firms in Jing Zhou.

3.5. High Substitutability, Being Lack of Core Competencies

There is a natural intersection and overlap of various businesses among the CPA profession, local professional asset valuation, advisory agencies, tax firms, consulting services firms, law firms, and other organizations. These consultancies provide the alternatives to certain products or services of small and medium-sized accounting firms in Jing Zhou, such as assets valuation, tax returns, audits and tax advice, and other types of business, which continuously encroach on the industry and market of small and medium-sized accounting firms, threatening the survival and sustainable development of small and medium-sized accounting firms in Jing Zhou. Meanwhile, as a result of the current unequal interests between buyers and suppliers of services in the development of the accounting services market in the country, Small and medium-sized enterprises receiving products and services from small and medium-sized accounting firms, often ask the demand for lower fees and higher standards of service; In addition, many of small and medium-sized firm in Jing Zhou are lack of business expertise and have not yet formed its own core competencies, which are bound to have a negative impact on the business quantity and quality undertaken by the firm.

4. Strategic Analysis of the Development of Small and Medium-Sized Accounting Firms in Jing Zhou

4.1. Implementation in Firm Scale-Up and Consolidation Strategy

A scaling strategy for small and medium-sized accounting firms will not only
further increases their concentration on the audit market, but also further increases the market share and competitiveness of small and medium-sized firms, thereby improving operational efficiency (Chen, 2008). At present, the development of small and medium-sized accounting firms in Jing Zhou is not sufficient, and most of the business types are also relatively similar; Therefore, small and medium-sized firms in Jing Zhou should strengthen industry exchanges according to its own development strength, resources, information sharing and other modes, when facing the market penetration and competition of foreign large accounting firms, and expanding the operation scale through optimization and integration, gradually increasing the scale degree, enhancing market competitiveness and the ability to resist risks (Huang, 2018).

4.2. Improving the Training Mechanism of Enterprises, Enhancing the Strength of Human Resources

One of the most important human resources for small and medium sized firms is their personnel quality. Therefore, the firm itself should actively adopt reasonable incentive mechanisms to attract excellent CPA and other professionals to the firm, creating a professional and business-savvy composite workforce in order to create a good atmosphere for the talent growth within the firm. As small and medium-sized accounting firm in Jing Zhou is currently lack of professional and technical personnel and excellent management personnel, the firm should focus on training a number of composite talent equipped with accounting, taxation, consulting, corporate development strategies and information management systems and rich practical experience, so that this diversified model of talent training can support the development of a wide range of business firm.

At the same time, accounting firms should also strengthen their staff’s ability in communicating and conducting business, provide regular training and communication opportunities for staff in different forms of business, and emphasize the development of independent learning and the ability to plan and summarize business; besides, firms are supposed to develop the employees’ ability and habit to extract important business information from past completed projects, summarize lessons learned, and explore a talent development mechanism suitable for the accounting firm itself (Zhang, 2016).

4.3. Promotion in Professionalism and Diversification on Services

Small and medium-sized accounting firms in Jing Zhou should better adapt to the market size of small and medium-sized enterprises, the demand for diversification and market service demand trends, providing professional quality services; these accounting firms primarily serve the local regional economy and should determine their business strategies based on their strengths and characteristics, developing innovative models in specific areas through market segmentation, and avoiding low-level homogeneity and vicious competition (Huang, 2018). In addition to this, day-to-day communication with clients should be
strengthened to understand their needs in real time and develop a personalized or customized service for them (Wu, 2019); the firm also should focus on diversification and specialization as well as the development of businesses, which will bring efficient benefits to the firm in the future, and provide specialized and diversified services (Zhao, 2016).

4.4. Strengthening the Audit Independence of Small and Medium-Sized Accounting Firms, Improving Internal Control Capabilities

Small and medium-sized accounting firms in Jing Zhou to sound and improve the internal governance mechanisms, including business management, quality control management, human resources management, financial management and risk prevention, in order to enhance the public credibility of accounting firms and risk resistance (Huang, 2018). The complete audit control process effectively ensures the audit independence of audit services personnel, and a certain extent supervises the affairs of small and medium-sized accountants, reduces the possibility of collusion between enterprises and audit institutions, improving the comprehensibility of financial accounting information, achieving a reasonable control of audit risk, and standardizing the purpose of market economic behavior (Cha, 2018); The firms need to establish a sound quality control system and a job responsibility system, which establishes the authority and responsibility of each position and checks and balances each other (Khurana & Raman, 2004); the firms should provide guidance and supervision for the assistants to keep abreast of all business developments and ensure the quality of service in the course of practice (Li, 2012).

4.5. Strengthening Awareness and Branding Strategies

Under the wave of Internet+ and big data, small and medium-sized accounting firms in Jing Zhou should make full use of Internet technology and platform effects to promote and help clients understand timely information about the firm, including its scope of business and the capabilities of its accountants, building service and brand awareness; this low-cost, wide-ranging and targeted approach will help small and medium-sized firms to develop new clients and new business in an efficient and targeted manner, as well as to strengthen their corporate brand image and achieve long-term competitiveness and growth (Zhang, 2017). Accounting firms in Jing Zhou can accumulate brand equity through branding methods, and thus reap the benefits of brand equity. Branding strategy building for small and medium-sized accounting firms helps to establish and build a strong brand, obtain high brand value added and benefits, and thus increase their market share and competitiveness.

5. Conclusion

China’s economy has gradually entered the new normal. With the continuous
increase of various commercial activities and the continuous development of capital market, domestic enterprises and institutions have higher and higher requirements for standardized management and professional services provided by accounting firms.

For most of the small and medium-sized accounting firms, they should make full use of their advantages such as flexible transformation and short service response time, make clear their own positioning, work intensively in subdivision fields, strengthen internal management and attract talents, and compete with large accounting firms in differentiation, which is a beneficial supplement to the types of accounting firms to promote the healthy and orderly development of the industry. Also, the accounting firms in Jing Zhou need more support from the Jing Zhou government, then jointly serve the enterprises and help the development of Jing Zhou city.

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Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

References


