

# The Role Of Strategic Planning, Accounting Information And Advisors In The Growth Of Small To Medium Enterprises (SMEs)

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The mission of **Asia-Pacific Management Accounting Association** is to provide platforms to foster communication about academic and practice oriented research amongst researcher and practitioners from academe and industry to advance knowledge pertaining to management and accounting studies.

## **Vision**

The vision of **Asia-Pacific Management Accounting Association** is to be an active participant in the academic and practitioner community about creation of knowledge through research in universities and industries nationally and internationally by becoming the premier international organization that represents professional research interests and advances knowledge of management and accounting studies educators, researchers and practitioners.

## **Objectives**

- to facilitate a world-wide networking environment amongst scholarly community engaged in management and accounting studies
- to enhance exchange between academic and practitioner scholars
- to provide a effective platform for dissemination of management and accounting studies research
- to become an information resource for current research in the context of management and accounting studies
- to recognize outstanding scholars in the field of issues in management and accounting studies
- to be a pioneer scholarly association for exchange of knowledge globally

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# Abstract

This paper explores the association between, small to medium enterprise strategic planning, the use of accounting information systems and the role of accounting advisors in the growth of small to medium enterprises (SMEs). SMEs play a significant role in national economies across the globe, the body of research in the field of SME growth and the influence of management accounting in decision making is evolving. The nature of the SME operating environment with resources constraints contributes to the limited management accounting research in the niche. This paper considers the relationship between strategic planning and the use of accounting systems in decision making. The study of management accounting systems adoption is often linked with the use of budgets and forecasts in the business planning and reporting process.

In this review, the paper examines the use of break-even analysis and gross margin reporting as a fundamental starting point of management accounting information. The qualitative data collected is from 54 SME's through a series of interviews held in conjunction with consultative programmes. The paper considers contemporary SME life cycle literature and the use of accounting information and the implications of financial knowledge in the growth small to medium sized businesses.

The results reveal that central to the growth of small to medium enterprises is the embeddedness of knowledge into organisational motor cognition.

The study contributes to management accounting literature by examining the use and relationship of business knowledge derived from accounting systems information and management accounting systems in the planning and decision making process of established small to medium sized enterprises.

# Introduction:

The growth and development of SMEs plays a vital role in the fortunes of national economies around the world. Small to Medium Enterprise (SMEs) employ approximately 70% of the Australian workforce (Davidsson, 2012) and contribute to 59% of the UK workforce. (Elster, 2013). The World Bank Groups, World Development Indicators survey of business entry density estimates that high income countries have up to approximately 3 times more businesses per 1000 people than low income countries.

The success of small to medium size business has a direct impact on the development of standards of living for entire populations.

Given the impact a healthy small to medium sized business community has on the economies of nations, research on the key factors of success for small business can contribute to underpinning a resilient economy that is able to withstand unforeseen economic shocks. The nature of the resources constrained SME environment, in particular the prioritisation of the SME owner's time, limited in depth research on the growth of SMEs is readily available. Literature on the growth and success of SME start-ups has evolved from Gibrat's economic assumptions, Penrose's theory of knowledge accumulation and Greiner's phased models to Osterwalder business model canvas. The link between growth and competence of entrepreneurs has also been explored by Ghoshal and Moran. The study of the use of management accounting information and the relationship with small business growth such as Davila's research has linked the introduction of budgets and management control systems with the growth success of small firms. Research conducted by international accounting institutes has consistently aligned the development of accounting support with the growth of SME's. The purpose of the paper is to gain greater insight on the practical purpose of accounting information in the SME environment. In particular the nature of management accounting

information and how it is used in decision making that facilitates the growth and viability of an SME firm. The principle finding in the paper is that the viability of an SME is determined by the relationship between the tacit knowledge of the entrepreneurs and the entrepreneur's ability to make sound business development and operational decision on the allocation of resources. The rate of growth of an SME is influenced by the entrepreneur ability to transfer the tacit knowledge from individual motor cognition to organisational motor cognition. A critical role of management accounting is in the process of establishing organisational motor cognition. That is, to determine what critical decision making information is central to business growth and what tacit knowledge is required to act on the information in the appropriate manner.

The role of an advisor is to understand the tacit knowledge within the business and complement knowledge gaps with specialised expertise that accelerates organisational motor cognition.

The paper examines a qualitative survey of 54 SMEs and the relationship between strategic planning process, accounting systems and the use of fundamental management accounting information.

Two propositions are explored in the paper are;

**1) Proposition 1**

***The organisation of transferable tacit knowledge in a business enterprise is central to growth and viability. Informal business development and operational indicators derived from ad-hoc management accounting systems complement business tacit knowledge in SME decision making. Financial Accounting information plays a secondary role in SME decision making.***

**2) Proposition 2**

***The role of SME advisors is to complement knowledge gaps of an entrepreneur with specialized competencies.***

# Literature Review:

## Proposition 1

***The organisation of transferable tacit knowledge in a business enterprise is central to growth and viability. Informal business development and operational indicators derived from ad-hoc management accounting systems complement business tacit knowledge in SME decision making. Financial Accounting information plays a secondary role in SME decision making.***

The research on the growth patterns of small to medium enterprises (SME) and the development of a life cycle framework has been growing at an accelerating pace. The advancement of a conceptual framework for small to medium enterprises development has the potential to make significant impact on employment, innovation and economic development. Policy makers have a keen interest in the development of SME growth literature due to the implications on economic growth. "The key role for government is to tackle market failures, we need to understand what these are for small and medium sized enterprises (SMEs) and how they work so as to take effective and targeted action." (Elster and Phipps 2013). Early literature on the phenomenon of high growth SME's included a focus on linear stochastic models of firm growth such as Gibrat's law, developed mainly in the field of economics. Gibrat's law theorised the proportionate relationship between growth rates and firm size and that the growth rate of a firm is greatly influenced by industry conditions. However, "In five industries out of six, Gibrat's Law fails to hold in the year immediately following start-up, whereas it holds, or fails less severely, when firms approach maturity" (Santarelli, Klomp, Thurik, 2006). Penrose (1959), theorised that firm growth is an evolutionary process, built from the accumulation of "collective knowledge in the context of a purposive firm". According to Penrose growth can be defined by: (1) as increase in size of quantifiable measures,

and by definable a process of changes or improvements. Ghoshal (1999) observed that "the value (to the firm) of the firm's internal resources, such as its managers, increases with the level of experience in their deployment with other resources inside the firm. Since, this learning process takes time, it effectively limits the rate at which a firm can internalise resources into its organisational structure - the rate of the firm's growth."

Many staged growth models have been developed to represent an organic SME growth model of SME's. Greiner's (1972) developed the five phases of growth outlined in Evolution and Revolution as organisation grows, Welsh and White (1978) refined the model further. 5 stage model of existence, survival, success, take off, and resource maturity. The Welsh and White eliminated the grow-or-fail hypothesis implicit in Greiner's model, and stagnation caused by management. The Business Model Generation methodology outlined by Osterwalder and Pigneur (2010) also known as "lean start-up" focuses on experimentation of hypothesis through direct customer feedback to create minimal viable product and developing the "minimum viable product". Underpinning the Lean start up methodology is the business model canvas which outlines the core 9 elements theorised as critical.

- 1) Customer Segments
- 2) Value Proposition
- 3) Channels
- 4) Customer Relationships
- 5) Revenue Streams
- 6) Key Resources
- 7) Key Activities
- 8) Key Partnerships
- 9) Cost Structures

Elster & Phipps (2013) outline the factors for SME growth as three key enablers grouped into clusters. The three clusters being

- 1) Internal capacity and capability;
- 2) The external environment;
- 3) The vision of the business owner.

“Skills of business owner-managers and employees within the firm provide the absorptive capacity for businesses to overcome ‘tipping points’”

The skills of the business leadership have a direct positive effect on labour productivity and innovation activity and the economic growth of the business.

Business performance management techniques such as Amoeba management accounting philosophy focuses on the labour hourly efficiency system and the principle of cash basis accounting. (Inamori, 1999). A genuine question to answer is of what information, how often and how much is required to manage a business efficiently. More specifically what is the role of accounting information in that equation. “Much of the excess information generated by computers is not needed for production at all. Receiving information too quickly results in early delivery of raw materials, causing waste. Too much information throws the production field into confusion”. (Ohno, 1988)

## Proposition 2

***The role of SME advisors is to complement knowledge gaps of an entrepreneur with specialized competencies.***

As business advisors, accountants can influence the growth of SME via “legitimate power and expert power” through the understanding of compliance frameworks and technical financial knowledge. The source of influence of a consultant stems from “informational and expert power” (Mole, 2002). Critical to a productive and positive advisory relationship is to reconcile a shared ambition, and build empathy in the client-advisor relationship, “external advisers need to share ‘contextual compatibility’ for the effective development of knowledge within the firm.” (Mole, 2002).

The use of accounting information in SME growth can be linked to the business planning cycles according to the ACCA research (ACCA, 2012). Start-ups prepare financial forecasts and budgets predominately for the purpose of seeking finance process. However, often the preparation of financial statements is a one off exercise. ACCA research, “suggest that the effect of external financing on the use of business planning is negligible after the effects of fast growth are taken into account. Indeed, it appears to be the case that among very small businesses, only those with aspirations of substantial growth take a consistent approach to business planning” (ACCA, 2012). The first use of management accounting systems (MAS) for management reporting coincides with the recruitment and implementation of “formal business plans and financially trained staff are therefore mostly about monitoring employees and aligning their incentives with business objectives, putting internal controls into place and, in the case of newly incorporated businesses, living up to the obligations of a company to its stakeholders” (ACCA, 2012)

Davila and Foster researched the timing of the adoption of MAS, the role of the adoption of operating budgets and presented statistics on the decisions of 78 start-up companies on the adoption decisions of various management accounting systems. Davila's conclusion was that management accounting systems are most likely to be adopted for Operating and Cash flow planning in the first instance. "We find a positive association between the adoption of operating budgets and company growth for early stage companies" (Davila, 2005). In addition Davila concludes that critical factors in the speed of adoption of MAS are the presence of venture capital, the number of employees in the company and the CEO beliefs about the benefits of planning. The adoption of management accounting systems tend to coincide with the employment of a finance manager.

Barbera and Hasso explored the relationship between external accountants and sales growth of SME family run businesses and the use of strategic planning processes. Taking a resourced-based view (RBV), Barbera found a positive correlation between the embeddedness of external advisors and high strategic planning process within the businesses. The use of external advisors was predominately to fill a knowledge gap in the business. However the presence of an external advisor did not necessarily improve the survivability of a firm or lead to sale growth.

The success of the external advisor was dependent on the advisors ability to gain the tacit knowledge of the business and complement the tacit knowledge with their technical knowledge.

The nature of advice provided by the external advisor depended on the life stage of the business. Younger firms require advice on matters pertinent to the survival of the firm while mature firms require advice relating to improving existing sales growth (Barbera, 2013)

Dyer and Ross (2007) in their explanation of critical elements of quality owner-advisor relationships, highlight the importance of culture, informal communication and experimental learning preferences in successful advisor-owner relationships. While the advisor needs to adapt to the preferences of the business owner, the advisors role in the business hinges communication and transfer of content expertise and mastery. Content mastery is the defining characteristic of a professional advisor. The advisor-owner relationship pivots on a meeting of minds that requires advisor sensitivity, as well as openness and acceptance on the part of the owner. (Dyer, 2007). In adapting to the preferences of the business owner the advisor-owner relationship can be analogous to the coach-player relationship on the sporting field. "the qualities of a successful coach in business include being a good listener, having good self-awareness, having business acumen, being disciplined, being flexible and being able to diagnose issues and find solutions" (Parkin & Bourke 2009). The research reviewed in the United Kingdom and Canada, Mexico and Australia have found a consistent conclusion that SMEs do benefit from the adoption of management accounting systems and financial control advice. Bruhn, Karlan and Schoar (2013) in their experiment of the impact of consulting services on Mexican SMEs concluded that financial control and marketing advice was large. The consultants filled key gaps in the business owner's managerial skills and knowledge that would otherwise impose a significant constraint on the firm's growth.



# Research Method:

This research paper presents quantitative and qualitative data gathered via a multiple method, multi-case field research design. The use of accounting information in small to medium size enterprises for decision making is not readily available from public sources. Thus studying the relationship between SMEs and accounting information requires developing tailored research instruments to develop the data base. The data presented in this research paper includes structured questionnaires, semi structured interviews and information gathered in consulting projects. 80% of the businesses included in the research came from a structured consulting programme. Five programmes were delivered between 2012 and 2014 with 46 participants, however only 43 participants provided the appropriate information for the purposes of the research paper. The programme involved predetermined series of workshops and one-on-one consulting. The programme was a combination of 15 hours of group workshops and 8 hours of one-on-one consulting. Consultation series began with a pre-programme questionnaires and meeting. Standard interview questions were asked during the one-on-one consulting session. The consulting sessions were semi structured in nature due to the different requirements of participants. The intention of the interview questions was to ascertain the sophistication of management practices and to highlight the business owner's priorities and to explore potential strategic actions. The program was developed to reinforce key business concepts and ensure a focus on laying the business foundations to grow their business. The program was delivered with six modules of 2.5 hour workshops group into three workshop sections;

## ***1) Defining business purpose, direction and measures of success:***

Workshop 1 & 2 Reviewing Mission & Vision and Key Performance Indicators (KPIs)

## ***2) Maximizing staff performance through culture, motivation and organizational structure:***

Workshops 3 & 4 - The alignment of organisational structure and implementation of a review process incorporating accountability of organizational culture

## ***3) Understanding financial information and planning with cash flow forecasting:***

Workshops 5 & 6 Understanding financial statements, considering cash flow drivers and forecasting cash flow for business planning

The workshops were complemented by a one-on-one consultation series. The initial pre-programme meeting established the current focus of the business owner and highlighted areas of concern. Each of the three workshop sections were followed up by a 2 hour one-on-one meeting. The one-on-one meetings applied the key business concepts to the business owner's specific circumstances. The outcome from the programme was a high level business plan that follows addresses the specific elements for improving profitability highlighted in the workshops and discussed in the one on one consultation that followed. A high level business plan was presented in the final one-on-one consulting session that completed the 8 hours of consultation. The programme was altered in 2014 to include a sales and marketing module due to feedback from participants. The sales and marketing module substituted workshop content on raising finance. The additional 11 observations included in the research data are derived from consulting clients who engaged in business strategic reviews that involved a comparable process for understanding key business facts.

# Description of the Sample:

A total of 54 small to medium sized enterprises are observed in this paper. A Small to Medium Enterprise is defined by criteria prescribed by the Australian Bureau of Statistics

- Micro businesses are small businesses with 0-4 employees
- Small business as an actively trading business with 5-19 employees.
- Medium business as an actively trading business with 20-199 employees

The data presented in this paper provides a static insight on the use of accounting information and planning practices of SMEs at a point in time in the development of the organisation. 57% of the sample includes

services businesses. The services sample can be broken down further and included 7% software, 17% Industrial commercial, 2% Health and 31% Consumer Services including hotels, education and professional services. 21% of the sample is involved in retailing or the supply of the retail industry. 9% of the sample competed in the provision of consumer media, an additional 9% sold industrial capital goods with the remaining 4% operating in financial services. The industry classifications reflect Standard and Poors Global Industry Classifications Standards (GICS), the GICS methodology used by the investor community for classifying asset classes on stock exchanges globally.

**Table 1 Industry Sample**

<i>Industry (Standard and Poors GICS classifications)</i>	<b>#</b>	<b>%</b>
Consumer Discretionary	<b>30</b>	<b>56%</b>
Consumer Discretionary - Automobiles - Components	1	2%
Consumer Discretionary - Consumer Services	3	6%
Consumer Discretionary - Consumer Services - Specialized	8	15%
Consumer Discretionary - Consumer Services - Education	2	4%
Consumer Discretionary - Consumer Services - Hotels & Restaurants and Leisure	4	7%
Consumer Discretionary - Media	5	9%
Consumer Discretionary - Retailing	7	13%
Consumer Staples - Food, Beverage and Tobacco	3	6%
Financials - Realstate Management	2	4%
Health Care - Providers Services	1	2%
Industrial - Capital Goods - Machinery	5	9%
Industrial - Commercial and Professional Services	9	17%
Information Technology - Software Services	4	7%
<b>Total</b>	<b>54</b>	<b>100%</b>

**Table 2** Businesses by Turnover, Staff and Years of Operation and Business owner education attainment

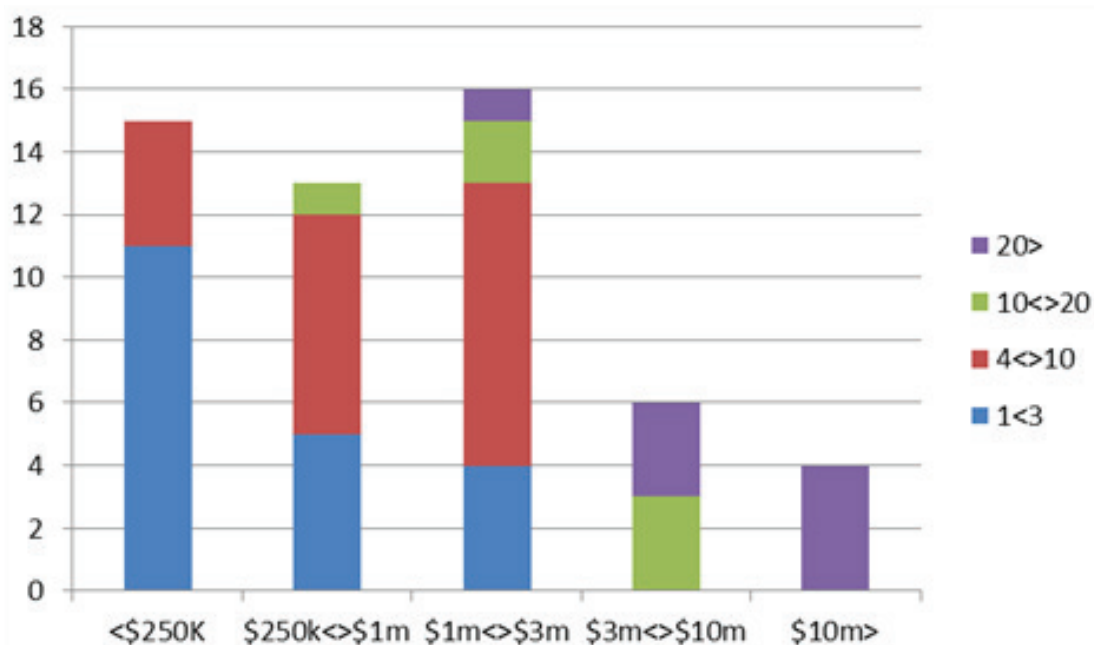
<i>Turnover</i>			<i>Years in Business</i>			<i># Staff</i>			<i>Business Owner Education Attainment</i>		
<\$250K	15	28%	1<3	20	37%	1<3	16	30%	High School	5	9%
\$250k<-\$1m	13	24%	4<>10	20	37%	4<>10	22	41%	Diploma/Trade Certificate	20	37%
\$1m<-\$3m	16	30%	10<>20	6	11%	10<>20	10	19%	University Degree	26	48%
\$3m<-\$10m	6	11%	20>	8	15%	20>	6	11%	Masters & Doctorate	3	6%
\$10m>	4	7%	<b>Total</b>	54	100%	<b>Total</b>	54	100%	<b>Total</b>	54	100%

**Table 3** Sample Comparative Data

Industry	Turnover	# Staff & Subcontractors	Years in Business	Prepare Annual Plan	Administration Staff	Maintenance of Financial Statements	Product/Service Gross Margin	Systems		
								Accounting	ERP	CRM
1 Consumer Discretionary - Automobiles	\$1m-<\$3m	4->10	1<3	No	Yes	Annual	No	Yes	No	Yes
2 Consumer Discretionary - Consumer Services	<\$250K	1<3	4->10	No	Yes	3 monthly	Yes	Yes	No	No
3 Consumer Discretionary - Consumer Services	<\$250K	1<3	1<3	No	No	Annual	No	No	No	No
4 Consumer Discretionary - Consumer Services	<\$250K	1<3	1<3	No	No	3 monthly	Yes	Yes	No	No
5 Consumer Discretionary - Consumer Services	\$1m-<\$3m	4->10	1<3	No	Yes	Annual	No	Yes	No	No
6 Consumer Discretionary - Consumer Services	\$1m-<\$3m	4->10	20>	Yes	Yes	Monthly	No	Yes	No	No
7 Consumer Discretionary - Consumer Services	\$1m-<\$3m	4->10	4->10	No	Yes	Monthly	No	Yes	Yes	No
8 Consumer Discretionary - Consumer Services	\$1m-<\$3m	10->20	4->10	Yes	Yes	Monthly	No	Yes	No	No
9 Consumer Discretionary - Consumer Services	\$250k-<\$1m	1<3	4->10	Yes	No	3 monthly	Yes	Yes	No	No
10 Consumer Discretionary - Consumer Services	\$250k->\$1m	4->10	1<3	No	No	Annual	No	Yes	No	No
11 Consumer Discretionary - Consumer Services	\$250k-<\$1m	4->10	1<3	No	Yes	Annual	No	No	No	No
12 Consumer Discretionary - Consumer Services	<\$250K	1<3	1<3	No	No	Annual	No	No	No	No
13 Consumer Discretionary - Consumer Services	\$250k-<\$1m	4->10	4->10	No	Yes	Annual	No	Yes	No	No
14 Consumer Discretionary - Consumer Services	<\$250K	4->10	4->10	No	Yes	Annual	No	Yes	No	No
15 Consumer Discretionary - Consumer Services	\$1m-<\$3m	10->20	4->10	Yes	Yes	Monthly	Yes	Yes	Yes	Yes
16 Consumer Discretionary - Consumer Services	\$1m-<\$3m	10->20	1<3	No	Yes	Monthly	Yes	Yes	No	No
17 Consumer Discretionary - Consumer Services	\$1m-<\$3m	10->20	4->10	Yes	Yes	Monthly	Yes	Yes	Yes	Yes
18 Consumer Discretionary - Consumer Services	\$250k-<\$1m	4->10	4->10	No	No	3 monthly	No	No	No	No
19 Consumer Discretionary - Media	\$250k-<\$1m	1<3	4->10	No	No	Annual	No	No	No	No
20 Consumer Discretionary - Media	\$3m->\$10m	10->20	20>	Yes	Yes	Monthly	Yes	Yes	No	Yes
21 Consumer Discretionary - Media	<\$250K	1<3	1<3	No	No	Annual	No	No	No	No
22 Consumer Discretionary - Media	<\$250K	4->10	4->10	No	No	Annual	No	No	No	No
23 Consumer Discretionary - Media	<\$250K	1<3	1<3	No	No	Annual	No	No	No	No
24 Consumer Discretionary - Retailing	\$10m>	20>	20>	No	Yes	Monthly	No	Yes	No	Yes
25 Consumer Discretionary - Retailing	\$1m-<\$3m	4->10	4->10	Yes	Yes	Monthly	Yes	Yes	Yes	Yes
26 Consumer Discretionary - Retailing	\$250k-<\$1m	4->10	1<3	No	Yes	Annual	Yes	Yes	No	Yes
27 Consumer Discretionary - Retailing	\$250k-<\$1m	1<3	10->20	Yes	Yes	3 monthly	No	Yes	No	No
28 Consumer Discretionary - Retailing	\$3m->\$10m	10->20	10->20	No	Yes	Monthly	Yes	Yes	Yes	Yes
29 Consumer Discretionary - Retailing	<\$250K	1<3	1<3	No	No	Annual	Yes	Yes	No	No
30 Consumer Discretionary - Retailing	<\$250K	1<3	4->10	No	Yes	Annual	No	No	No	No
31 Consumer Staples - Food, Beverage and Tobacco	\$1m-<\$3m	10->20	4->10	No	Yes	Annual	No	Yes	No	No
32 Consumer Staples - Food, Beverage and Tobacco	\$3m->\$10m	20>	20>	No	Yes	Monthly	Yes	Yes	No	No
33 Consumer Staples - Food, Beverage and Tobacco	<\$250K	4->10	1<3	No	No	Annual	No	No	No	No
34 Financials - Real Estate Management	\$250k-<\$1m	4->10	1<3	No	Yes	Annual	Yes	Yes	No	No
35 Financials - Real Estate Management	\$3m->\$10m	20>	10->20	Yes	Yes	Monthly	Yes	Yes	No	No
36 Health Care - Providers Services	\$250k-<\$1m	4->10	4->10	Yes	Yes	3 monthly	Yes	Yes	No	No
37 Industrial - Capital Goods - Machinery	\$10m>	10->20	20>	No	Yes	Monthly	No	Yes	Yes	No
38 Industrial - Capital Goods - Machinery	\$10m>	20>	20>	No	Yes	Monthly	No	Yes	Yes	No
39 Industrial - Capital Goods - Machinery	\$250k-<\$1m	1<3	4->10	No	Yes	3 monthly	No	No	No	No
40 Industrial - Capital Goods - Machinery	\$3m-<\$10m	10->20	20>	Yes	Yes	Monthly	Yes	Yes	No	Yes
41 Industrial - Capital Goods - Machinery	<\$250K	1<3	1<3	No	Yes	Annual	No	Yes	No	No
42 Industrial - Commercial and Professional Services	\$10m>	20>	20>	Yes	Yes	Monthly	Yes	Yes	Yes	Yes
43 Industrial - Commercial and Professional Services	\$1m-<\$3m	4->10	4->10	No	Yes	3 monthly	No	Yes	No	No
44 Industrial - Commercial and Professional Services	\$1m-<\$3m	4->10	4->10	No	Yes	Monthly	No	Yes	No	No
45 Industrial - Commercial and Professional Services	\$1m-<\$3m	4->10	1<3	Yes	Yes	Monthly	No	Yes	Yes	No
46 Industrial - Commercial and Professional Services	\$1m-<\$3m	4->10	10->20	No	Yes	Monthly	Yes	Yes	No	No
47 Industrial - Commercial and Professional Services	\$1m-<\$3m	4->10	4->10	No	Yes	3 monthly	No	Yes	No	No
48 Industrial - Commercial and Professional Services	\$1m-<\$3m	10->20	10->20	No	Yes	3 monthly	No	Yes	No	No
49 Industrial - Commercial and Professional Services	\$3m->\$10m	20>	10->20	Yes	Yes	Monthly	No	Yes	No	No
50 Industrial - Commercial and Professional Services	<\$250K	1<3	1<3	No	No	Annual	No	No	No	No
51 Information Technology - Software Services	\$250k-<\$1m	4->10	4->10	No	Yes	Annual	Yes	No	No	Yes
52 Information Technology - Software Services	\$250k-<\$1m	4->10	1<3	Yes	Yes	Monthly	No	Yes	No	Yes
53 Information Technology - Software Services	<\$250K	1<3	1<3	No	No	Annual	No	No	No	No
54 Information Technology - Software Services	<\$250K	1<3	1<3	No	No	Annual	No	No	No	No

# Analysis of Research Data

## Years in Business and Turn Over



Annual Turnover

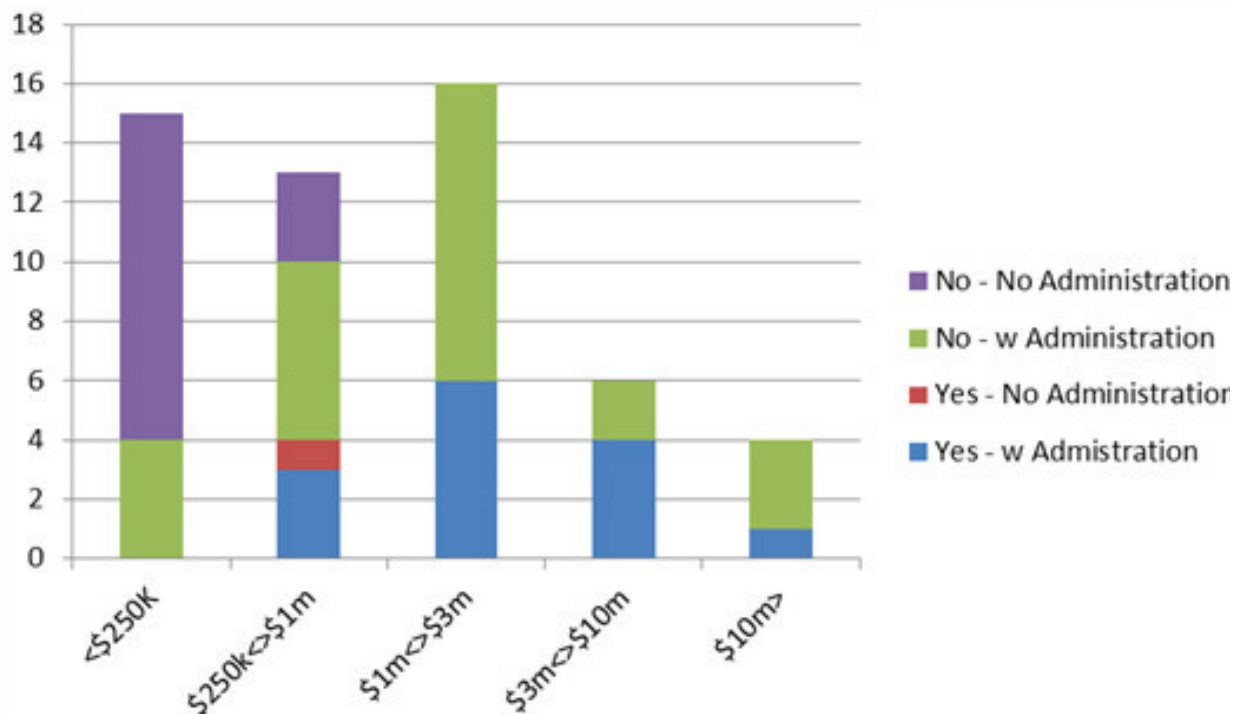
Years in Business	<\$250K	\$250k<-\$1m	\$1m<-\$3m	\$3m<-\$10m	\$10m>	Total	%
1<3	11	5	4	0	0	20	37%
4<10	4	7	9	0	0	20	37%
10<>20	0	1	2	3	0	6	11%
20>	0	0	1	3	4	8	15%
	15	13	16	6	4	54	
	28%	24%	30%	11%	7%		

The sample of SME's represented by new, established and mature businesses. All business in the sample has been operating for a minimum of 12 months and was all financially viable. 37% of surveyed businesses had been operating for between 1-3 years. 60% of the new businesses operated in the consumer discretionary industry. Information Technology software services was the next largest industry represented with 15 % of the sample data.

consumer discretionary industries (65%). The remaining 26% of businesses surveyed were mature organisations with over 10 years of operating history. 50% of the mature businesses with over 10 years of operational history serviced the industrial commercial or capital goods market.

Established businesses operating in between their 4th and 10th year of operations made up an additional 37% of the total sample. Again the largest sample segment in the 4-10 years of operating history category serviced the

## Annual Planning and Annual Turnover



Annual Turnover

Prepare Annual Plan	<\$250K	\$250k<-\$1m	\$1m<-\$3m	\$3m<-\$10m	\$10m>	Total	%
Yes - w Administration	0	3	6	4	1	14	26%
Yes - No Administration	0	1	0	0	0	1	2%
No - w Administration	4	6	10	2	3	25	46%
No - No Administration	11	3	0	0	0	14	26%
<b>Total</b>	<b>15</b>	<b>13</b>	<b>16</b>	<b>6</b>	<b>4</b>	<b>54</b>	
	28%	24%	30%	11%	7%		

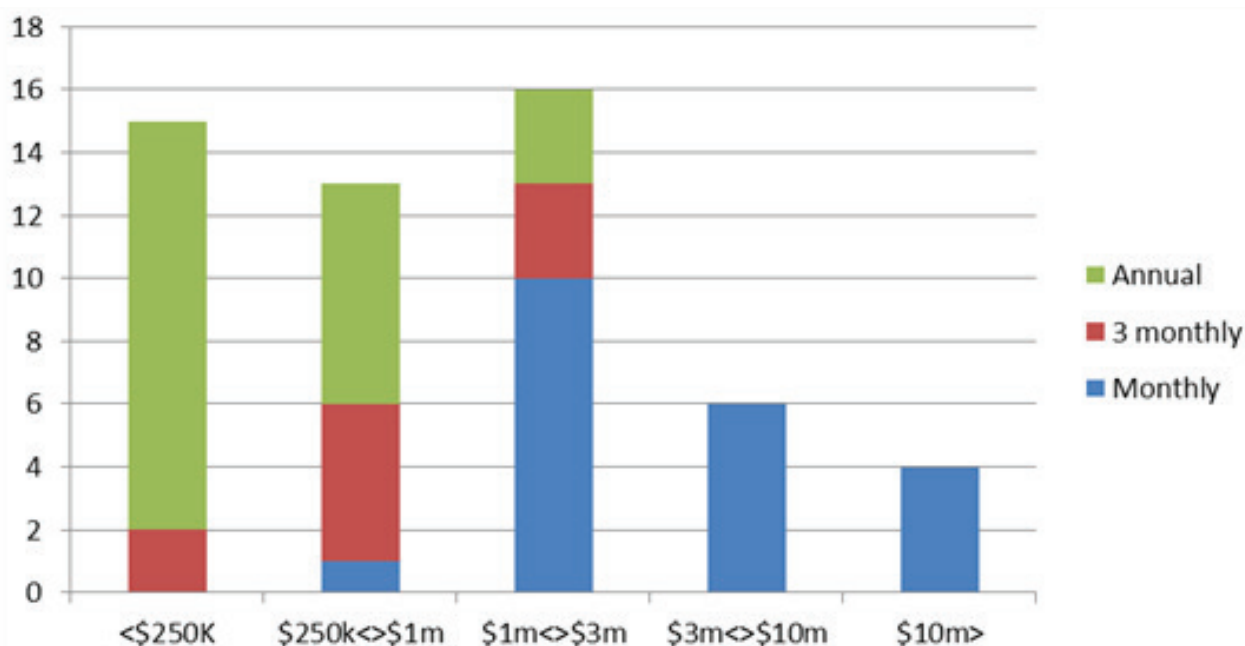
A standard research question involved the analysis of existing SME planning processes. For the purposes of the research paper a “structured annual planning process” is the systematic process of determining a desired future, and translating resource and commitment decisions into broadly defined goals or objectives in a sequence of steps to achieve them. 72% of the sample businesses did not have a structured strategic planning process. Of the 28% of businesses that engaged in a structured planning process, 93% of the businesses that prepared the annual plan employed administrative staff. Only 1 of the 54 businesses sampled prepared an annual plan and did not employ administrative staff.

A pattern in the qualitative data displayed a relationship between the annual turnover of organisations and the engagement of a structured annual planning process. As the business obtained a higher level of financial transactions the more likely it was a business would engage in a structured planning process. None of the businesses that generated less than \$250k of revenue per annum engaged in an annual planning process. While 31% of the sample with income between \$250k and \$1m, 38% of businesses with revenues of \$1-\$3m and 67% of businesses with income between \$3-\$10m engaged in annual planning. Reversing the trend for structured annual planning was the businesses with over \$10m turnover. Only

25% of the SME's surveyed engaged in an annual planning process. Note the sample size in the category is small with only 4 businesses

surveyed. Never-the-less 3 of the 4 mature and profitable businesses can operate successfully without a structure annual planning process.

## Maintenance of Financial Statements



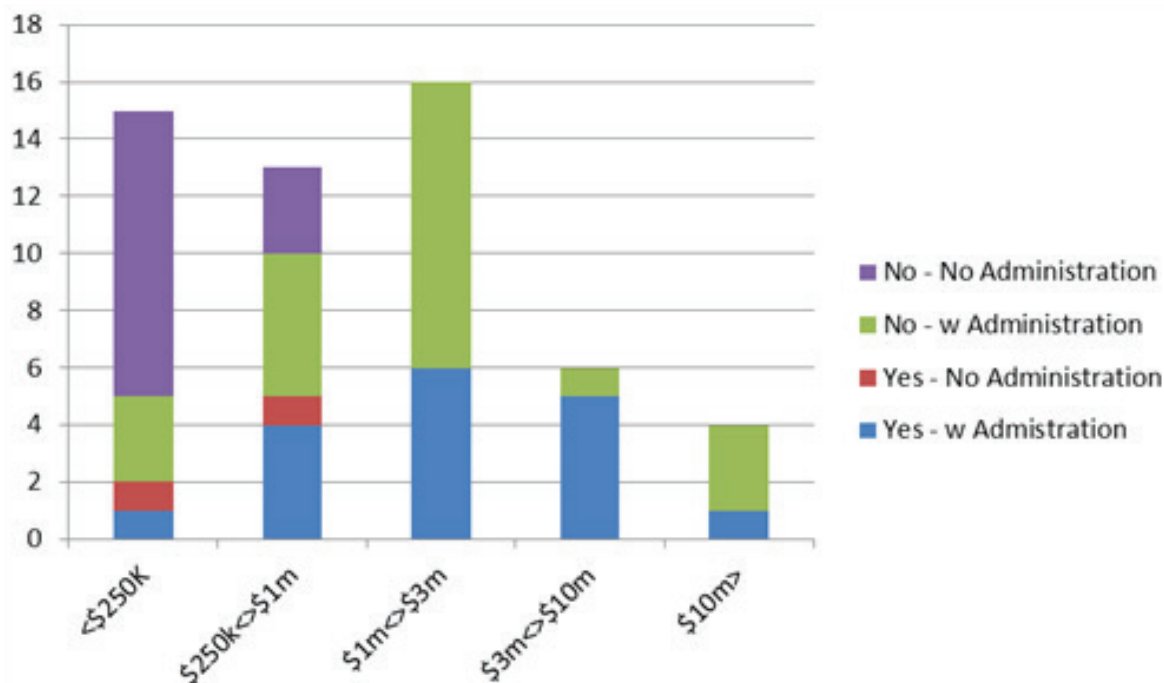
### Maintenance of Financial Accounting

	<math>\leq \\$250K</math>	<math>\\$250k \leq \\$1m</math>	<math>\\$1m \leq \\$3m</math>	<math>\\$3m \leq \\$10m</math>	<math>\\$10m ></math>	Total	
Monthly	0	1	10	6	4	21	39%
3 monthly	2	5	3	0	0	10	19%
Annual	13	7	3	0	0	23	43%
<b>Total</b>	<b>15</b>	<b>13</b>	<b>16</b>	<b>6</b>	<b>4</b>	<b>54</b>	
	28%	24%	30%	11%	7%		

39% of the sample surveyed updated their financial accounting information on a monthly basis. 19% updated the financial accountants on a 3 monthly basis while 43% updated their financial accounts on an annual basis. The key factor in driving maintenance of the financial accounting information was not for management decision making but rather for statutory tax compliance obligations. In particular the requirement to report goods and services tax receipts, payroll and company tax obligations drove the investment in resources to maintain accurate records of bank transactions. The trend in the data highlights the gradual transition to monthly maintenance of financial accounting as the level of income grows and

the obligations to meet statutory tax reporting requirements increases. Notably 57% of the businesses who prepared their financial accounts on an annual basis are the micro businesses with annual income less than \$250k per annum.

## Understanding of Gross Margin and Break Even Position



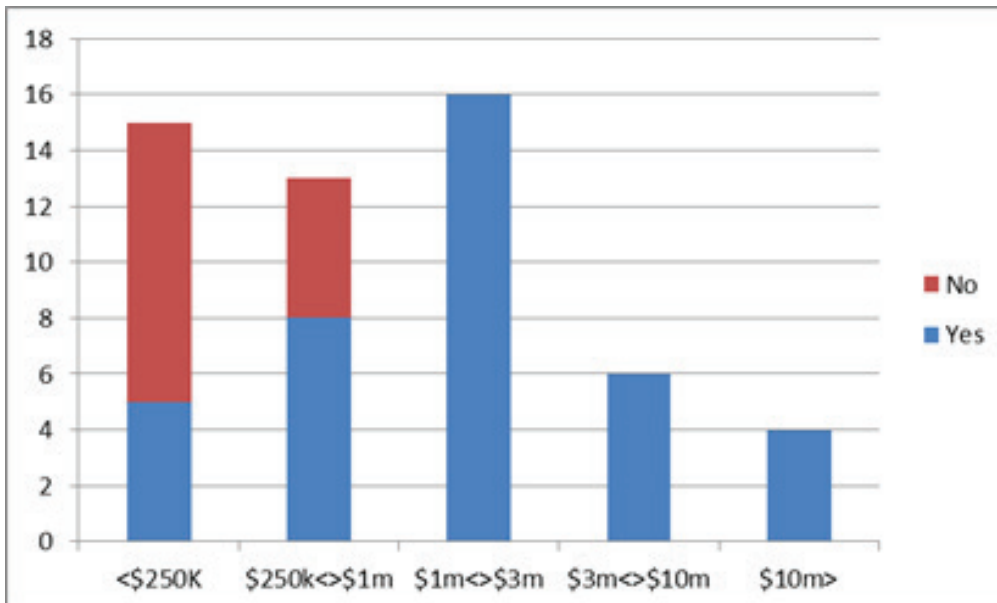
Gross Margin	<\$250K	\$250k-<\$1m	\$1m-<\$3m	\$3m-<\$10m	\$10m>	Total	
Yes - w Administration	1	4	6	5	1	17	31%
Yes - No Administration	1	1	0	0	0	2	4%
No - w Administration	3	5	10	1	3	22	41%
No - No Administration	10	3	0	0	0	13	24%
<b>Total</b>	<b>15</b>	<b>13</b>	<b>16</b>	<b>6</b>	<b>4</b>	<b>54</b>	
	<b>28%</b>	<b>24%</b>	<b>30%</b>	<b>11%</b>	<b>7%</b>		

The sample data showed little relationship between the maintenance of financial accounting records and the understanding of business gross margins. 63% of the sample businesses did not have clarity on the gross margin or breakeven position of their business even though 39% of businesses have their financial accounting records updated on a monthly basis. There was however a high relationship between the presence of administrative staff and the clarity of gross margin reporting. 89% of businesses who could report their gross margin position also employed administrative staff. However the presence of administrative staff did not guarantee clarity of their cost volume profit equation. 41% of the total sample businesses employed administrative staff could not produce accurate reports on gross margin.

Included in the 41% of businesses who employed administrative staff but did not have clarity on gross margin were 3 out of the 4 businesses in the sample with over \$10m annual income. Conversely 4% of businesses were able to produce gross margin reporting in absence of administrative staff.

# Use of Systems

## Accounting

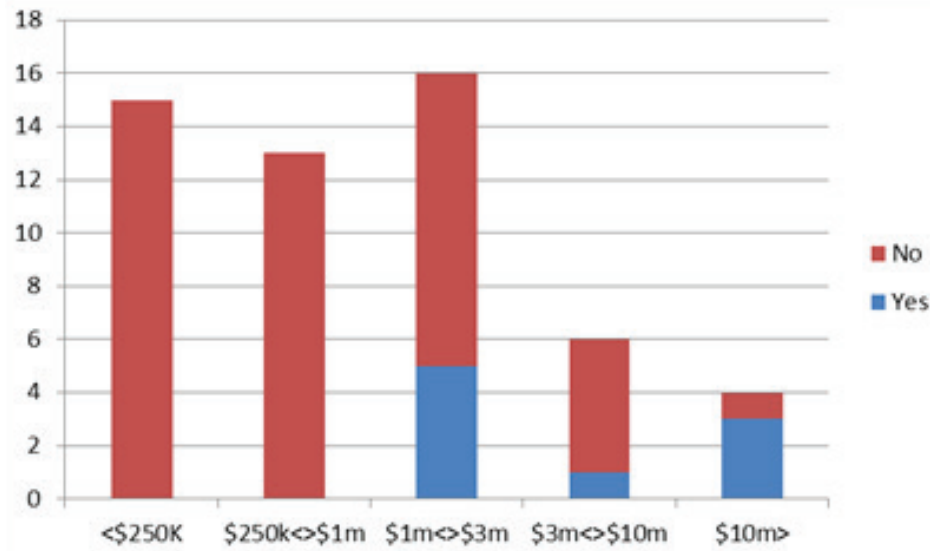


Accounting	<\$250K	\$250k-<\$1m	\$1m-<\$3m	\$3m-<\$10m	\$10m>	Total	
Yes	5	8	16	6	4	39	72%
No	10	5	0	0	0	15	28%
<b>Total</b>	<b>15</b>	<b>13</b>	<b>16</b>	<b>6</b>	<b>4</b>	<b>54</b>	
	28%	24%	30%	11%	7%		

All businesses with annual turnover of \$1m or more and 72% of all the businesses sampled used accounting software. 66% of the businesses that did not use accounting software had an annual turnover of \$250k or less. The business without accounting software prepared their financial accounts on an annual basis. Tax compliance requirements of the businesses without accounting software were prepared on spreadsheets or other manual calculation methods.



## Total Enterprise Resource Planning - ERP

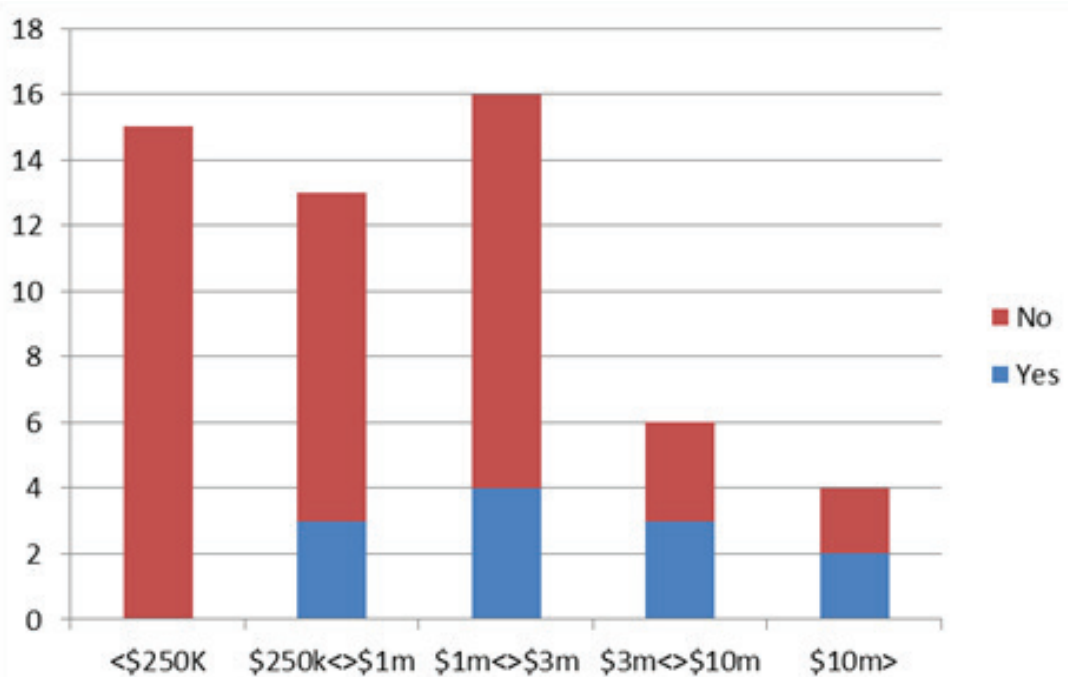


ERP	<\$250K	\$250k-<\$1m	\$1m-<\$3m	\$3m-<\$10m	\$10m>		
Yes	0	0	5	1	3	9	17%
No	15	13	11	5	1	45	83%
<b>Total</b>	<b>15</b>	<b>13</b>	<b>16</b>	<b>6</b>	<b>4</b>	<b>54</b>	
	<b>28%</b>	<b>24%</b>	<b>30%</b>	<b>11%</b>	<b>7%</b>		

17% of the businesses surveyed employed an ERP system. The businesses with ERPs 33% operated in manufacturing or servicing capital goods industry. Another 22% were part of national franchise groups with embedded administrative infrastructure and the remaining 45% of businesses with an ERP system operated in specialized fields. All of the businesses that employed an ERP system had an annual turnover of over exceeding \$1m. In the absence

of ERP systems businesses used a variety of methods to monitor operational information and workflows. The methods predominately included the use of spreadsheets and manual hand written paper flows, desk top trays and job boards.

## Total Customer Relationship Management Systems



CRM	<\$250K	\$250k<-\$1m	\$1m<-\$3m	\$3m<-\$10m	\$10m>		
Yes	0	3	4	3	2	12	22%
No	15	10	12	3	2	42	78%
<b>Total</b>	<b>15</b>	<b>13</b>	<b>16</b>	<b>6</b>	<b>4</b>	<b>54</b>	
	28%	24%	30%	11%	7%		

Compared to ERP systems, Customer Relationship Management (CRM) systems had a higher usage with 22% of the sample businesses using a form of the software. 24% of businesses with the annual turnover of \$250k to \$1m used a CRM tool compare to 0% for ERPs. At the other end of the spectrum, only half of the businesses with an annual turnover over \$10m per annum employed a CRM whereas 100% of the category utilised an ERP. In the absence of CRM systems, Microsoft outlook, shared spreadsheet lists, trade debtor modules of accounting systems, business card filing and manual customer files were used to monitors and maintain customer contact list and history.

## Limitations of Research

Several caveats should be highlighted when interpreting the study. The research involved looking at the position of SMEs at a moment in time in their development process. The study does not evaluate the progress of the entity from the point in time at which the organisation was surveyed. The study observes the planning processes and systems in place. The study does not make comparisons on the complexity of the product portfolio or service offering of each organisation and the level of difficulty in obtaining meaningful management information. The research also does not assess the work preference styles or management skill and techniques of the entrepreneur's interviewed. The data presented is collected over a 3 year period with changing macro-micro economic conditions and changing cost of software available to SMEs. All the business sampled are geographically located in the Melbourne, Victoria, Australia. Differences the regulatory environment in particular state regulations, taxes and legislations may influence on the results in comparative geographical locations.

## Conclusion and Discussion

The data presented from the survey of established SMEs suggested that businesses are more likely to incorporate an annual strategic planning process when they have reached a scale that enables the employment of administrative staff. However the existence of a structured annual planning process was not a determinant of business longevity or viability with only 28% of the established SMEs surveyed utilising a strategic planning process. The regular updating financial accounting processes were found to be driven by the need to comply with statutory tax collection requirements in the first instance. Although a 39% of the SMEs sampled updated their financial accounting systems on a monthly basis, the financial accounting systems were not configured to present fundamental management accounting information such as gross margin or to provide cost-volume-profit, break-even calculations. Approximately a quarter (24%) of the SMEs sampled had both monthly financial accounting information and a clear understanding of their gross profit position. 11% of SMEs calculates gross margin and break even positions without the use financial accounting systems. The use of accounting software in SMEs was high (72%), however the driver of accounting systems usage was to satisfy tax compliance record keeping rather than to present management information for decision making.

## Proposition 1

***The organisation of transferable tacit knowledge in a business enterprise is central to growth and viability. Informal business development and operational indicators derived from ad-hoc management accounting systems complement business tacit knowledge in SME decision making. Financial Accounting information plays a secondary role in SME decision making.***

The results from the 54 established SMEs surveyed supports hypothesis 1. That is the organisation and transferability of tacit knowledge plays a critical role in the growth, establishment and decision making of SMEs. Formal planning and the use of financial accounting reports in management decision making is absent in the majority of SME environments surveyed. Decision making in the established SMEs surveyed was based on ad-hoc management accounting information combined with intimate understanding of customer needs and operational processes. The embeddedness of the tacit business knowledge held in an SME is what can be described as organisational motor cognition. That is the embeddedness of mental and social actions within an organisation required to fulfil market needs and to deliver customer satisfaction. The use of ad-hoc management accounting information acts as a steering mechanism refining the actions fulfilled by the embedded organisational motor cognition.

## Proposition 2

***The role of SME advisors is to complement knowledge gaps of an entrepreneur with specialized competencies.***

The businesses surveyed in the paper were all established, financially viable SMEs. The opportunity for accounting based advisor is to step beyond the preparation of financial accounts for the purpose of tax compliance. The information prepared for the purpose of tax compliance requirements were not necessarily used in management decision making. An observation provided by the data was the absence of fundamental management accounting information such as gross margin and break even position even though 57% of the surveyed business had their financial accounts updated on a 3 monthly basis or more frequently. The opportunity for an SME management accounting advisor is to provide operational insights that complement the entrepreneur's tacit knowledge and enhance the efficiencies of operational motor cognition held in business processes. The specialised competency the management accounting professional provides to an entrepreneur is the capability to align operational statistics, key performance indicators, with staff accountabilities that facilitate the execution of strategic goals in an efficient manner.

# Further Research

The data presented in the paper is static at provides a window into the SME's surveyed at a point in time. Further research on several fronts that would complement this paper. Although this paper suggests that strategic planning is not common practice in the SME environment, planning in some form takes place for the businesses to maintain their competitive position. The natural question that arises is how do entrepreneur's plan for the allocation of scarce resources, how often do they plan and what are the planning techniques employed? Secondly research on how the SMEs evolve over a number of years and the influence of management accounting information in over that time. Additional research on the decision making information employed can highlight the nature of operational information used. Thirdly data on the techniques of various accounting advisors in the provision of management reporting and business improvement advice and their relative success can provide insights on the most effective approach for leveraging accounting systems for decision making.

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