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Back, Robert

(1978)

Sources and uses of advice in small firms: an enquiry into small firms and their accountants and bank managers.

Doctoral thesis, University of London: London Business School.

DOI: https://doi.org/10.35065/AJRR6724

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SOURCES AND USES OF ADVICE IN SMALL FIRMS:

AN ENQUIRY INTO SMALL FIRMS AND THEIR

ACCOUNTANTS AND BANK MANAGERS

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Submitted for the degree of

Doctor of Philosophy

London Graduate School of Business Studies

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ABSTRACT

The broad aims of the research described in this thesis were for the researcher to form an opinion on

- The nature of the advice provided by accountants and bank managers to small firms.
- The need for advice from accountants and bank managers as perceived by owner/managers of small firms.
- Whether an "actual" advice gap exists between the advice actually provided to small firms by accountants and bank managers and the advice which should be provided.
- If an "actual" advice gap exists the reasons for it and the steps needed to be taken to close it.

The research included interviews with accountants, bank managers and owner/managers of small firms. The "actual" needs for advice in a set of small firms were determined. The purpose of these enquiries was to build a critical vantage point from which to appraise the research questions.

Some of the major research conclusions are:

- Accountants advise small firms on a wide range of subjects but there is considerable variation between accounting practices in the level of advice provided and the range of topics discussed.
- Bank managers advise small firms on a more limited

range of topics. Small firms with borrowing facilities are more likely to receive advice from a bank manager than those who do not.

- Although the "perceived" advice gap is small the "actual" advice gap is large.
- The major reasons why accountants fail to provide adequate advice include the attitude of some accountants to the giving of advice, time constraints experienced by accountants and accountants' lack of training in small business management.
- The attitude of independence of owner/manager is the major factor constraining bank managers from providing more advice.

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CHAPTER 1

INTRODUCTION

- Introduction
- The broad aims of the research
- Definitions
- The views of others
- The research questions
- Research approach

Introduction

Small firms form a large and important sector of the British economy.[1] In a report to the Secretary of State for Trade, completed in 1971, the Committee of Inquiry into Small Firms (chaired by J.E. Bolton)[2] estimated that there were at least one and a quarter million small firms in the United Kingdom who provided employment to twenty-five percent of the employed population and produced nearly twenty percent of the gross national product.[3] Quite apart from their economic importance small firms also play an important social role providing services and employment in areas and markets not served by larger firms.

One of the characteristics of most small firms is the small number of people involved in management. Typically a small firm will have one or two people carrying out management functions. The result is that management must be less able to specialize compared with the management of larger firms. This inability to specialize coupled with the lack of management personnel would tend to indicate that small firms need to rely on the provision of advice from outside bodies more than larger firms.

Two studies carried out during the last decade have emphasized the importance of the practising accountant and the branch bank manager as advisers to small firms. In 1969 a survey carried out by the Association of British Chambers of Commerce among its small firm members received 3740 replies. In answer to the question "If you need help to which of the following would you be more likely to

turn?" 37 percent of the respondants answered their accountant and fifteen percent indicated their bank manager.[4] A similar picture was presented in a recent Numas/ICFC survey carried out on behalf of the Small Firms Division of the Department of Industry.[5]

The broad aims of the research

The broad aims of the research described in this thesis were for the researcher to form an opinion on

1. The nature of the advice provided by accountants and bank managers to small firms.
2. The need for advice from accountants and bank managers as perceived by owner/managers of small firms.
3. Whether an "actual" advice gap exists between the advice actually provided to small firms by accountants and bank managers and the advice which should be provided.
4. If an "actual" advice gap exists the reasons for it and the steps needed to be taken to close it.

Definitions

During recent years almost every new piece of research into "small firms" has used a different interpretation of the words "small firm". One major study defined "small firms" as those engaged in manufacturing with up to five hundred employees;[6] others as manufacturing firms with up to one hundred employees[7] and there is little doubt that

the use of the term small business in the United States literature[8] includes many firms who would be regarded as being large in the United Kingdom context. Perhaps the most comp rehensive definitions of "small firm" in the United Kingdom are those used by the Bolton Committee in their Inquiry.[9] The definition of "small firm" used in this research is based on one of their definitions.

The Committee used the term "small firm" in three senses. The first of these was in the broad sense in which all small firms in all industries, occupations and professions were included; for example in their estimation that there were at least one and a quarter million small firms in the United Kingdom. The second they described as the "economic definition".[10] This definition asserted that the three main characteristics differentiating small from larger firms are: a relatively small share of a market; the firm being managed by its owner or part owner in a personalized way and not through the medium of a formalized management structure; the firm being independent and not forming part of a larger enterprise.

Since the Committee reported there has been argument as to the appropriateness of these three characteristics. In the research to be described this definition was unsuitable because it is incapable of being precisely applied. The Bolton Committee itself reached a similar conclusion and for practical reasons were obliged to use another definition which they called a "statistical definition".[11] This formed the basis of the definition

in this research.

The Bolton Committee divided firms into different industries, based on the classification used in the census, and set upper limits as follows:[12]

Manufacturing	200 employees or less
Retailing & miscellaneous	Turnover of £50,000 p.a. or less
Wholesaling	Turnover of £200,000 p.a. or less
Construction, mining & quarrying	25 employees or less
Motor trades	Turnover of £100,000 p.a. or less
Road transport	5 vehicles or less
Catering	All including multiples and brewery managed pubs.

Professional, finance and agricultural firms have been excluded from the "statistical definition".

The research definition adopted here is:

Enterprises (both incorporated and unincorporated) whose principal activities are in England which meet the following criteria

A.

Manufacturing	99 employees or less
Retailing	Turnover of £100,000 p.a. or less
Wholesaling	Turnover of £500,000 p.a. or less
Motor trades, professions & miscellaneous	Turnover of £100,000 p.a. or less
Road transport	5 vehicles or less
Construction, mining & quarrying	25 employees or less
Catering	All other multiples and brewery owned pubs.

and

B. Which are independent of and do not form part of a larger enterprise which exceeds these limits.

C. Agricultural, fishing and finance firms are excluded.

This definition emphasizes the presence of both incorporated and unincorporated entities. It has been estimated that up to 60 percent cf small firms are unincorporated and trade as partnerships and sole traders.[13] The geographic limit was necessary for practical reasons.

Although the industrial classifications were similar to and based on the Bolton classifications there are variations. The upper limit of the manufacturing sector was decreased from 200 to 100 employees because firms which have between 100 and 200 employees differ from small firms. They tend to have a formalized management structure and the researcher wished to confine the scope of the thesis to personally managed firms.

The turnover limits were increased from £50,000 per annum to £100,000 per annum for the retailing and miscellaneous classifications and from £200,000 per annum to £500,000 per annum in wholesaling in recognition of the effects of inflation since 1971 when Bolton reported.

In practice because the great proportion of small firms are tiny the number of firms included by Bolton but not in our definition or vice versa would be minimal.

One major variation from the Bolton statistical definition was the inclusion in this research of professions. It was considered many of the problems, and therefore needs for advice of professions were similar to other service industries included in the Bolton definition.

Unlike the definitions used by Boswell,[14] McCune[15]

and Argoub,[16] the study was not limited to manufacturing firms.

Another term used in this research which has a number of meanings is the word "accountants". Throughout Great Britain any person can legally call himself an accountant. The term "accountants" has been interpreted to mean:

> Individuals or firms whose principal activities comprise the contracting of accounting services to the business community and who are qualified to meet the audit provision of the Companies Act.

The definition does not include individuals who are employed in a full-time occupation, typically commercial accountants and employees of practising accountants, who "moonlight" by providing accounting services on an after hours basis. It is appreciated that a number of small firms use these individuals as external accountants but it has proved impossible to include this group because they are extremely hard to locate and are most reluctant to be interviewed.

The definition of "accountants" is not intended to include those firms of accountants whose principal activities are management consulting[17] because these firms vary considerably from other practices.

The reference to the audit provisions of the Companies Act was introduced to distinguish between accountants with and without formal qualifications. Under this Act the Board of Trade has to distinguish between

qualified accountants, who are able to carry out audits, and unqualified, who are not.

The definition of the words "bank manager" used in this research was

> The managers of branches of the clearing banks which are incorporated and whose principal activities are in England.

Clearing banks now have managers at all levels of their organizations, including specialist service managers such as business advisory officers. As the vast majority of small firms deal only with the local branch manager this research has been restricted to branch managers. The reference to clearing banks was to exclude merchant and other bankers, the reference to incorporated in England was to exclude Scottish and foreign banks and the reference to principal activities in England was to exclude clearing banks incorporated in England but whose principal activities are overseas.[18]

Throughout this thesis a distinction is made between "perceived" and "actual" needs for advice. "Perceived" needs are those needs which the owner/managers of small firms consider they need. The "actual" needs were defined as those which are determined from the logic of a firm's position relative to the skills of its participants and the objectives of the firm.[19] The "actual" needs differ from the "perceived" needs in that they include needs for advice of which the owner/managers of small firms may be unaware, or even with which he disagrees.

The views of others

Although accountants and bank managers advise small firms the general proposition put forward by a number of authors is that a gap exists between the advice provided to small firms and their need for advice.

For example, Weyer, the Senior General Manager of Barclays Bank, in an article published in the *Journal of the Institute of Bankers*[20] acknowledges the expert gap and states that his bank has taken up the challenge to close it.

In the final paragraph of his *Financing of Small Business*[21] Bates argues that one of the special needs of small firms which, at the time of his writing was being unfilfilled, was the need for advice.

The Bolton Committee dealt with the advice gap in their chapter entitled *Management Skills and Advisory Services*[22] and there are frequent references to the gap in Boswell's *Rise and Decline of Small Firms.*[23]

Further support for the general proposition that an advice gap exists is to be found in articles by Wood,[24] Armstrong[25] and Trimby.[26]

Many authors agree that there is a gap but there is some difference of opinion as to the nature of the gap.

The view of the Bolton Committee, based on interviews with parties involved with small firms, was there were eight areas of need.[27]

- Finance - Including the sources of finance
- Costing and control information - including credit and stock control

- Organizations - Including office procedures, delegation of duties and job specification
- Marketing
- Information use and retrieval
- Personnel management - Including management succession
- Technological change
- Production scheduling and purchase control.

The Committee did not rank the needs in any order and one is left with the impression that they merely listed down all the problems that had been brought to their attention and made no attempt to isolate those which have the most adverse effect on small firms.

In an article partly based on the Bolton Committee Report and partly on his own considerable experience in counselling for small firms, Wood has said, owner/managers are particularly weak in financial management including costing, finance, budgeting, estimating, control systems and use of information. He argues that advice is particularly needed in helping owner/managers understand accounts, costing and estimating, budgetary control, interpreting figures and raising finance.[28]

A somewhat similar view is taken by Weyer who argues that small businessmen are often good at engineering, production and marketing, but poor in financial skills including financial planning and budgeting.[29]

One factor which has received some publicity in the United States as being a key factor in determining the success of a firm, particularly in the first years of

operation, is the location of the enterprise. Research has indicated that location is often based on factors such as nearness to home rather than valid business reasons.[30]

An important examination of the weaknesses of small firms is to be found in Buchele's *Business Policy in Growing Firms*.[31] He argues that as firms develop and grow there are seven crises which may occur and which commonly cause firms to fail to reach their full potential. His view is that these crises occur at different stages of a firm's development, but due to the characteristics of some firms and owner/managers, not all firms suffer from each of the crises. Because it is possible to overcome each of the crises Buchele considers these are the areas in which small firms most need assistance. The crises are

- The starting crisis - Including lack of basic skill and the lack of initial capital.
- The cash crisis - Arising from the need for more working capital as a firm expands.
- The delegation crisis - Arising from the inability of proprietors to handle every function in an expanding firm.
- The leadership crisis - Which arises when a proprietor is faced with leading a management team.
- The finance crisis - Which occurs when the expansion of a firm is such that it cannot be financed by retained earnings or the personal funds of the proprietors.
- The prosperity crisis - Which arises when the firm becomes successful and where the interest of

the owner/manager wains to a point that he gives insufficient time and attention to the firm.

- The management succession crisis - This crisis arises where management has given insufficient attention to the need to provide management which will be needed in the future.

The major argument put forward by Boswell in his *Rise and Decline of Small Firms*[32] is that the financial performance of a small firm is inversely related to the age of the firm and the age of the proprietor. He considers the major weaknesses and needs for advice of the small firm sector in the United Kingdom as being those associated with older firms and older proprietors.

Weaknesses and needs highlighted by Boswell include:

- Management succession problems.
- Managerial fatigue.
- Gerontocracy; and
- Resistance of older employees to change.[33]

Although all of the authors agree that there is an advice gap, there is some overlap in the views of several authors as to the nature of the gap; their views are far from unanimous, particularly as to the importance of individual subjects.

Several authors including Bolton[34] and Bate[35] argue that the major cause of the gap arising is the small number of persons with managerial skills most small firms are able to support. With the small number of managerial staff it is argued that managers are unable to specialize

and find it difficult to take off time to be trained.

There appears to be little British research which deals at any length with the accountant and his small business client. Yet as the surveys already mentioned make clear, the accountant is certainly the most important adviser to small firms.

The Bolton Committee put forward six reasons why accountants, solicitors and bank managers were most important and three reasons for the preeminence of the accountant.[36] The six reasons were: the professional status of all three groups which Bolton considered commanded the respect of small businessmen, the frequent personal contact between these groups and the small businessman, the familiarity they have with their small firm clients, the vested interest they have in their small firm clients, their nearness to their clients, and finally their cheapness compared with consultants.

The three reasons why the accountant was considered to be the most important adviser to small firms were:[37]

- The other services, including tax accounting and auditing, provided a basis for a more intimate knowledge of the client.
- At its best, an accountant's training provides an excellent basis for the examination of a firm.
- Management of small firms is frequently weakest in subjects of a financial nature.

The Committee stated four reasons why accountants do

not provide the advice required by small firms, namely:[38]

- The attitude of independence of owner/managers of small firms.
- The imposition on the time of accountants of changes in legislation.
- The cost to small firms of accountants' services: and
- The diffidence of many accountants to venture outside what they see as their professionaal function.

Apart from Bolton's rather cursory examination of advice provided by accountants to small firms, the most important British study is Solomons and Berridge's *Prospectus for a Profession*.[39] Prospectus was a study carried out by Professor David Solomons with Tim Berridge for the Advisory Board of Accounting Education into the Long Range Planning of Education and Training for the Accountancy Profession. Although the study largely dealt with the educational aspects it did touch on the function of accounting practitioners.

Solomons reports that the active home (Britain and Ireland) membership of the accounting profession in 1972 was 77,900, made up as follows:[40]

Institutes of Chartered Accountants	
- England and Wales (ICAEW)	41,500
- Scotland (ICAS)	7,500
- Ireland (ICAI)	2,000
	51,000
Association of Certified Accountants (ACCA)	10,600
Institute of Cost and Management Accountants (ICMA)	10.500
Chartered Institute of Public Finance and Accountancy (CIPFA)	5,800
	77,900

The results of a survey of members of four of the bodies (excluding the Scottish and Irish Institutes) found that none of ICMA or CIPFA members who responded to the survey were engaged in or employed in public practice and that the distribution of the remainder was:[41]

	ICAEW	ACCA
	% of members	
Sole practitioners	5.5	6.2
Partner	23.7	6.7
	29.2	12.9
Employed by public practice	18.2	7.1
	47.4%	20.0%

The most significant result of the survey, from the viewpoint of this research, came from the answers to the question which asked ICAEW principals to list each activity which accounted for at least five percent of their working week and to rank these in order of importance. The results of this survey as published by Solomons are set out in Appendix G of this thesis. As the reader can see, the method used by Solomons to report these replies is extremely confusing. Nevertheless, it is noticeable that in the small accounting practices major activities were accounting for incomplete records, general accounting services, audits of non-public companies and taxation advice. Financial advisory services were only moderately important and directorships and system work virtually non-existent.

In his chapter "The future of the British and Irish Accounting Professions" Solomons takes a medium term view of the profession. Unfortunately he does little to

distinguish between his personal opinion and the results of his research and one is often left wondering what evidence he has to support many of his conclusions. He saw the following trends emerging.[42]

- The small practitioner increasingly involving himself in giving financial and management advice.
- A resulting increasing interest by small practitioners in management accounting.
- A gradual disappearance by absorption and merger of the medium size firm.
- Small business being a fertile field for public practice, especially if practitioners become less diffident about offering advice.
- Increasing specialisation by practices.
- Less bookkeeping and record keeping as a result of the increased use of computers in industry.

Following the Bolton Committee Report a number of articles on small firms appeared in British accounting journals. Most of these merely summarized the Committee's findings[43] although a few authors did make a plea for preferential treatment for small firms[44] in government policies.

The Bolton Committee produced evidence of the importance of the branch bank manager as a major adviser to small firms, though they spent little time considering his role. Bolton's general conclusions were: the role of the local bank manager is far more limited than that of

other advisers because of the cost to the bank compared with the benefit derived. The branch manager could best help his small firm customer by insisting on small firms preparing budgets, providing advice on the costs and availability of different forms of finance.

Not everyone sees the future role of the branch manager as being so limited. In a review of the Institute of Bankers' educational policies by a committee chaired by D.E. Wilde in 1973, the following statement appears:

> Traditionally "real" banking has been associated with short term borrowing and lending and the transmission of funds. This view, however, needs considerable modification in view of recent developments . . . a much wider range of financial services is now offered. Bankers now need to know about investment, taxation, leasing and factoring to name only a few of the financial services and to advise their corporate customers on a whole range of financial matters. [45]

Wilde's view is supported by Watson, who saw an exciting future for the branch manager and felt much of the manager's reluctance to adopt a marketing approach to his job is brought about by the branch manager's misconception of the role of marketing.[46] A similar view to Watson and Wilde has been expressed to the researcher by head office staff of each of the banks involved in the research.

The extent to which banks should provide non-traditional services has been questioned in a number of articles in the banking journals.[47] Norman feels there

is an irreconcilable conflict between services and service and the number of customers being handled by the clearers is a major problem. As he puts it,

> The ideal of personal service is naturally ever in one's thoughts - It's the fifteen million customers who get in the way.[48]

Dissatisfaction with the clearing banks was apparent in some of the small firms interviewed by Boswell. Often this dissatisfaction was associated with a reluctance to borrow. Comments included:[49]

> "I have never relied on them."
> "My father didn't like being beholden to them and I agree with him."

The research questions

With the benefit of the examination of the views of others it is apparent that the broad aims of the thesis can be expressed as a number of unresolved questions on which the author wished to form an opinion.

The nature of the advice provided by accountants and bank managers to small firms involves the questions of frequency of conferences between owner/managers and their advisers, the duration of these conferences and the type of advice provided.

Thus the first three research questions on which the researcher wished to form an opinion were:

1. The frequency of conferences between the owner/managers of small firms, and

(a) Their practising accountant; and

(b) Their branch bank manager?

2. The duration of these conferences?

3. The type of advice provided to small firms by

(a) Accountants; and

(b) Bank managers?

The second broad aim of the research provides the next question, which was:

4. Whether a gap exists between the advice provided by accountants and bank managers to small firms and the need for advice as perceived by the owner/ managers of small firms?

The fifth and sixth questions which arose from the third aim were:

5. Whether an "actual" advice gap exists between the "actual" needs of small firms and advice provided by bank managers and accountants.

And if a gap exists,

6. The topics which make up the "actual" advice gap.

Finally, the last two questions were:

7. The reasons why the "actual" gap exists; and

8. The steps which need to be taken if the gap is to be closed.

Research approach

The thesis examines the advice and other services a group of accountants and a group of bank managers carried out for their small firm clients. Then the views of a group of owner/managers as to the advice they considered they should receive from their accountants and bank managers was obtained. The views of the accountants and bank managers on the advice they should provide was sought.

To determine the "actual" needs for advice of a small group of small firms their owner/managers and other participants were interviewed, their objectives assessed, the extent to which these objectives were being achieved determined, a decision made as to their needs and a decision made as to their needs for advice.

No statistical inference can or should be drawn from the results of all these interviews and examinations. Their purpose was to build a critical vantage point from which to appraise each question.

Finally the researcher's experience as a practising accountant and as a consultant assisted in the formation of his opinion on each of the questions.

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6. J. Boswell, *The Rise and Decline of Small Firms*, George Allen & Unwin, London, 1973.

7. S. Argoub, *Management advisory services for small firms*, Ph.D. thesis, University of Bath, 1971, is an example.

8. In particular the various publications produced by the Small Business Administration include firms with turnovers in the million dollar class.

9. Bolton and ors, *Report*, p.xix.

10. *Ibid.*, pp.1 and 2.

11. *Ibid.*, pp.2 and 3.

12. *Ibid.*, p.3.

13. *Ibid.*, p.5.

14. Boswell, *Rise and Decline*, *op.cit.*

15. R. McCune, *Financial assistance provided by banks to small firms.* Unpublished M.Sc. dissertation, University of Manchester Institute of Science and Technology, 1975.

16. Argoub, *Management advisory services, op.cit.*

17. In the United Kingdom many of the most prominent consulting firms are divisions or associated companies of large chartered accountants' practices.

18. For example the Australian and New Zealand Bank which is incorporated in London, but has only five branches in the United Kingdom compared with hundreds overseas.

19. This definition has been derived from that used by the Small Business Unit of London Business School.

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33. *Ibid.*

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40. *Ibid.*, p.6.

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42. *Ibid.*, p.91.

43. For example. "Small Comfort", Editorial, *The Accountant*, Gee & Co., London, November 11th, 1971.

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46. I. Watson, "What future for the Branch Manager", *Bankers Magazine*, Arben Publishing, London, 1974, pp.85-90.

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48. G. Norman, "What future for the Branch Manager", *Bankers Magazine*, Waterlow & Sons, London, 1972, pp.69-70.

49. Boswell, *op.cit.*

CHAPTER 2

A GROUP OF ACCOUNTING PRACTICES AND A GROUP OF BANK BRANCHES

- Introduction
- The group of accounting practices
- The group of bank branches
- Conclusion

Introduction

The first evidence used in forming an opinion on the research questions was obtained by examining a group of accounting practices and a group of bank branches.

The principal survey method used was personal interviews.

The personal interviews with the accountants can be divided into two sections. The first was structured with prepared questions being directed at the accountant, and the second section consisted of free ranging unstructured discussion between the accountant and interviewer. The questions asked in the structured section (See Appendix A) can be divided into five broad topics. The first topic related to the characteristics of the practice of accountants, including the number of partners, their ages, the total headcount of the firm, the total number of clients and the number of small firm clients. The second topic dealt with the frequency and duration of conferences between the partners of the practices. The third dealt with the services provided by the practices to their small firm clients. The fourth topic related to the advice given by the accountants to their small firm clients, and the fifth topic, which is discussed in a later chapter, dealt with the advice that the accountants considered they should provide to small firm clients.

Sixteen practitioners, out of the forty-six firms contacted, were interviewed. The interviews were all conducted on the accountants' premises and lasted an

average of one hour, twenty minutes. The shortest interview was fifty-five minutes; the longest two and a half hours. The accounting firms were drawn from the classified pages of the telephone directory for North West London, using random number tables. Where possible details of the firm, including the address and names of partners, were checked against other information, such as the register of members of the Institute of Chartered Accountants in England and Wales.[50]

The personal interviews with the bank managers were also divided into a structured and an unstructured section. The structured questions asked (See Appendix B) were divided into six topics. The first sought information on the manager being interviewed, the second information on the branch, including the number of customers and the number of small firm customers. The third and following topics asked questions similar to those asked of the accountants.

Interviews were carried out in 23 branches of four of the major clearing banks. Each interview was conducted on the bank premises. Interviewing time averaged one hour, thirty minutes, with the shortest lasting fifty-five minutes and the longest two hours, twenty minutes.

The branch managers interviewed were all managers of the four largest clearers: Barclays Bank, Lloyds Bank, Midlands Bank and National Westminster Bank. The number of managers interviewed in each of these clearing banks was based on the proportion that each clearer had to the

total of branches of the four clearers in England. Individual branches were then selected at random from the list of branches in North West London and Norwich held at the head office of the clearer.

The major advantage in using personal interviews, compared with other research methods, was the researcher was able to carry out the unstructured section of the interview and to gather interesting and relevant information which certainly would not have been gathered by using other survey methods. The use of personal interviews always had some limitations and in addition to the usual limitations[51] particular problems arose in this research. Perhaps the most serious was the poor response of accountants to the request to be interviewed. Only sixteen out of the forty-six contacted agreed to be interviewed. Of the remaining thirty, eleven refused outright and nineteen did not respond to the introductory letter and were "not available" to take any of the three follow up phone calls. Another limitation of the personal interviews was in answering many of the questions, most of the interviewees relied on their own judgment rather than any records of the firm or branch. Indeed in many of the firms and branches it appeared that the information requested was unavailable and unprocurable. Consequently the results received from the interviews depend on the accuracy with which the questions were answered. In those few cases where it was possible to compare the verbal answers with some documentary evidence, the verbal replies were very close to the actual position and there is no

reason to believe that any of the answers received were inaccurate. In conducting the interviews with the bank managers the interviewer was aware that each of the managers had been asked to co-operate by his bank head office and so every attempt was made to reassure each manager that his views would be kept in confidence.

In the original planning of the research it was decided to conduct a mail survey of accountants. In preparation for this major task a pilot mail survey was carried out in which questionnaires were forwarded to eighty practices in London and twenty in Norwich. Replies were received from only nine practices and because of this poor response rate it was decided not to proceed with the larger, and expensive, mailshot. Nevertheless the results of the nine replies were tabulated and provided a very small amount of information for the researcher.

The questionnaire, a copy of which is shown in Appendix C, can be divided into the same sections as the personal interviews and the method of selection of the practices was identical to that used for the personal interviews. In retrospect it was realized that the questionnaire was too long, requiring up to twenty minutes to complete.

The group of accounting practices

The sixteen accounting practices where interviews were carried out provided some form of accounting service to just over 9,000 small firms. This represented an arithmetic mean of 576 small firms per practice and small firms represented 74 percent of all the clients[52] serviced by the sixteen practices. The arithmetic mean was 122 small firms per partner but with practices varying between as few as 24 to as many as 305 small firms per partner.

Part of the importance of accountants as advisers is explained by the frequency with which owner/managers of small firms confer with a partner of their accountants. It was estimated that 40 percent of the owner/managers of the 9,215 small firms served by the participating practices conferred[53] with a partner of their accountants more than twice a year, nineteen percent conferred twice a year and only two percent conferred less than once a year. There was considerable variation between accounting practices with several of the smaller practices (in partners and headcount) conferring with most of their small firm clients only once a year. Details of the frequency of conferences are shown in Table 2.1.

There was also great variation in the duration of individual conferences between accounting partners and owner/managers of small firms. Most practices reported that the conferences averaged between an hour and an hour and a half, with a mean time for all practices of

one hour, twenty minutes.

The giving of advice is only one of the services provided by accountants to small firms, and Table 2.2 summarizes the main services provided by the interviewed practices to their small firm clients. Ninety-eight percent of the 9,215 small firms served by the participating practices had their annual accounts and tax submissions prepared by their external accountant and there was very little variation between each of the participating practices in the percentage of small firms receiving these services.

On the other hand there was considerable difference between practices in the amount of write up work (other than closing entries) carried out. The sixteen practices could clearly be divided into two groups; ten who wrote up the books of account of a large percentage of their small business clients and six who wrote up the books of account of only a small minority of their clients. Views were strongly held, both by those who did a great deal of write up and those who did not, as to the desirability of carrying out this task, with many of the practitioners who wrote up the books of account for most of their clients indicating that they considered the revenue from this activity as being an essential source of income.

The percentage of small firms having audits completed and minutes and registers perpared differed considerably from practice to practice, reflecting the variation in

the percentage of small firm clients who were incorporated. Overall, 45 percent of the 9,215 small firms had these services carried out by their accountants. From the high percentage of small firms having annual accounts prepared by their external accountant, it would appear that the expertise of these small firms in the preparation of financial statements and financial management reports was low. In the participating practices only thirteen percent of the firms had any type of financial information, other than annual accounts, prepared by their accountant. Taken together this may well show a lack of financial information for decision making in the small firms served by the practices.

Individual practices did provide other services to a small minority of the clients but in none of the practices did these functions rival the services of taxation preparation, write up of books (including producing cash books and journals and the posting of ledgers), preparation of annual accounts and auditing.

The accounting practices who participated in the personal interviews and the few practices that replied to the pilot mail survey provided advice to their small business clients over a wide range of topics. Table 2.3 gives information on the advice provided.

Not surprisingly, the provision of income tax and corporation tax advice was the advice most commonly provided. With the exception of one practitioner, who

considered that it was not part of the function of an accountant to give advice of any kind, all the interviewed practices provided this advice to all of their small business clients.

One of the more surprising results of the interviews was to discover the provision of general advice on the economy ranked second to tax advice. Ninety-two percent of the small firms were estimated to receive advice in this area. The advice was of a general or local nature and did not involve any complex economic issues. The percentage of firms receiving this type of advice may have been influenced by the poor economic conditions existing at the time of the interviews. From discussion with the practitioners it became apparent that because of his position in the community and the large number of firms with whom an accountant has contact, clients expect the practitioner to have a good knowledge of local economic conditions. Examples of the type of economic advice given were the accountants' assessment of the availability of clerical, skilled and unskilled labour, and the accountants' prognosis of likely demand for goods and services in the local area.

A little over half of the small firms were estimated to receive advice on taxation, other than income, corporation or capital transfer tax. Most of the practitioners emphasized that at the commencement of value added tax the amount of advice given in this area had been considerable but by 1975 the quantity of advice in this area had been markedly reduced.

Some idea of the close relationship existing between the practitioners and their small firm clients can be gathered from the result which indicated just over half of these firms were estimated to seek advice from their accountant before they incurred substantial capital expenditure. Another illustration of the relationship is the surprising information that half of the owner/managers of the small firms were estimated to receive advice on family matters. Topics mentioned by the practitioners included marital problems, children's education and adolescent problems.

It was estimated that 48 percent of the small firms received advice on estate planning, but this was largely as a result of four practices, including one large practice, who indicated that it was part of their policy to provide this advice to all of their business clients. Excluding the clients of these practices, advice on estate planning was provided to only twenty-four percent of the small firms.

This considerable variation between practices was also found in the provision of advice on budgeting. Although a little over thirty percent of the small firms received advice on budgeting, the result was influenced by several large practices who provided this advice to a high proportion of their clients. Three of the sixteen practices provided no advice at all on this topic.

The level of advice provided to small firm clients by the interviewed practices on debtors (48% of clients) inventories (43%) and cash investment (31%), was consistent

with the importance of these current assets to small firms. Several practitioners did mention that the 1975 liquidity squeeze had increased the level of advice provided on control of debtors and inventories. Topics that received a fair amount of attention were employee problems (30% of the small firms), insurance (26%) and business law (14%).

Forty-one percent of these firms were estimated to receive advice on borrowing, while only six percent were estimated to receive advice on leasing and only four percent on factoring. This result may indicate that these small firms were already aware of the limitations of leasing and factoring for small firms. It was estimated that 34 percent received advice on the type of financial records and only four percent received advice on computers and accounting machines. Several practitioners mentioned that most advice on the type of financial records was provided to new clients.

Twenty-one percent of the small firms were estimated to receive advice on the admission of new partners and sixteen percent were estimated to receive advice on the retirement of owner/managers; several of the larger practices gave little advice on this topic.

In view of the time spent in training accountants in costing and financial planning and the importance of financial information in pricing, it was surprising to find that only 8 percent of the small firms were estimated to receive advice on costing and pricing and that less than one percent received advice on long term

planning. Specialist subjects such as marketing and production were only mentioned to one or two of these clients.

The group of bank branches

The twenty-three branches where interviews were carried out provided banking facilities to just over eight thousand small firms or an average of 360 small firms per branch. The smallest branch had 31 small firm customers, while the largest had just over 2,500. The branches had an average of 21.7 staff and 3,400 customers, with the smallest branch having seven staff and 1,600 customers and the largest 103 staff and approximately 9,000 customers. On average small firms represented 9.2 percent of all customers but the proportion varied from as few as 1.6 percent to as many as 27.8 percent. The period of service that the managers had with their bank averaged 31 years and ranged between fourteen and 41 years, while the period they had been a manager of the branch averaged three and a half years and varied from as short as six months to as long as eight years.

The branch managers estimated that 45 percent of their small firm customers had not conferred with them during the year prior to the interview, 25 percent had conferred once during the year, eighteen percent twice and only twelve percent on more than two occasions. The duration of these conferences was estimated to average 27 minutes. There was considerable variation between

those small firms which had overdraft facilities and those which did not (See Table 2.4). Ninety-six percent of firms with facilities conferred with their bank manager at least once per year, compared with only 39 percent of firms without overdraft facilities.

Conferences with owner/managers of firms with overdraft facilities averaged thirty-one minutes compared with twenty-four minutes for conferences with owner/managers of firms without facilities.

Apart from the provision of a bank account to all customers and overdraft facilities to twenty-eight percent of the small firms, relatively little use was made by these small firms of other service of or available through the branch.[54] Table 2.5 gives details of the services utilized.

The level of advice provided by the branches to their small firm clients is summarized in Table 2.6.

In line with the expectations of the researcher, advice on borrowing was most commonly provided to small firms. It was estimated by the branch managers that fifty-two percent of their small firm clients received advice on this topic.

General economic advice was provided to just over 40 percent of the small firms. There was a tendency for larger branches to provide economic advice to a higher proportion of their small firm customers.

At the time of the interviews many small firms were

suffering from liquidity problems and this was reflected in the high percentage of the small firm customers who were estimated to receive advice on debtors (31% of all small firm customers or 56% of those interviewed) and on inventories (25% of all small firm customers or 45% of those interviewed). Forty-five percent of the owner/ managers were estimated to seek advice on corporation and income taxes, but most branch managers indicated that the advice given was of a general nature and that they emphasized to their clients that specific tax advice should be sought from an accountant.

The influences of the head offices in promoting the use of cash budgets was said by several managers to have influenced the amount of advice on budgeting (23% of firms interviewed) and this influence was apparent in advice on insurance (9% of all small firm customers) and not apparent in advice on leasing or factoring (both with 2% of all small firm customers).

The twenty-three branch managers were all involved in advice on family matters but many commented that, compared with other members of the community, owner/ managers of small firms were less inclined to seek advice on this topic.

Although there was remarkable consistency between branches in the proportion of small firms receiving advice on most topics this was not true of advice on costing and pricing. Fourteen branches gave no advice on this topic but the other nine branches provided considerable advice, particularly on the problems of pricing in times of

inflation.

The branch managers provided a moderate amount of advice on retirement of owner/managers (6% of all their small firm customers), advice on the type of financial records (4%) and advice on other taxes (4%). It had been expected given the expertise of branch managers that a significant number of firms would seek advice on investing cash funds but this advice was only provided to 4% of the branches' small firm clients. A little advice was provided on admission of new partners/shareholders, estate planning and personnel problems, but virtually no advice was provided by the branch managers on marketing, production or long term planning.

Conclusion

We have an interesting contrast between the two groups of advisers. On the one hand we had the accountants who provided advice on a wide range of topics to many of their clients, but with considerable variation between individual practices in the amount and range of advice provided. (Indeed, the question must be raised as to the competence of a number of the accountants to give advice on some of the topics mentioned.)

On the other hand we have the bank managers providing advice on a relatively narrow range of topics to a minority of their small firm customers with little variation between branches (See Table 2.7).

We know from Boswell's studies that the attitude of

owner/managers to their bank managers varies from firm to firm and the contrast between the level of advice provided to firms with and without overdraft facilities is largely explained by this variation in owner/managers' attitudes.

Although the variation between individual accounting practices in the amount and range of advice may be partly explained by the differences in demand for advice from different sectors of the small firm community, the variation between individual practices is so considerable that it is apparent that other factors, including the attitude of the practitioner to the giving of advice, are important in determining the amount of advice provided and the range of topics discussed.

In later chapters we examine the views of a group of owner/managers and the views of the group of accountants and a group of bank managers.

TABLE 2.1 FREQUENCY OF CONCERENCES BETWEEN PARTNERS OF THE PRACTICES AND THE OWNER/MANAGERS OF THEIR SMALL FIRM CLIENTS.

	Interviews					Mail Survey
	% of small firms serviced by 16 practices	Percentage of small firms per practice				% of small firms serviced by 9 practices
		Mean	Standard dev.	Range		
				Low	High	
More than twice a year	40	37	25	6	90	43
Twice a year	19	19	17	0	60	13
Once a year	39	40	26	4	90	41
Not at all	2	4	10	0	33	3

TABLE 2.2 SERVICES PROVIDED BY THE ACCOUNTANT.

	Accountants Interviews					Accountants Mail Survey
	% of small firms serviced by all 16 practices	Percentage of small firms per practice				% of small firms serviced by all 9 practices
		Mean	Standard Deviation	Range		
				Low	High	
Writing up of books (other than closing entries)	62	66	40	1	100	29
Preparation of income and corporation tax	98	98	5	80	100	96
Preparing annual accounts	98	98	5	80	100	97
Auditing	45	46	23	25	100	N.A.*
Preparing accounts other than annual accounts	13	11	11	0	35	3
Preparing minutes and registers	45	46	23	25	100	N.A.
Installing accounting systems	8	6	9	0	30	N.A.
Acting as trustee	5	4	4	0	12	5

* - Not asked

TABLE 2.3 ADVICE PROVIDED BY THE ACCOUNTANTS.

	Accountants interviews					Pilot Mail Surveys	
	% of small firms serviced by all 16 practices	% of small firms per practice				Accountants	Small firms
		Mean	Standard Deviation	Range		% of small firms serviced by all 9 practices	Number
				Low	High		
Corporation and income tax	99	94	25	0	100	70	7
Economy	92	85	32	0	100	27	1
Taxes other than corporation, income and C.T.T.	54	55	38	5	100	29	2
Capital expenditure	53	48	34	0	100	10	1
Family matters	52	43	31	0	100	N.A.*	N.A.
Estate planning	48	43	38	1	100	14	2
Debtors and creditors control	48	45	36	5	100	2	1
Stock	43	41	42	1	100	2	0
Borrowing	41	35	35	0	100	10	0
Financial records	34	31	28	0	100	N.A.	3
Budgeting	31	22	30	0	80	2	0
Employee problems	30	23	28	0	100	2	0
Insurance	26	29	32	0	100	39	2
Cash investment	22	20	24	0	80	10	1
Admissions	21	22	34	1	100	4	1
Retirements	16	25	32	0	100	30	1
Business law	14	19	30	0	100	4	0
Costing and pricing	8	7	8	0	33	2	0
Leasing	6	6	8	0	25	7	0
Computers and accounting machines	4	4	6	0	25	< 1	0
Factoring	4	4	9	0	20	1	0
Corporate planning	< 1	< 1	1	0	5	1	0
Marketing	0	0	0	0	0	0	0
Production	0	0	0	0	0	0	0

* - Not asked

TABLE 2.4 FREQUENCY OF CONFERENCES BETWEEN MANAGERS OF INTERVIEWED BRANCHES AND THE OWNER/ MANAGERS OF THEIR SMALL FIRM CUSTOMERS.

Interviews with branch bank managers

	% of small firms for all branches	Percentage of small firms per branch			
		Mean	Standard Deviation	Range	
				Low	High
With Overdraft Facilities					
More than twice a year	7	12	9	2	30
Twice a year	8	13	9	2	36
Once a year	12	16	12	0	36
Not at all	1	3	6	0	22
	28%	44%			
Without Overdraft Facilities					
More than twice a year	5	4	4	0	18
Twice a year	10	7	7	0	22
Once a year	13	13	11	0	39
Not at all	44	32	17	3	58
	72%	56%			

TABLE 2.5 SERVICES PROVIDED BY THE BRANCHES.

Interviews with branch bank managers

	% of small firms for all branches	Percentage of small firms per branch			
		Mean	Standard Deviation	Range	
				Low	High
Overdraft facilities	28	45	43	10	78
Foreign exchange	14	14	22	0	80
Finance other than overdraft	8	5	10	0	37
Trustee service	2	2	3	0	12
Insurance services	2	2	3	0	8
Income tax services	2	1	3	0	14
Leasing	< 1	< 1	< 1	0	2
Factoring	< 1	< 1	< 1	0	1
Computer	< 1	< 1	< 1	0	< 1

TABLE 2.6 ADVICE PROVIDED BY THE BANK MANAGERS.

	Interviews with bank managers				
	% of small firms for all branches	Percentage of small firms per branch			
		Mean	Standard Deviation	Range	
				Low	High
Borrowing	52	50	20	19	88
Economic	40	33	32	0	97
Debtors	31	29	25	1	88
Income and corporation tax	25	15	20	0	66
Stock	25	19	17	0	50
Budgeting	13	12	24	0	97
Insurance	9	12	17	0	50
Family matters	8	8	6	1	12
Costing and pricing	7	7	13	0	56
Retirement of owner/manager	6	4	9	0	44
Substantial capital expenditure	5	5	4	0	12
Type of financial records	4	5	15	0	70
Taxation other than corporation, income and capital transfer	4	2	6	0	26
Investment of cash funds	4	4	5	0	20
Leasing	2	2	4	0	14
Factoring	2	1	4	0	14
Employee problems	2	2	6	0	27
Estate planning	1	1	3	0	13
Admission of partner/shareholder	1	1	2	0	1
Long term planning	< 1	< 1	< 1	0	1
Marketing	< 1	< 1	< 1	0	1
Production	< 1	< 1	< 1	0	1
Computers and accounting machines	< 1	< 1	3	0	14

TABLE 2.7 ADVICE PROVIDED BY THE ACCOUNTANTS AND THE BANK MANAGERS.

The percentage of the small firms who conferred with the group of accountants and the group of bank managers.

	Small firms conferring with accountants	Small firms conferring with bank manager
Income and corporation tax	100%	45%
Economic advice	94	72
Taxes other than corporation, income and C.T.T.	55	7
Family Matters	53	14
Estate planning	49	2
Debtors	49	56
Stock	44	45
Borrowing	42	94
Financial records	35	7
Budgeting	32	24
Employee problems	31	4
Insurance	27	16
Cash investment	22	8
Admissions	21	2
Retirements	16	11
Business law	14	0
Costing and pricing	8	13
Leasing	6	4

REFERENCES

50. An annual list of members published by the Institute.

51. Well documented in standard books on survey methods such as C.A. Moser and G. Kalton, *Survey Methods in Social Investigation*, Heinemann Educational Books Limited, London, 1971.

52. A client was defined as an entity to whom an account for professional fees had been forwarded during the previous year.

53. A conference was defined as a meeting at which both the owner/manager and adviser were present, where the business of the firm was discussed.

54. Services may have been provided by subsidiaries of the bank of which the managers were unaware.

CHAPTER 3

THE PERCEPTIONS OF A GROUP OF OWNER/MANAGERS OF SMALL FIRMS

- Introduction
- The owner/managers perceptions
- Advice from their accountant
- Advice from their bank manager
- Conclusion

Introduction

Having examined the accounting practices and the bank branches, we now turn to the views of a group of owner/managers.

A telephone survey was used to determine the group's views and this was supported by some information provided by the few responses to a pilot mail survey. The telephone interview consisted of a prepared questionnaire which was put to the owner/manager by a female interviewer. The questions asked are shown in Appendix D. In addition to noting the answers to the prepared questions the interviewer was asked to note down all other comments made to her. The interviews were estimated to have lasted for an average of eleven minutes.

The group of small firms was selected in such a way that sufficient firms were contacted until the views of the owner/managers of ten distributive firms, ten manufacturers and ten other firms had been obtained. They were selected from the classified section of the telephone directory for areas north of central London. The response rate was as follows:

	Interviewed	Refused	Large Firm
Distributive	10	12	1
Manufacturers	10	4	0
Others	10	3	0
	30	17	1

Total contacted - 50

In addition to the limitations which are inherent in

the use of telephone interviews[55] this survey had a number of specific limitations. The response rates of the manufacturers (71%) and other firms (77%) can be regarded as satisfactory. The response rate of only 45% in the distributive trades was disappointing. The consequence of using the telephone directory as the basis for selecting the sample was that no firm without a telephone was interviewed nor was any firm who had commenced business between 1st January 1975, when entries closed for the telephone directory, and March 1976 when the interviews were carried out, included.

The original intention of the research was to carry out an extensive mail survey of small firms and a pilot survey was sent to 150 firms in London and Norwich.[56] Replies were only received from ten small firms and two larger firms and it was decided not to proceed with the larger, more expensive, survey and to substitute the telephone survey for the mailshot. Nevertheless the ten replies were tabulated and the results used as supporting information.

The owner/managers' perceptions

The views of the thirty owner/managers reported later in this chapter are consistent with the general attitudes of owner/managers uncovered in earlier research, but at variance with the views of small businessmen on management consultants discovered in other research. In their major study, *Attitude and Motivation*,[57] Golby and Johns found

that the underlying motivation of the small businessman was

> the need to attain and preserve independence.[58]

Boswell states:

> the strongest force (behind small businessmen) appeared to be the urge to be independent [59]

and these views are shared by Merrett Cyriax Associates[60] and Stanworth and Curran.[61] The importance of "independence" as a major motivation of small businessmen has been well substantiated and is a major factor in considering the views of owner/managers. This attitude of independence takes an extreme form in the opinion of many small businessmen of management consultants. For example, Argoub's research[62] disclosed that 98% of the small businessmen interviewed considered that there was no need for management consultants and comments made to Boswell[63] included

> "A racket."
> "I wouldn't touch them with a barge pole."
> "They are parasites."

Advice from their accountant

From these research results it had been anticipated that some of the firms would consider they required no advice. This view was expressed by only two of the thirty firms. One of these firms wrote up their own books of account and prepared their own return for the Inland Revenue. The other had an accountant prepare a set of

accounts and the return from information they forwarded by post to their accountant.

A much greater number of firms, thirteen out of the thirty, thought the only advice they needed was advice on revenue taxation, including income, corporation and value added taxation. Discussion with these small businessmen indicated that they regarded their accountants as experts in taxation. It was not that these firms were dissatisfied with their accountants, but just saw their accountant as playing a limited role.

In complete contrast to those firms who considered they needed no advice, nine of the firms perceived a need for advice on all aspects of their business. These nine firms did not limit advice to topics which would normally be regarded as being within the expertise of accountants, but included advice on every aspect of the business.

Six of the thirty firms considered they needed advice on a limited range of topics. As expected, the most commonly noted topic was taxation, mentioned by six owner/managers. Other topics discussed were advice on substantial capital expenditure (three firms), insurance (two firms), budgeting, debtors and production (one each).

The unstructured section of the telephone interviews uncovered a number of interesting attitudes of the owner/managers of small firms to their accountant. A view expressed by many of them was that the advice they required had to be "practical", "realistic" and "down to earth". One owner/manager summarized this view when he stated:

. . .

> An accountant must be practical, I require more than just figures.

Apparently most of the accountants servicing the group of small firms must have met this test of being "practical" because only one firm expressed any dissatisfaction with his accountant. His view was that his accountant was "only average".

Perhaps the most significant information emerging from the telephone survey was that many of the firms who considered they needed advice stated that they depended on their accountant to initiate advice on topics where the accountant felt he could help and assist rather than merely providing advice in reply to requests from the firm.

Advice from their bank manager

Exactly half of the thirty small businessmen did not consider they required any advice from their bank manager. Only three of these firms had overdrafts. Those firms who gave reasons for their attitude either emphasized their independence (for example the small businessman who commented, "I make my own decisions.") or indicated that their bank manager did not meet the level of "practicality" they required. Comments by those who held this latter view included:

> "Bank managers don't appreciate the rules of the game."

"Banks are not down to earth enough." and

"Banks are not realistic or practical."

Six of the interviewed firms only looked upon their bank manager as being a source of advice on borrowing and investment and considered they were incapable of advising in other areas. Four of these six firms had no overdraft facilities.

Four of the firms needed advice on all aspects of their business. Each of these firms emphasized that they enjoyed a good personal relationship with their bank manager and all had overdraft facilities.

The remaining five firms perceived needs for advice on a range of topics. The most commonly mentioned topic was borrowing (three firms), though production, costing and pricing, foreign exchange, capital expenditure and budgeting were each mentioned by one firm. Three of the five firms had overdraft facilities.

A clear distinction must be drawn between those firms with overdraft facilities and those without in assessing the attitudes of the owner/managers to advice being provided by their bank manager. Two thirds of firms without overdraft facilities thought that they needed no advice and only two of the eighteen firms perceived a need for advice beyond borrowing and investment. In complete contrast only one quarter of the owner/managers of those firms with overdraft facilities considered they had no need for advice and the majority view was that they had a need for advice beyond advice on borrowing and investment. One third needed advice on "everything".

Conclusion

The research described in this chapter provides more evidence that owner/managers of small firms normally take a different attitude to receiving advice from accountants from their attitude to receiving advice from bank managers. On the one hand they generally accept their accountant as an adviser while many of them reject their bank manager as an adviser.

The reason put forward by the owner/managers for this variation in attitudes, namely that accountants are in their view "practical", while bank managers are not, only partly explains the variation. It is apparent that many small firms, particularly those without overdraft facilities, rarely confer with their bank manager and are not in a position to judge the "practicality" of bank managers' advice.

The lack of contact between owner/managers of small firms and bank managers is itself one of the factors which influences the views of owner/managers. Those firms who borrow are required to confer with their bank managers and certainly appear to be more favourably disposed to the receiving of advice than those who do not.

The reactions of some of the owner/managers surveyed indicated that they saw any dealings with their bank, beyond operating a non-overdrawn bank account, as being a threat to their independence and for this reason they did not wish to seek advice from their bank manager. This result is consistent with Boswell's study.[64] When questioned these owner/managers expressed the opinion that

banks were large impersonal organizations with managers who saw their prime responsibilities as the safeguarding of the bank's assets. On the other hand, accountants are often owner/managers of small firms themselves and their clients have little difficulty in relating to them. They provide no real threat to the independence of their small firm clients.

Finally, many of the owner/managers expressed the view that their bank manager seemed uninterested in their problems and it may well be that one of the reasons for the owner/managers attitude to their banker was influenced by the reaction of bank managers to the giving of advice.

The expression by many of the owner/managers of their dependence on their accountant to initiate advice provides further support for the proposition that one of the major causes of the variation between the amount and range of advice provided by individual practices was the attitude of the accounting practitioner rather than the attitude of the small firm.

REFERENCES

55. Described in detail in texts such as Moser and Kalton's *Survey Methods*.

56. The questionnaire, a copy of which is shown in Appendix E, can be divided into four sections. The first group dealt with the details of the small firm, the second with the services rendered to the firm, the third with advice provided and the fourth with advice the firm wished to receive. The group of 150 firms was selected by reference to the classified telephone directories in North West London and Norwich and was stratified to reflect the industrial classification of small firms adopted by Bolton. All the letters were forwarded with an introductory letter and a reminder letter was forwarded ten days after the questionnaire.

57. C.W. Golby and G. Johns, *Attitude and Motivation*, Committee of Inquiry on Small Firms, Research Report No.7, H.M.S.O., London, 1971.

58. *Ibid.*, p.3.

59. Boswell, *Rise and Decline of Small Firms*, *op.cit.*, p.55.

60. Merrett Cyriax Associates, *Dynamics of Small Firms*, Committee of Inquiry on Small Firms, H.M.S.O., London, 1971.

61. M.J.K. Stanworth and J. Curran, *Management motivation in the smaller firm*, Gower Press, London, 1973.

62. Argoub, *Management Advisory Services*, *op.cit.*, p.23.

63. Boswell, *Rise and Decline of Small Firms*, *op.cit.*, pp.224-225.

64. *Ibid.*, p.226.

CHAPTER 4

THE "ACTUAL" NEEDS FOR ADVICE OF A GROUP OF SMALL FIRMS

- Introduction
- The research approach
- The research assumptions
- The paradigms reviewed
- The research steps
- The selection of the firms
- The "actual" needs for advice
- Conclusion

Introduction

This chapter discusses the "actual" need for advice in a group of small firms. It will be remembered that the "actual" needs for advice are defined as those which are determined from the logic of the firm's position related to the skills of its participants and the objectives of the firm.

The assessment of these needs required the researcher to take a view of the need for advice to assist the firms to achieve their objectives and this assessment was based on in-depth investigations into the nine firms.

The research approach

The in-depth analyses of the set of nine firms were based on the most commonly used paradigms of evaluating and analysing firms.

There is no single paradigm which is universally accepted as being the only basis for the evaluation and analysis of firms. This chapter examines four commonly used paradigms, their associated approach and some of their techniques, representative of the approaches commonly used in evaluating firms. The paradigms are:

- The "best practice" paradigm was first brought to prominence by a security analyst with a major interest in management. It is the basis of the approach supported by the American Institute of

management.[65]

- The "business school" paradigm which arises from the views and writings of business school staff notably Drucker,[66] Ansoff[67] and the influential Business Policy Department of Harvard Business School.[68]
- The "financial" paradigm which is the basis of the approach commonly used by accountants, bankers and security analysts.
- The "key crisis" paradigm which has been derived from the writings of Buchele.

The essential difference between each of these paradigms lies in the relative emphasis given to the objectives of the firm by each paradigm.

The "best practice" paradigm

This paradigm proposes:

> That the experience of "successful" firms is such that it is possible to determine "best practice" in all aspects of a business and that the needs of a firm (including the need for advice) are determined from the extent to which the practices of a firm being examined fall short of these best practices.

As success means "to achieve one's aims"[69] the paradigm is based on the assumption that all firms have identical aims or objectives.

The technique closely associated with the paradigm is the management questionnaire. This technique consists of a series of questions designed so that when answered the needs of the firm can be determined. In it "success"

is determined in advance by the author of the questionnaire. The technique was first developed by Jackson Martindell, the founder of the American Institute of Management.[70] His questionnaire contains 301 questions, each of which has a maximum score which indicates the "correct" answer for the "successful" firm. The paradigm is also the basis for the analysis of small firms in the British Institute of Management's *Know your Business*.[71]

The "business school" paradigm

The "business school" paradigm proposes:

> The needs of a firm (including the need for advice) are determined by ascertaining the firm's objectives, by ascertaining the extent to which these objectives are and are likely to be fulfilled and by analysing the causes of the unfulfilled objectives.

The supporters of the paradigm consider firms do not have identical objectives and as a result believe it impossible to determine a firm's needs including the need for advice and without being aware of its objectives. The approach adopted by the supporters of the "business school" paradigm has three phases.

(A) Assessing the objectives the firm is seeking to achieve.

(B) Assessing the extent to which the firm is fulfilling these objectives at present and is likely to fulfil the objectives in future.

(C) Analysing the causes of the unfulfilled objectives.

The "financial" paradigm

Unlike the first two paradigms the last two propound approaches which only determine some of the needs of a firm. The first of these is the "financial" paradigm, a paradigm based on the assumption that all firms have financial objectives. It does not assume these are the only objectives nor depend on the concept of profit maximization.

The paradigm proposes:

> All firms have financial objectives and
> many of the needs of a firm can be determined
> by analysing the financial aspects of a firm.

Legislation in the United Kingdom provides for all companies to produce annual financial accounts[72] and taxation requirements ensure that all firms produce some form of annual accounting. (In his study of small firms McCune[73] found that all the firms interviewed produced annual accounts, 50% produced no other form of accounting report and approximately 20% produced monthly accounting reports.) As a result the analysis of financial accounts is the technique most often used, at present, to evaluate firms. Because of their expertise in financial matters the technique is extensively used by accountants and bank managers.

"One of the most successful yet simple techniques ever conceived to aid evaluation"[74] is return on investment, a technique first developed by du Pont[75] and General Motors.[76] In its simplest form it is the return of a firm expressed as a percentage of the resources employed in the

firm. It is used extensively in large firms in the United States but does not appear to be used to any large extent by small firms in the United Kingdom. The technique is extensively used by one of the largest small firm consultants in the United States.[77]

Another technique used extensively by security analysts in the analysis of listed companies is ratio analysis. Ratio analysis is the analysis of firms using certain predetermined ratios.

The "key crisis" paradigm

The final paradigm is the "key crisis" paradigm. It is based on two assumptions.

The first assumes financial insolvency is an objective which every firm wishes to avoid. It could be described as a negative objective.

The second assumes that there are a series of events, or crises, which often occur in the lives of firms which have a tendency to cause insolvency. The paradigm does not assume every firm experiences every crisis nor does it assert an approach based on the paradigm will determine all the needs of a firm.

The paradigm proposes:

> That some of the needs of a firm are determined by ascertaining the extent to which a firm suffers from the crises which commonly cause insolvency.

The paradigm was first proposed by Robert Buchele to overcome the problems he encountered in using the "best practice" and "financial" approaches when evaluating small firms. His specific technique was devised for small firms

and the specific crises he identified were those he considered are exhibited by small firms.

The research assumptions as to firms' objectives

The essential difference between each of the four paradigms is the relative emphasis each gives to the objective of a firm. The "best practice" paradigm assumes that all firms have common objectives, the "business school" paradigm assumes that all firms do not share identical objectives, the "financial" paradigm assumes that all firms have financial objectives and the "key crisis" paradigm assumes that all firms wish to avoid insolvency.

Do all firms have common objectives?

Drucker sees the central objective of all firms as being survival and sees this objective being achieved through creating customers and economic growth. He considers that each firm should establish its own objectives in the key result areas of: Market standing, Innovation, Productivity, Physical and financial resources, Adequate profitability, Managerial attitude and performance, and Public responsibilities.

Ansoff views maximizing long term profitability as the central purpose of a firm and considers that other objectives, which vary with each firm, exert a secondary modifying and constraining influence on the central objective.

But the views of authors, no matter how eminent, are

not necessarily correct and the question still arises whether in practice the objectives of all firms are identical.

In an empirical study of large firms in the United States, Perrow argues that all firms do not have identical objectives and that there is empirical evidence to support the view held by Cyert and March which asserts that all firm's objectives are determined by a bargaining process between participants who make up the firm.[78]

Further evidence of the apparent diversity of objectives of firms is to be found in the interviews conducted by Golby and Johns and described in their *Attitude and Motivation*.[79] Another study which emphasizes the range of views and objectives of firms is Fowlers and Sandberg's examination of the attitudes of owner/managers of small firms to growth. Fowler and Sandberg found that rather than there being one attitude to growth, there were a number, the major ones being:

- The conservative owner/manager who does not consider growth.
- The industry stalwart who seeks an acceptable growth.
- The aggressive owner/manager who attempts to examine growth.

Supported by this empirical evidence this research assumed that all firms do not share identical objectives. Because business firms are economic entities it is assumed that all firms have some form of financial objective and because it is an offence for a firm to

knowingly trade in an insolvent position it is assumed that all firms wish to avoid insolvency.

The paradigms reviewed

Having made these three assumptions it is possible to review the four paradigms in the light of these research assumptions.

The "best practice" paradigm

As it has been assumed that all firms do not share identical objectives, it follows that the "best practice" paradigm is considered to be invalid. This is not to say that experienced consultants do not have regard to practices followed by other firms but rather that these practices are considered in the light of the type of firm involved and the objectives it is attempting to achieve.

The apparent invalidity of the paradigm may account for the number of large firms in the United States who suffered serious financial decline shortly after being rated as "excellent" under an approach based on the "best practice" paradigm.[81]

The "business school" paradigm

The three assumptions mentioned previously are consistent with the assumption on which the "business school" paradigm is based.

Although the theory on which the "business school" paradigm is based is hard to fault, in practice problems do exist with approaches based on the paradigm.

Perhaps the greatest of these is that few firms ever formally determine what they are attempting to achieve. Norburn disclosed that even directors of listed companies have only the vaguest idea of their firms' objectives.[82] This is not to say that it is not possible to determine a firm's objectives, but rather that there is a cost in doing so and the benefit derived from determining the objective may be exceeded by this cost.

The problem is particularly difficult for small firms because approaches similar to that suggested by Ansoff in his *Corporate Strategy* are very costly and time consuming and there is a danger that they may stifle the opportunism and flexibility which is so essential in small firms.

The "financial" paradigm

Because the research assumes that every firm has some form of financial objective, the "financial" paradigm is consistent with the research assumptions. More over the components which make up financial performance can, within limits, be measured and the paradigm calls for far less subjective judgment on the part of the evaluator than other paradigms.

The paradigm has a major limitation in that it propounds an approach which only aims to determine some of the needs of firms.

Even if this limitation is accepted there are a number of problems with the financial approach. One of these is that an analysis of the financial aspects of a firm often discloses the symptoms of the need rather than the need itself. Another problem is that as most financial

reports refer to past events, future needs may not be disclosed by analysing records of past events. This problem is extremely acute in small firms because of the infrequency with which they normally prepare financial reports and the considerable period which often occurs between the end of the financial period and the completion of the financial accounts.[83]

The "key crisis" paradigm

The key crisis paradigm is consistent with the assumption as to a firm's objectives adopted in this research but it should be remembered that approaches based on the key crisis paradigm only identify a limited number of the needs of small firms.

Approaches based on the paradigm are orientated to determining future as well as present needs but a limitation is the approach is dependent on the accuracy with which the evaluator identifies the crisis. As Buchele has indicated[84] the larger the firm the more difficult it is to recognize the crisis.

The research steps

The approach adopted in the research to the analysis of each of the firms, to determine the need for advice in the given set of small firms, consisted of the following steps:

(i) An unstructured interview with the owner/manager. The purpose of these interviews was to obtain the views of the firms' most important participants

as to the objectives which they considered the firm should strive to achieve.

(ii) Unstructured interviews with other participants.

Other participants are normally less important than the owner/manager but do influence a firm's objectives. The purpose of these interviews was to obtain the views of these participants as to the objectives they consider the firms should strive to achieve.

(iii) An examination of the interaction or bargaining process. The views of the different participants interact with each other and it was necessary to examine the bargaining process involved to enable the next step to be taken.

(iv) An assessment of the firms' objectives.

This assessment was based on the steps mentioned previously.

(v) An assessment of the extent to which the objectives were being achieved. This step involved the comparison of actual performance with the firm's objectives and included a financial analysis.

(vi) A diagnosis of the unfulfilled objective.

This step, which involved a high degree of personal judgment, was undertaken so as to determine the cause of the firm's failure to meet their objectives. Crises commonly encountered by other firms were taken into account in each of the diagnoses.

(vii) An assessment of the firm's ability to fulfil its objectives in the future. It is insufficient to

merely examine past and present performance and it was necessary to assess the extent to which the firm's objectives were likely to be achieved in the future and to assess the reasons for any likely failure. Again this step involved a high degree of personal judgment and the crises which commonly occur were taken into account.

(viii) A decision as to the needs of the firm. This vital decision was based on the diagnoses of the causes of the firm's failure to fulfil its objectives and on the assessments of the firm's ability to achieve its objectives in the future.

(ix) A decision as to the firm's need for advice. This final decision as to the needs for advice was based on an examination of the needs of the firm. Each of the needs for advice was classified into either

Critical - those needs for advice which, in the researcher's opinion, if not given would endanger the firm;

Urgent - not critical, but were required to be provided as quickly as possible; or

Major - other important needs.

The selection of the firms

Because one of the aims of the research was to determine the extent to which the need for advice in the given set of small firms varied from advice currently

given by accountants and bank managers, it was decided to select the firms for the set in such a way that the assumed diversity of needs of small firms would be shown. The firms were not chosen at random nor were they selected to be representative of the population of small firms in the United Kingdom as a whole.

In selecting the firms the question arose as to the factors which were likely to be related to the diversity of needs.

Boswell's writings argue that one of the factors affecting the needs of small firms is the age of the firm. Moreover the age of the firm is one of the factors normally used in determining the stage of development of a firm. It was decided to use the age of the firm as a selection criterion. The firms selected were divided between three age groups with an equal number in each group. The groups decided upon were:

Infants - Those in existence for less than five years.

Mature - Those in existence for between five and thirty years.

Aged - Those in existence for more than thirty years.

Although less than twenty percent of small firms in the United Kingdom are estimated to be manufacturing firms several of the important studies into small firms have been confined to manufacturers. To ensure that as many needs for advice as possible were disclosed by the evaluations, it was decided to look beyond manufacturers.

At first glance it was thought that the standard industrial classification would be a suitable selection parameter. But in certain industrial classifications there seemed to be considerable differences between the characteristics of some of the firms (for example, in the furniture industry the characteristics of a mechanized manufacturer appear to be very different from the characteristics of a craft based firm. It was decided to look beyond industrial classification.

From the researcher's consulting experience it appeared that the needs of small firms were related to the extent to which firms were material or labour intensive. For example, the problems of craft based manufacturers with their high labour content appear to be similar to labour intensive firms in other industrial classifications. In addition to those firms which are material intensive and those that are labour intensive there are also firms (including many manufacturers) where the costs of labour are approximately the same level as material costs.

It was decided to use the extent to which firms are material or labour intensive as a selection parameter and to select an equal number of firms from the following three groups.

Material intensive.

Labour intensive.

Material and labour costs approximately equal.

The selection of small firms analysed was made up as follows:

Infants	3
Mature	3
Aged	3
	9

and

Material intensive	3
Labour intensive	3
Labour/material	3
	9

The nine firms were divided as follows:

	Total	Material intensive	Labour intensive	Labour/ material
Infant	3	1	1	1
Mature	3	1	1	1
Aged	3	1	1	1
Total	9	3	3	3

The firms were selected from firms known to the researcher and other members of London Business School. They are made up as follows:

Infants (i.e. less than five years old)

Firm I1. Material intensive
Retail grocer

Firm I2. Labour intensive
Guest house

Firm I3. Material/labour
Alcoholic beverage manufacturer

Mature (i.e. between five and thirty years old)

Firm M1. Material intensive
Timber merchant

Firm M2. Labour intensive
Taxi proprietor

Firm M3. Material/labour
Educational furniture manufacturer

Aged (i.e. over thirty years old)

Firm A1. Material intensive
Cork merchant

Firm A2. Labour intensive
Curtain maker

Firm A3. Material/labour
Brush manufacturer.

The "actual" need for advice in the set of firms

The analysis of the set of nine firms identified needs for advice on twenty topics. Brief details of the analyses are set out in Appendix F and the firms which were considered to need advice on each topic shown in Table 4.1.

Retirement of owner/manager

All men are mortal so if a firm is to survive beyond one generation there is eventually a need for management to be replaced. Yet from Boswell's work[85] is is apparent that management succession and the retirement of older owner/managers are problems commonly found in small firms, particularly older firms.

In carrying out the analysis of the firms the researcher was looking to see if there was a need for advice on retirement of owner/managers. The need was found in firms I1, M1, M2, M3, A1 and A2 through analysing the ages of management, examining the firms' objectives to ensure that survival was an objective and then discussing any plans for retirement with the management of each

firm.

Firms M1 (the timber merchant), M3 (the educational furniture manufacturer) and A1 (cork merchant) possessed the characteristics of what Worthy has called a "father knows best" firm. In each case older management expressed their reluctance to retire to the analyst and younger management indicated that they were not prepared to challenge his view. An illustration of the views of the older management of these firms was the comment of the chairman of M1 when he stated,

"I never want to give up the reins."

Firms I1 (the retail grocer), M2 (the mini cab proprietor) and A2 (the curtain maker) were typical "one man shows". When questioned all three indicated they were too busy "putting out fires" to consider the problem. In discussion with the owner/managers of these three firms the researcher obtained the distinct impression that thoughts of retirement and their possible successor, challenged their wish to be one man independent firms.

Due to the ill health of the owner/manager of M2, the researcher formed the opinion that his need for advice on retirement was urgent.

Diversification

Because of their size many small firms in the United Kingdom market only one line of products or services and frequently only operate in one market area.

In itself, dependence on one product and one market may enable a firm to specialize and compete with larger

firms, but those firms which operate in markets where the demand varies considerably or where the product being sold is at the end of its life cycle are more vulnerable than multi-product multi-market firms.

The management of two of the firms (M1 and A1) set as one of their objectives the need to diversify. In the case of M1, the timber merchant, the majority of directors wished to be less dependent on the building industry and in the case of A1, the cork merchant, directors acknowledged that their product was reaching the end of its life cycle and the firm would have to move into the marketing of other goods. Both firms agreed that they had a need for advice on diversification.

From an examination of the internal records of the mini cab operator, M2, and from the reconstruction of preliminary financial results, it became obvious that there was considerable underutilization of resources. An informal examination of the availability of mini cabs showed that the market was over supplied. If the firm was to survive and reach its objectives, some form of diversification was needed. Instinctively the owner/ manager realized that something had to be done; his attitude was summed up in his comment

"All I know is the mini cab game."

As the summary in Appendix F indicates, the educational furniture manufacturer was engaged in selling his products to a few local government authorities in competition with several large mass producers. Discussion with management of the firm, with several competitors and

with officers of the furniture industrial training board indicated that the level of expenditure on furniture by local authorities had been drastically reduced and was unlikely to be substantially increased in the near future. The younger director accepted the view that the firm would need to diversify to survive; his father was not prepared to face the disruption he saw occurring with diversification. The researcher formed the opinion that there was an urgent need to plan diversification.

Budgeting

Many of the writers on small business management, particularly Wood,[86] have argued that a major deficiency in many small firms is their failure to budget.

In view of these opinions the analyst asked each firm to show him their budget. Budgets were prepared by firms I3, A1 and A3. In the analyst's professional opinion, these were adequate.

In the consulting experience of the researcher, there are some firms whose financial plans are so well thought out and understood by management. The time and cost of committing them to writing is unnecessary. The curtain maker (A2) did not prepare a budget, though after discussion with the few decision makers in the firm the researcher formed the opinion that no real benefit would arise from preparing a budget.

In complete contrast the researcher formed the opinion that to assist in their planning, firms I1, I2, M1, M2 and M3 would benefit considerably from the preparation of a budget. In each case the management of

the firm seemed unclear as to where the firm was heading and it was felt that a formal budget would be of considerable help.

Selection of a site

Many writers and researchers argue that location is a key factor in the success or otherwise of a firm.[87]

The researcher visited the premises of each firm and discussed the suitability of the location with management. In the case of firms I2, I3, M3, A2 and A3, management considered that they did not possess suitable premises and agreed that they required advice in this area.

The most dramatic situation was the educational furniture manufacturer (M3) who, on the first day of the researcher's assessment, received a letter from the landlord indicating that the lease had come to an end and that the rental was to be increased from £500 to £15,000 per annum. As the analysis of the firm indicates, this would have the effect of placing the firm in a loss position. Enquiries from this "father knows best" firm indicated that the son was unaware of the lease arrangement and that the father had "forgotten" the lease period. The firm had made no attempt to plan for a possible move and critically needed advice on the availability and cost of alternative accommodation.

An interesting fact emerging from the unstructured interviews was that each of the firms operating was leasing premises at a rental well below what the owner/managers considered to be commercially reasonable. Part

of the profits of these firms was being derived because of favourable leases signed some time ago. As leases approached termination each firm was likely to face a major need for advice on the selection of a site similar to the needs required by firms beginning operations. The form of financial accounts prepared for each of the firms was such that they failed to highlight the benefits arising from signing favourable leases.

Advice on the recruitment of labour

In the researcher's experience, some small firms are inhibited in their inability to recruit labour. An attempt was made to determine if firms within the selected group had sufficient labour, and detailed discussions were carried out with all levels of employees in each of the nine firms.

In view of the level of unemployment in Britain at the time of the analyses the researcher was surprised to discover that labour was required by I2, I3, M1, M2 and A2. The management of these firms confirmed the researcher's conclusions and the curtain maker (A2) claimed that this factor was seriously inhibiting his firm. Each firm agreed that they needed advice on the recruitment of labour.

Recruitment of management

Discussion with the management of each firm included enquiries as to the present and likely future workloads of their executives. Based on these discussions the researcher found that there was a need to recruit manage-

ment in the firms I3, M3, A1 and A2.

In the case of I3 the firm was in the early stages of development and needed to recruit its initial management team. With M3, A1 and A2 the firms had older managers who would need to be replaced. Because of the ill health of the curtain maker (A2) it was considered the need was critical. None of the firms had sufficient expertise in recruiting senior management and needed advice.

Market research

Knowledge of the likely market for the products or services of a firm is an essential element in effective decision making. For most of the firms being analysed the knowledge came from the years of experience management had in their industry, though the infant firms had not had the opportunity to gather this knowledge. Firm I3 (the alcoholic beverage firm) had compensated for this lack of knowledge by the promoters spending many days analysing the size of the market.

Discussion with the other infant firms disclosed that management had only a limited knowledge of their market. To overcome this deficiency the firms needed to carry out market research. As the management of both firms had only a limited knowledge of this subject, they needed advice.

Estate planning

By correlating the list of shareholders, shown in the annual returns submitted to the Companies Office, with the

approximate ages of shareholders the researcher was able to isolate those firms where the death of a shareholder and the resulting capital transfer tax was likely to have an impact on the firm. Discussion with the shareholders revealed that Firms M1 and M3 had an urgent need for advice on estate planning and because of the ill health of its owner/manager, A2 had a critical need for advice.

Relatively little attention has been given to the problem of capital transfer tax in small firms for until recently death duty has been fairly easy to avoid in the United Kingdom.

Retirement of older employees

Boswell argues that one of the major problems facing the small firm sector in Britain is associated with the older employees of some firms.[88] Discussion with management and employees of the firms indicated that advice on the retirement of employees was needed in M1, M3 and A2. The problem was particularly difficult in the timber merchant (M1) which was a classic case of the resistance of older employees to change as highlighted by Boswell.[89] In this firm one of the key employees was actively opposed to any attempt to pass responsibility on to younger employees.

Capital gains tax

The financial analysis of the firms indicated that the retail grocery (I1), which was to be sold, and the brush manufacturer (A3), who was to cease trading, were both likely to be faced with large capital gains tax.

Neither firm was aware of the problem and needed technical advice.

The problem of capital gains tax in small firms hardly rates a mention in much of the British literature on small business.

Borrowing

Because of their financing requirements and the inexperience of their management in seeking funds, it was considered that I2 and M2 both needed advice on borrowing. It is not surprising that this need was discovered as several authors consider it a major deficiency in many small firms.

Reconciliation of participants

We have known for many years that the decision making procedure of firms involves a "bargaining procedure" between participants[90] but the literature on small business management hardly mentions the problem of resolving disputes between participants. In most cases differences are resolved by the participants themselves.

In the case of I3 intervention was needed because of the expansionist views of the younger managing director and his older more conservative chairman. In the case of M1 the difference arose because of the personalities of the directors.

Rearranging shareholding

With the equal shareholding and the warring of the participants M1 critically needed advice on the rearrange-

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ment of shareholding.

The cork merchant (A1) had an objective to retain the shareholding in the family's hands. With shareholding becoming disbursed among many members of the wider family there was a danger that shares would be sold to outsiders; as a result advice was needed on the future shareholding of the firm.

Council planning

Associated with their search for suitable sites the management of firms I2 and I3 suggested that they needed advice on town and country planning.

Periodic financial reporting

The analysis of the accounting practices disclosed that some small firms are unlikely to have adequate financial information for decision making. As a result the researcher examined the form of periodic financial information available to the management of each of the firms.

All firms other than M2 and M3 had some form of reporting. In the case of both exceptions, the lack of accounting expertise of the management meant that they would need advice and assistance. Because of the perilous financial position of both firms the needs were critical.

Costing and pricing

Both Bolton and Wood[91] consider that many small firms have a need for advice on costing and pricing. To check their views the costing system of each of the firms was

examined.

Based on this examination the researcher found that M3 and A2 had inadequate systems and insufficient expertise to design a costing and pricing system.

Marketing

There is no firm which could not benefit from some advice on marketing. Discussion with the owner/managers of I2 indicated that they had little idea of how to market a guest house. Without adequate marketing there seemed to be a real danger that inadequate occupancy rates would be obtained.

Income tax

An assessment of the financial records of all the firms disclosed that the taxi proprietor had not prepared income tax returns for some years in defiance of the statutory requirements of the taxing authorities. He had a critical need for assistance and advice.

Credit control

Inadequate controls over debts are frequently discovered in the audit of small companies. The debtors records in each of the firms were reviewed.

Firm M2 had many debts apparently outstanding for over six months and a chaotic debt collection system with no follow up procedures. They urgently needed assistance.

Plant layout

Even to the researcher's untrained eyes, the layout of M3 (the educational furniture manufacturer) was poor.

The individual items of plant and the storerooms were so sited that partly finished goods frequently needed double handling, often without forklifts. Advice was required.

Conclusion

The analysis of the nine firms in the given set of small firms disclosed the following twenty needs where it was considered advice was required.

Retirement of the owner/manager

Diversification

Budgeting

Selection of site

Recruitment of labour

Recruitment of management

Market research

Estate planning

Retirement of older employees

Capital gains taxation

Borrowing

Reconciling participants

Rearranging shareholding

Council planning

Periodic financial reports

Costing and pricing

Marketing

Income taxes

Credit control

Plant layout.

The analyses of the firms has revealed two significant points. Firstly, the needs disclosed by the analyses are similar to the weaknesses of small firms set out in an earlier chapter, and secondly, the number and range of the "actual" needs far exceeds the "perceived" needs discussed in Chapter 3.

Sixteen of the twenty needs for advice have been highlighted by writers on small business management. The exceptions which have received little or no attention are advice on reconciling participants, rearranging share-holding, capital gains tax and council planning. Advice on capital gains tax and countil planning may not be needed in many small firms. However, disputes between participants and the need for rearrangement of share-holding are common small firm problems.

It is apparent from the analyses of the firms and discussion with the owner/managers of the nine firms that the reasons for the difference between the "perceived" and "actual" gap include:

- The failure of owner/managers to realize that they had the need for advice.
- The need for advice was appreciated by the owner/manager and he correctly considered the topic as being beyond the competence of an accountant or bank manager.
- The need for advice was appreciated by the owner/manager but he <u>incorrectly</u> considered the topics as being beyond the competence of accountants or bank managers.

- Despite the awareness of the problem the owner/ manager felt that seeking advice on the subject would endanger his independence of status.

A typical example of the failure of small firms to perceive their needs was provided by the inability of firm I1 to realize that capital gains tax was payable on sale of the business.

An example of an owner/manager perceiving a need for advice, but realizing it was beyond the competence of an accountant or bank manager, was Firm I3's need for advice on council planning and an example of an owner/manager perceiving a need but incorrectly assuming it was beyond the competence of both groups of advisers was provided by the need of firm M1 for advice on diversification.

Illustrations of owner/managers being aware of a need but not being prepared to admit that advice was needed are to be found in the "father knows best" firms' (M1, M3 and A1) attitude to the retirement of their older owner/managers

TABLE 4.1 MAJOR NEEDS FOR ADVICE IN THE SET OF FIRMS.

	Infant			Mature			Aged		
	Material intensive	Labour intensive	Material/ labour	Material intensive	Labour intensive	Material/ labour	Material intensive	Labour intensive	Material/ labour
	I1	I2	I3	M1	M2	M3	A1	A2	A3
Retirement of owner/manager	M			M	M	M	M	U	
Diversification				M	M	U	M		
Budgeting	U	U		M	U	C			
Selection of site		U	U			C		M	M
Recruitment of labour		U	U	M	M			U	
Recruitment of management			U			M	M	C	
Market research	U	U							
Estate planning				U		U		C	
Retirement of older employees				M		M		M	
Capital gains tax	M								M
Borrowing		U			M				
Reconciling participants			C	C					
Rearranging shareholding				C			M		
Council planning		U	U						
Periodic financial reports					C	C			
Costing and pricing						U		U	
Marketing		U							
Income tax					C				
Credit control					U				
Plant layout						M			

C = Critical need
U = Urgent need
M = Other major need.

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CHAPTER 5

THE VIEWS OF A GROUP OF ACCOUNTANTS AND A GROUP OF BANK MANAGERS

- The views of accountants
- The views of bank managers
- Conclusion

The views of accountants

The advice actually provided by accountants is not necessarily the advice they consider should be provided to their small firm clients. In this chapter we explore the views of the group of accountants who were interviewed and examine the eight fully completed mail questionnaires. Details of the research techniques used are described in Chapter 2.

Unexpectedly one of the practitioners interviewed and two of the mail respondents considered that it was not part of the function of an accountant to provide advice to his client. All of these practices were sole practitioners with a high level of write up work. Discussion with the interviewed accountant who took this attitude revealed that he considered the only functions of an accountant were to write up books, prepare taxation information and carry out audits.

In marked contrast to the views of the owner/managers described in Chapter 5, none of the other practitioners thought their advice should be limited to advice on revenue taxation. Nevertheless as Table 5.1 discloses, taxation advice was most often mentioned by the accountants.

Apart from the need for advice on taxation there was considerable variation between the practitioners' attitudes. Table 5.1 reveals that the mail respondents mentioned fourteen other topics, while the practitioners mentioned nine.

TABLE 5.1 SUMMARY OF ACCOUNTANTS' VIEWS.

	Interviewed practices	Mail respondents
Total	16	8
No advice	1	2
Advice on		
Revenue taxation	11	4
Budgeting	5	4
Borrowing	Nil	5
Capital expenditure	1	4
Pricing & costing	2	2
Retirement	1	3
Insurance	1	3
Business law	Nil	3
Planning	2	1
The economy	1	1
Production	Nil	2
Marketing	Nil	2
Employees	Nil	2
Admission of partners	Nil	2
Family matters	1	1
Computers	Nil	1

In spite of the little budgetary advice provided to small firms, five of the interviewed practitioners and four of the mail respondents mentioned budgeting as a topic on which advice should be provided. One of the practitioners considered that advice on budgeting would increase substantially in the near future.

The number of times advice on costing and pricing were mentioned was much greater than the small percentage of firms receiving advice on this topic from the practices. On the other hand, advice on the economy and family matters were both provided to a substantial proportion of small firm clients, but hardly rated a mention in the advice the accountants thought they should be providing.

During the unstructured section of their interviews a number of practitioners provided more support for the argument that many small firms depend on their accountant to initiate advice rather than seek advice. One practitioner commented:

> "Clients just sit there."

while another remarked

> "They rarely ask questions."

The views of bank managers

In this section of the chapter we consider the views of the twenty-three bank managers interviewed. The research techniques used to obtain these views are described in Chapter 2.

All of those interviewed considered that advice to

small firms should be provided to customers; four of the branch managers considered that their advice should be confined to advice on borrowing and investment, and two branch managers considered their advice should be confined to borrowing, investment and insurance. In complete contrast three of the branch managers considered that they should provide advice on "all subjects".

Of the remaining fourteen branches all the managers considered that they should provide advice on borrowing to their small firm customers.

Although they would not give advice on individual securities, the fourteen branch managers considered they should provide advice on the advantages and disadvantages of different types of investment.

Reflecting the increasing interest of area and regional offices of banks in cash budgeting (which partly arose from the recommendation of the Bolton Committee[92]) eight of the branch managers mentioned budgeting as being a topic of advice which they considered was important that branch managers should provide to small firms. Not all branch managers agreed. Several of them considered cash budgets as being one of the "latest head office gimmicks" and one particularly cynical manager commented that

> "The only accurate figure I have ever seen in a budget is the date on top."

Advice on stock was considered to be important by eight of the branch managers while advice on debtors was considered to be important by five branch managers. 1975

was a time of decreasing gross profit margins for a number of small firms and this may have accounted for advice on pricing being considered to be important by five of the branch managers.

"Cooks", the travel firm, is a subsidiary of the Midlands Bank and this may be the reason why two Midland branch managers considered that advice on travel was important.

Advice on insurance is a topic which arouses controversy between bank managers. In addition to the two branch managers who considered advice should be limited to advice on borrowing, investment and insurance, there were three branch managers who specifically regarded insurance as being an important topic of advice for small firms. Three branch managers expressed the view that they disapproved of branch managers giving any advice on insurance.

In general, with the exception of the managers who considered they should be providing advice on everything, the branch managers took what could be regarded as a conservative attitude to the giving of advice. This was particularly noticeable in their attitude to the proliferation of services offered by the bank and the resulting requirement that they be able to at least give preliminary advice in many new areas. Comments made to the interviewer included:

> "I wasn't employed as a salesman."
>
> "The bank finds itself with services then tries to market them through us. They should match all services to customer requirement."

"Our marketing is gimmickry."
"I'm anti-marketing and pro-lending."
"I have a psychological thing against ancillary services."
"Yet another campaign."
"I'm not an insurance salesman."
"Should a milkman sell silk stockings?"
"Banks shouldn't sell specialist services."
"Ancillary services are a pain in the neck."
"I won't go for the hard sell."
"I'm no salesman."
"Ancillaries are gimmicks."

Conclusion

As expected from the research described earlier in this thesis, there was considerable variation between the attitude of individual accountants to the giving of advice to small firms.

How can these conflicting views be explained? The answer appears to be a combination of the varying experience and training of accountants, a lack of confidence on the part of some accountants, a lack of contact between some accountants and their clients and a misunderstanding by some accountants of the requirements of their clients.

It was apparent from their interviews that many of the practitioners who took a limited view of the role of the accountants as advisers had completed their training in accounting practices which had offered their clients a limited range of services and in qualifying as accountants had limited their studies to accounting and law subjects.

When questioned, a number of these accountants gave the distinct impression that they lacked confidence in

their own ability to provide advice over a wider range of topics.

It was noticeable that those practitioners who had more frequent contact with their clients took a broader view of their role than those who did not.

In line with the lack of variation between branches in the type of advice, there was little variation between the attitude of many of the bank managers to the giving of advice. It seems apparent that the narrow range of topics on which advice was provided reflected this narrow attitude.

Discussion with the bank managers indicated that many managers receive very similar training and experience and this uniformity, coupled with the conservative attitude of area and regional management to the giving of advice, largely explains the attitude of the branch managers.

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CHAPTER 6

THE RESEARCH QUESTIONS EXAMINED

- The accountant
- The bank manager
- Steps needed to close the "actual" advice gap.

All of the steps described in Chapters 2 to 6 of this thesis were carried out to enable the researcher to take an informed view of the questions discussed in the first chapter. In this chapter we return to these questions to examine the position of the accountant in relation to the first seven of these questions and then in the latter stages of the chapter to examine the position of the bank manager.

The accountant

> "The frequency of the conferences between the owner/managers of small firms and their practising accountant."

As members of the general and business community, both owner/managers and accountants come into contact with each other from time to time on a social level. It would seem that this social contact is more frequent in small communities and less frequent in large cities. As important as these social occasions are for breaking down barriers between the two groups, little or no advice is given on these occasions. For this reason the first question dealt with the principal vehicle in the provision of advice - the conference.

All of the evidence points to two conclusions about conferences between owner/managers of small firms and their accountants. First, most owner/managers confer with their accountant at least once a year, and second, there is

considerable variation between accounting practices in the frequency with which they confer with their small firm clients.

The considerable variation between practices in the frequency of conferences in the small sample (See Chapter 2) merely confirmed the researcher's own expectation that practices with a high volume of taxation work and with a high ratio of small firms per principal are less likely to confer with their clients more than once a year, presumably because these practitioners just simply do not have time to examine the needs, other than taxation needs, of their small firm clients.

In addition to the social occasions and conferences, owner/managers also make contact with their consultant over the telephone. By the very nature of this medium of communication and because of the varying procedures used by accountants to record telephone conversations, it was found to be impossible to quantify the frequency and duration of these contacts.

"The duration of the conferences."

It was surprising to find that in the sixteen practices the time for each conference averaged as long as one hour, twenty minutes. Subsequent discussion with both owner/managers and accountants indicated that this may be slightly longer than average, but that conferences which last up to and over an hour are common. There seems to be no reason why the duration of conferences should inhibit the advice provided to small firms by their accountants.

"The type of advice provided to small firms by practising accountants."

Although no valid statistical conclusions about the population of small firms in the United Kingdom can be drawn from the results of the sample of nine thousand small firms the results do provide an interesting starting point from which to form the research opinion.

All of the evidence points to the conclusion that advice on income and corporation tax is the type of advice most commonly provided by accountants to small firms. Not only did the survey of the practices support this, with 99 percent of the firms receiving advice on this topic; it is also supported by the results of the smaller practices surveyed by Solomons in 1973.[93] Indeed it seems that advice on taxation dominates the advisory functions of accountants.

The survey of the practices came up with the very surprising result that 92 percent of the practices' small firms received advice of a general or local nature on the economy. The practitioners interviewed were at pains to point out that the advice sought and given dealt with such general economic subjects as the prospect for economic recovery and the demand for and availability of labour in the local area. Although the level of advice on this topic was clearly influenced by national economic conditions, discussion with owner/managers indicated that because of the number and range of firms served by accountants they are regarded as an important source of information on the economy.

If this view is generally held by owner/managers, it is probable that small firms seek and receive economic advice from their accountant throughout England.

From discussion with practitioners and from the amount of literature in British accounting journals on value added tax, it was expected that advice on taxes other than income, corporation and capital transfer taxes would rank high on the topics of advice provided. This view was confirmed by the survey which indicated that just over half of the practices' small firms received such advice.

On the other hand a number of the interviewed practitioners did indicate that their advice on VAT had reached a peak approximately a year before the survey and in their opinion the amount of advice on this topic was likely to continue to decline.

Numerous publications[94] have emphasized that owner/managers are frequently very independent. It was surprising that the accountants interviewed estimated that as many as 52 percent of their small firm clients received advice on family matters. As a practising accountant, the researcher was aware that a close relationship often exists between accountants and their clients. Subsequent discussion with both owner/managers and accountants has confirmed that advice on family matters is frequently a topic discussed between owner/managers and accountants.

In the sample of accounting practices examined there was a marked variation between practices in the level of advice provided on estate planning and budgeting. It was

particularly noticeable that larger practices were more involved in these types of advice than smaller practices. Further support comes from Solomons' survey of ICAEW practitioners which indicates that the very small practices certainly carry out a lot less estate planning than larger practices.[95]

The moderate amount of advice provided by the interviewed practices on control of debtors, control of inventory levels, cash investment and borrowing are all consistent with the importance of these items in the financial statements of small firms and is in line with the researcher's expectations. There is no reason to believe that this does not apply throughout the country. Similarly the low level of advice given on leasing, factoring, computers, long term planning, marketing and production are in line with the researcher's expectations and there is no evidence to suggest that accountants are major, or even moderate, advisers in these areas.

In spite of the fact that accountants receive little or no training on the topic the survey indicated that approximately one quarter of the small firms received advice on insurance from their accountant. Discussion with people involved in the insurance industry, particularly brokers, has indicated that this level is consistent with their opinion of the position throughout the United Kingdom.

Another surprising result of the interviews was to discover that less than one tenth of the small firms received advice from their accountant on costing and pricing. Costing forms a major segment of the curriculum

of most accounting qualifications and cost accounting provides a source of employment for many commercial accountants. It had been expected that as major financial advisers practising accountants would provide advice on this topic to a high proportion of their small firm clients.

This question has been discussed with a number of persons involved in the small business area since the survey and in particular with consultants attached to the advisory services of the banks who carry out extensive work in this area. Almost without exception their views have been that practising accountants only provide a low level of advice in these areas and that the survey results are consistent with the position throughout the business community.

> "Whether a gap exists between the advice provided by accountants and the need for advice as perceived by owner/managers of small firms."

The telephone survey and other discussions with owner/managers all indicate that any gap between advice provided by accountants and the need for advice as perceived by owner/managers of small firms is small.

> "Whether an 'actual' advice gap exists between the 'actual' needs of small firms and the advice provided by accountants."

In contrast to the "perceived" gap a comparison of the "actual" needs of the group of small firms (See Chapter 4) and the advice provided by accountants

clearly indicates that a sizeable "actual" gap does exist.

> "The topics which make up the "actual" advice gap."

The analysis of the set of small firms disclosed twenty topics on which advise was needed.

The examination of advice provided by accountants indicated that advice on income and corporation tax was the only topic where it was possible to be almost certain that adequate advice would be provided by accountants.

It follows that the topics which make up the accountants element of the "actual" advice gap are the remaining nineteen topics listed in Chapter 4.

In the case of estate planning and budgeting, had the small firm involved dealt with a larger practice, it was probable that adequate advice would have been provided.

> "The reasons why the "actual" advice gap exists."

As we saw in Chapter 1, Bolton put forward four reasons why accountants do not provide the advice required by small firms:

- The attitude of independence of owner/managers of small firms.
- The imposition on the time of accountants of changes in legislation.
- The cost to small firms of accountants' services; and
- The diffidence of many accountants to venture outside what they see as their professional function.

The reasons put forward by the Committee are over-simplifications of the factors involved.

The statement that the attitude of independence of owner/managers of small firms is a major factor which inhibits small firms from gaining advice is far too broad. On the contrary a conclusion from the analysis of the interviews with the group of owner/managers (See Chapter 3) was that in general, owner/managers accept the account-ant as an adviser.

Despite his protestation to the contrary, the researcher's experience has been that once an owner/ manager realizes his independence is not being challenged he will normally welcome advice being provided.

Support for this view comes from the findings of an inter-board study group of the industrial training boards who examined management training in small firms. Their comment was[96]

> The owner/manager is a lonely person, often with no-one in whom he can confide.

This is not to say that there are not occasions when some owner/managers see their accountant giving advice on certain subjects as being a threat to their independence. Indeed, in the analysis of the set of nine firms this attitude was observed on several occasions. It is felt that these are the exception rather than the rule.

In the researcher's experience, if an accountant is asked why he fails to provide more advice to his clients, his answer is likely to be that he doesn't have time. His comments are not just limited to the effects of legislation

changes on his time (the time factor referred to by Bolton[97]).

It is a major conclusion of this research that one of the main reasons why accountants fail to close the advice gap is the time constraint experienced by many practitioners. Part of this time constraint arises from the failure of many practitioners to adequately manage their time and partly from factors beyond the control of individual practitioners.

The problem faced by every practising accountant is that there are many competing demands on his time. Not only does he have to meet the needs of each and every client, he has to manage a business and try to keep up to date with current developments in his profession, of which legislation changes are only one. The problem is particularly acute for practices with a high client to principal ratio. Drucker's statement about executives, "that their time tends to belong to everybody else - everybody can move on his time and everybody does"[98] is equally applicable to practising accountants. It is not surprising that the need for advice, a need which as we have seen is often not recognized by the client, is, along with a failure to keep up to date with all current developments,[99] an area neglected by practitioners.

What support is there for the contention that many accountants fail to effectively manage their time?

In the chapter entitled "Know thy time" in his *Effective Executive*, Drucker puts forward a number of examples of how executives fail to manage their time.[100]

One of these is the practice of many executives of carrying out functions which are better carried out by others.

In the interviews with the accounting practitioners it became apparent that many of the practitioners, particularly the sole practitioners, were spending a great deal of time writing up the books and records of clients. Solomons drew the conclusion that many small practices were extensively involved in record keeping[101] and it seems probable that many of the principals were involved in this activity. If ever there was a task carried out by principals which would be better carried out by others, this is it. It is not merely the cost to the client of paying for principals' time (even at the low income earned by some of these persons[102]) and the cost of the accountant's overheads, it is also that to be efficiently carried out, bookkeeping requires sustained concentration without interruptions. With many clients to serve the practitioner's ability to concentrate on one client's affairs for any length of time is limited.

In the small practices the over concentration on bookkeeping, particularly handwritten bookkeeping carried out by senior staff and principals, is, in the researcher's opinion, a much more important time constraint than legislation changes.

It is also apparent from discussion with practitioners that like many of their small firm clients some practitioners are most reluctant to delegate and spend considerable time in administering their practice which

could be effectively carried out by their staff.

In addition to the time constraints which are self imposed, there are also time constraints which are beyond the control of individual practitioners.

One of these is the effects on the time of practitioners of legislation changes mentioned by Bolton. Although Bolton reported in 1971, the effects of legislation changes have continued. During the several years before our research, accounting practices had suffered considerable disruption as a result of the imposition of value added taxes.

The government is not the only body which has caused disruption. Accountants are now being bombarded with alterations in the accounting standards laid down by their own professional bodies. There is no doubt that these alterations and additions to accounting standards are having a considerable impact on the time of the practitioner who wishes to keep up to date. There is also evidence, from discussion with practitioners, that some practitioners have decided that they have no chance of keeping abreast with accounting standards and simply refuse to give the time to keep up to date. In the researcher's opinion one of the factors behind the recent decision of members of the English Institute to oppose the introduction of current cost accounting was the revolt by some members against the proliferation of accounting standards.

One of the symptoms of time constraints highlighted by Drucker is the carrying out of tasks which need not be

carried out at all.[103] In the researcher's opinion there are two legal requirements which impose unnecessary tasks on the accountant. The first is the compulsory audit of all companies and the second is the income tax legislation in the United Kingdom.

Under the provisions of the various Companies Acts every limited company incorporated in England is required to be audited. This includes small owner/managed firms. The Solomons survey of English practitioners and the results of the examination of the accounting practices described in Chapter 2 both provide evidence that accountants spend considerable time providing audits to small companies.

The primary function of an audit of any entity during this century has been an assurance to shareholders that the annual accounts presented to them by management present a true and fair view of the affairs of the entity. Since the Hedley Byrnes judgment in 1963[104] a secondary aim of an audit has been to provide some assurance to creditors that the affairs of the entity are in order.

Where a small company is managed by its owners, there is little point in an outsider (the accountant) reporting on the accounts. There is also very little evidence that creditors do in fact rely on an audit report in granting credit to small companies and even if a very few do so the law in regard to creditors relying on audit reports is such that it is extremely difficult for a creditor to succeed in an action against an auditor.[105]

For these reasons it is considered that the audit of

owner managed firms is largely a waste of the accountant's time and that this time constraint on the accounting profession should be removed.

To an overseas practitioner the system of revenue and income taxation in the United Kingdom is extremely complex and in the researcher's view there is no doubt that compared with the practice in other Western developed countries accounting practitioners are spending excessive time dealing with the authorities.

Clearly the time constraints on practitioners are one of the major reasons why the advice gap is not being closed.

As we shall see when we examine the training and experience of accountants later in this chapter, the time constraint and the failure of some accountants to keep up to date is effecting these accountants' ability to provide competent advice.

If time constraints are, as this thesis asserts, a major reason why the accountant's element of actual advice is not closed, an obvious answer would seem to be to employ more qualified staff within the accounting practices. Even if the conservative thinking of practitioners could be overcome, discussion with practitioners and employment agencies and an examination of the accounting press throughout the world indicates that there is a shortage of experienced public accountants capable of advising small firms.

This thesis asserts that this staff shortage is a major reason why accountants have failed to close the

advice gap.

The third of the four reasons put forward by Bolton for the failure of accountants to provide the advice required was the cost to small firms of accountants' services. This reason is also considered to be an over-simplification of the true position.

While cost is certainly a factor to be taken into account, it is believed that advice provided by a competent accountant is normally profitable to both client and accountant. Support for this view comes from the cost/benefit studies of management consulting in small firms carried out by Johnson[106] and Jones.[107]

In his research Johnson examined the internal records of four leading management consulting firms in respect to consulting completed between 1950 and 1960. Although he was only able to quantify the results of some of the consulting where financial analysis was possible Johnson concluded that even in the first year the net return on consulting fees was approximately 200 percent.

Johnson's work suffers from the disadvantage that it relies on the assessment of the consultants rather than the recipients of the consulting and has therefore been partially superseded by the 1974 study, *Consultancy and the Smaller Firm.*[108] In this latter study Jones reports on the results of a pilot scheme undertaken under the auspices of the Board of Trade to encourage the wider use of consultants by small firms. Twenty-seven percent of the consulting tasks covered by Jones' report were in the finance and administration area.

As Table 6.1 indicates, even in the first year where the costs of the consulting were borne by the client, benefits exceeded costs and benefits taken over a number of years from consulting, and consulting in the finance and administration area in particular, far exceeds costs.

It is believed that the cost/benefit of a small firm using an accountant is at least as favourable as employing a consultant. An accountant is conversant with the problems of small firms and does not have to bear the costs of marketing or the costs of obtaining basic information about the client. However, to the researcher's knowledge, no analysis of the cost/benefit of using an accountant as an adviser has ever been carried out.

Given that the cost/benefit of using an accountant is favourable, it follows that Bolton's statement that cost prevents the closing of the advice gap, needs qualification. It is not denied that cost is a factor and that there are cases where the firm lacks the financial resources to pay, but it is believed that in the majority of cases this is merely an invalid excuse which owner/managers and accountants use to hide their reluctance to receive and give advice.

The final reason put forward by Bolton for the failure of accountants to provide the advice required is the diffidence of many accountants to venture outside what they see as their professional function.

A major conclusion of this thesis, based on discussion with accountants and the examination of the practices, is that the variation between practices in the range of advice

provided is largely caused by the varying attitude of principals of practices to the giving of advice. It therefore follows that one of the major reasons for the "actual" gap is the perception of some accountants of their role as advisers.

Although the diffidence of many accountants to venture outside what they see as their professional function is largely unjustified, one reason for their being reluctant to do so is the lack of training they receive in small business management. An examination of the educational curricula of the professional bodies and the major educational organizations reveals that only a small minority of students receive any formal instruction on the subject. This means that those accountants advising on retirement of owner/managers, diversification and retirement of older employees, are doing so without the benefit of formal instruction. It is therefore not surprising that these topics are included in the "actual" advice gap.

As important as some of the factors already mentioned are in explaining why the "actual" gap occurs, they are not the only reasons.

One of the reasons why the accountants have failed to close the "actual" advice gap is that a number of the topics fall within the expertise of specialist advisers. Advice on employment of both management and others properly falls within the expertise of employment agencies or personnel consultants, marketing and market research within the expertise of marketing consultants, site, plant

layout and production within the expertise of production engineers, site selection within the expertise of chartered surveyors, council planning within the expertise of architects, town planners and chartered surveyors, purchasing (other than its financial aspects) within the expertise of material handling specialists and estimating within the expertise of a quantity surveyor.

One of the reasons consistently put forward by many of the principals of small practices for their failure to provide adequate advice was the smallness of their practices. Many of them considered that a larger firm, where specialization was possible, was the only solution and were looking for amalgamations to achieve these objectives. Comments made to the researcher included

"Specialization is likely."

"There will be more specialization."

"Amalgamation and specialization is likely."

"Amalgamation is certain."

"We are in the midst of a merger. There is no other way."

"We will merge."

While it is accepted that the inability to specialize may cause some of the advice gap, for example, in a topic such as estate planning, it is not accepted that amalgamation of practices is the only solution to the problem.

The final reason for the advice gap is the misconception of many owner/managers of the role of their accountant. Evidence from the analysis of the set of firms and the telephone survey revealed that owner/managers frequently take a very narrow view of their accountants' competence

TABLE 6.1 EXTRACT FROM C.D. JONES, *CONSULTANCY AND THE SMALLER FIRM.*

Cost and benefits of using consultant, in relation to a £1 of consulting fee.

	All Types	Finances and Administration
	£	£
First year		
Consultancy fee	1.00	1.00
Implementation costs	0.83	0.80
	£ 1.83	£ 1.80
Benefits	£ 2.10	£ 2.04
Second year		
Implementation costs	£ 0.34	Not Available
Benefits	£ 2.04	Not Available

and they failed to realize the extent to which many accountants can advise.

The research described in this thesis reveals that the major reasons for the existence of the "actual" advice gap are

- The attitude of some accountants to the giving of advice.
- The time constraints experienced by many accountants.
- The lack of formal training in small business management of most accountants.
- The shortage of experienced public accountants.
- The number of topics within the advice gap which fall within the expertise of a specialist adviser and are outside the expertise of accountants.
- The inability of smaller practices to specialize.
- The misconception of some owner/managers of the role of the accountant.

Of lesser importance are

- The attitude of independence of owner/managers.
- The cost of accounting services.

The bank manager

"The frequency of conferences between owner/managers and their bank manager."

Two conclusions can be drawn about the frequency of conferences between owner/managers of small firms and their bank managers. First, most owner/managers of firms with

overdraft facilities confer with their bank manager at least once a year and secondly, the majority of owner/managers of firms without overdraft facilities do not. While great care must be taken in interpreting the results of the interviews of bank managers, these two conclusions of the survey are consistent with the opinions of owner/managers and bankers with whom the results were discussed.

"The duration of these conferences."

Another research conclusion is, that irrespective of whether the firm has an overdraft facility or not, on average the time spent in each conference by a bank manager is approximately half the time spent by an accountant. It is acknowledged that there can be considerable variation from conference to conference, and particularly where the first request for finance is involved, conferences of up to and over an hour are common.

"What types of advice do bank managers provide?"

As the major source of external finance to small firms, it was not surprising to find that the vast majority of small firms served by the interviewed branches discussed borrowing with their bank manager. There is no doubt, in the researcher's opinion, that borrowing is the topic of advice most commonly dealt with by bank managers, and indeed, as we have seen, many owner/managers seek advice only in this area.

Given the importance of economic conditions and liquidity in a firm's need to borrow it was not surprising to find that the survey results indicate the majority of small

businessmen interviewed by bank managers obtain economic advice of a general or local nature and approximately half received advice on debtors and stock. These results are consistent with the opinions and impression of a number of senior bank officers interviewed and it seems probable that these conclusions are valid throughout England.

It is also believed that liquidity, particularly the need for funds to pay taxation, is the reason why approximately half the owner/managers who conferred with bank managers discussed income and/or corporation tax. Given that this need for funds is not just restricted to the interviewed branches, it has been concluded that very general advice on taxation is provided to a significant portion of small firms who confer with their bank managers. There is no doubt however, and this is acknowledged by bankers, that bank managers do not attempt to substitute for the expertise of accountants.

Apart from advice on the topics already mentioned the only other topics where there is any evidence of a little advice being provided are advice on budgeting, insurance, retirement of owner/managers, advice on family matters and advice on costing and pricing. No doubt other topics are discussed between individual owner/managers and bank managers but the research conclusion is that these topics have an impact on only a tiny proportion of all small firms.

"The perceived gap."

Like the accountant's element of this gap, it is the research conclusion that the banker's element is small. However in the case of the banker the gap seems to arise as much from the narrow attitude of owner/managers to advice being provided by bank managers as from the failure of owner/managers to recognize their needs.

> "Whether an 'actual' advice gap exists between the 'actual needs' of small firms and the advice provided by bank managers."

The "actual" needs of the group of small firms compared with the analysis of the advice provided by bank managers reveals that the bank manager's element of the "actual" advice gap is sizeable.

"The topics forming the gap."

On only one of the topics revealed by the analysis of the firms was it considered that bank managers provided adequate advice. This topic was borrowing and therefore the gap between the "actual" needs and the advice provided by bank managers consists of the other nineteen topics mentioned in Chapter 4.

"The reasons why the gap exists."

There is no doubt that the main reason why a gap exists between the "actual" needs of small firms and the advice provided by bank managers is the attitude of independence of owner/managers of small firms. This factor is clear from the telephone survey, the bank interviews and the research of Boswell and others.

If, as has been suggested, owner/managers have a different attitude to bank managers and accountants, the question arises as to why the difference occurs. There are three main reasons. The first is that in the case of most accountants, the owner/manager of a small firm is aware of the people who own and run the practice, while the large institution of the clearing bank is, in the minds of many owner/managers, a cold impersonal organization. The second is that as actual or potential lenders of funds, some owner/managers believe that banks challenge their independence. The comment by several owner/managers that they did not wish to be beholden to anyone particularly applied to banks. The final, and a major reason for the difference, is the lack of contact between owner/manager and bank manager compared with the owner/manager and accountant. It seems that much of the problem is that many owner/managers are simply unaware that bank managers can help and the lack of contact does nothing to overcome this ignorance.

There are other reasons for the advice gap. One of these is the time constraint.

Under the system of branch banking normally found in England a branch manager is responsible for the efficient running of his branch and the approval of all forms of lending, including loans made to individual as well as business customers. The average bank manager is responsible for thousands of individual and business accounts. We are reminded of the comments of one branch manager, mentioned earlier,

> That the idea of personal service is naturally ever in one's thoughts - It's the fifteen million customers who get in the way."

Furthermore the interviews with branch managers produced evidence that small firms were already receiving more than their share of branch managers' time.[109]

The time constraint is, in the opinion of many of the bank managers, being exacerbated by the proliferation of ancillary services, but even without these services under the present system of branch banking the lack of time available for individual small firm clients is a major reason constraining bank managers from closing the gap.

There is little doubt that the attitude of many bank managers towards the giving of advice also inhibits the closing of the advice gap. It will be remembered that the group of bank managers interviewed in general took what could be regarded as a conservative attitude towards advice giving. Reflecting this attitude, a number of owner/managers have commented to the researcher that their bank manager is not really interested in providing advice.

It is difficult to determine what effect the ratio of costs to benefits (from the bank's viewpoint) has on the level of advice being provided to small firms by branch managers. On the one hand Bolton virtually dismissed the idea of branch bank managers as advisers to small firms, arguing that the cost/benefit was likely to be unfavourable to the bank involved. However, on the other hand, as we have seen, some branch managers continue to provide

advice over a range of topics and the emergence of specialist advisory services in both Barclays Bank and Lloyds Bank indicates that some officers of the banks consider that the benefits of giving advice exceed the cost involved.

Although banks have always borne the costs of providing some advice to clients, and particularly through bearing the considerable costs of establishing advisory services have demonstrated their continuing commitment to this service, the resources of the clearers and their ability to provide free advice is not unlimited. Clearly there is a point where the benefits (including the intangible benefits) will be exceeded by the costs.

If there were a major expansion by any of the clearers in the advisory area this bank could, if the service continued to be free, run into major cost/benefit problems.

All of the topics of advice mentioned in the first section of this chapter which are within the expertise of specialist advisers fall outside the expertise of bank managers and the nature of some of the topics within the "actual" advice is also one reason why bank managers fail to close the advice gap.

The level of education of branch managers varies considerably from manager to manager. Although there have been tremendous strides in the training and education of bank managers in recent years, some managers' lack of training clearly inhibits their ability to provide advice to small firms.

From discussion with branch managers and more senior

officials it is apparent that many branch managers lack direction from their head offices as to the extent to which they should become involved in advising small firms. While this lack can, and in the case of several interviewed managers did, mean that a branch manager may give advice in areas in which he lacks expertise, it also has the effect of inhibiting the expansion of advice giving by more conservative branch managers.

The steps needed to close the "actual" advice gap

Because of the specialist nature of certain of the topics which form part of the "actual" advice gap, it is not possible for accountants and bank managers to completely close the gap. This section of the chapter sets out the steps which can be taken if accountants and bank managers are to assist in closing the gap.

The accountant

A number of steps need to be taken if the accountant is to assist in closing the advice gap.

Among the first should be those designed to alter the views of some practitioners to encourage them to provide advice over a wider range of topics. Attitudes are not going to be changed over night but as soon as possible the Institute should begin a cost/benefit analysis of the provision of accounting services to small firms both from the viewpoint of the client and the practitioner. This analysis should examine the relationship of benefits

to costs for handwritten bookkeeping and the provision of advice. If, as confidently expected, the study indicates that the provision of advice has a far more favourable ratio, both for the client and accountant, than the provision of bookkeeping services, the results of the study should be given wide publicity by the Institute aimed at having practitioners provide and clients seek advice over a wide range of topics. Publicity should also be given to those practitioners who have already altered the nature of their practice from a bookkeeping orientated to an advisory firm.

Coupled with the need to change attitudes is the need to equip practitioners with the skills to provide the advice. As a matter of urgency the Institute should introduce a series of professional development courses on various aspects of small business management.

To ensure that the practitioners of the future are not ill-equipped as many of the practitioners of today, small firm management should be a compulsory element in the professional examination programmes. At present students have to exhibit a knowledge of accounting, law, taxation, finance, elementary economics and auditing, but are not required to show any knowledge of the majority of their clients the small firm.

In the immediate future very little can be done about the ratio of accountants to small firms and the shortage of skilled public accountants. In recent times there has been growing concern at the high failure rate of students in the last stages of the examinations of the English

Institute and the small number of persons gaining their C.A. qualifications must have an unsatisfactory effect on the number of accountants advising small firms.

The present procedure in England is that the Institute acts as an examining body but does not offer courses or even monitor the public and private institutions offering accounting courses. A review of this policy is urgently needed. One feasible approach is the approach adopted by the Australian Institute, which requires candidates to complete an approved course at a public tertiary organization and then to complete an Institute conducted Professional Year involving practical experience coupled with discussion sessions, assignments and a single final examination.

To avoid wasted time and excessive costs to the small firm sector, the government should repeal the legislation which requires a compulsory audit in all owner/managed firms in favour of legislation which only requires owner/managed firms to be audited when a formal request to do so is made by a shareholder. The taxation system should also be altered, possibly along the lines of the U.S. or Australian systems, to reduce the time and cost to small firms, accountants and taxing authorities. To overcome the problem of time lost through legislation changes and alterations in accounting and auditing standards is difficult. On the one hand there is a need to ensure that both legislation and standards are kept into line with the present day needs and on the other hand, there is the disruption to both the business community and

the profession of these changes. Ultimately the compromise must be made by legislator and professional bodies but each time law or standards are changed the persons responsible for the changes should bear in mind the disruption they are causing and make every attempt to keep the disruption to a minimum.

It will be remembered that a number of practitioners saw the smallness of their practice and their inability to specialize as being a major factor behind their failure to provide adequate advice to their clients. Many saw amalgamation as the solution and for some this may be a suitable step, but there are other solutions to this problem. One of the most practical is greater cooperation between practices of which one of the alternatives is the emergence of a general practitioner - specialist arrangement similar to that adopted by the medical profession.

Once the accounting profession has put its own house in order it should, as a body, publicize the type of services accountants can offer in an attempt to overcome the misconception that some owner/managers have about the role of accountants.

There can be little doubt that the average accounting practitioner works hard, often for long hours. Yet the "actual" advice gap continues to exist.

While every sympathy is felt for the hard pressed practitioner if the need for advice of small firms is not met by the accounting profession it seems highly probable that others will do so, leaving the accounting practitioner in a limited role. Already the advisory services of the

banks are moving into areas of advice which have traditionally been thought of as accounting functions. The solution largely lies in the hands of the profession.

Bank managers

To what extent should the branch manager of the future be involved in advising small business management?

This is the fundamental question faced by top management of the clearing banks highlighted by the research described in this thesis.

It is considered that the position is clear. Small firms have a considerable need for advice and each of the clearers has the choice of doing nothing to satisfy the need, of only using specialist management to meet the need, of using branch management to satisfy the need or of using a combination of both specialist and branch management to satisfy the need. What is highly undesirable is the present situation where branch management is uncertain on the role they play and where the advice available within one bank varies from branch to branch.

Each of the choices facing top management has its advantages and disadvantages.

The advantages of doing nothing are that the bank avoids the considerable cost and the problems involved, including the increased exposure as a result of giving advice. The disadvantages are the possible loss of customers and the loss of prestige in the business community if their competitors do set up to advice small firms. It is emphasized that even if the bank decides not

to provide advice there is a need to inform all levels in the bank of the bank's attitude.

Thc major advantages of just providing advice by a specialist service are the lower costs, the limited exposure to risk of action and the ability to have considerable specialization. The disadvantages of this approach are that it will do little to overcome the reluctance of owner/managers to seek advice from their bank managers and because of the small number of staff involved can only have a marginal effect on the small business community. On the other hand, this approach would almost certainly overcome the potential loss of customers and the loss of prestige that would occur if nothing is done, particularly if the specialist service receives sufficient publicity. If the decision is made to take this approach all levels of the bank must be informed of the decision and be aware of the limitation of their role.

The other two possibilities mentioned above both involve the use of branch managers and we return to the question as to

> "The steps which need to be taken if branch managers are to assist in closing the advice gap."

In the case of the branch bank managers, the major constraints to be overcome if the gap is to be closed are considerable. In particular it is felt that overcoming the attitudes of branch managers and owner/managers could take some time.

The first steps that should be taken are to increase the amount of small business management content in the

in-house training of management conducted by the banks and the inclusion of small business management as a subject in the Institute of Bankers' examinations. Both steps would do much to improve the expertise of branch managers, as well as, in time, overcoming the conservative attitude of many bank managers to the giving of advice.

To have any real effect on the time constraint some restructuring of the traditional branch system is inevitable. Unlike the accountant's clients, small firms only represent a minority of a branch's customers, and unlike the accounting principal, all of the major tasks carried out by a branch manager must be done by a senior officer of the branch. One possible solution is to divide the administrative responsibility and the loan and marketing responsibilities at present carried out by the branch manager into two functions and with both managers being responsible to area management. Another possible solution, already being experimented with by several of the clearers, is to centralize management, which at present is scattered throughout an area into one location, leaving branches as places where monies are deposited and withdrawn but with none of the traditional managerial services. This centralization of management would allow a degree of specialization including an ability for some management to specialize in small firms. It is realized that there is reluctance on the part of some clearers to centralize management because of their fear that this will result in loss of business, but it is considered that provided the central offices are

strategically located and have adequate parking, the risk is minimal.

The major constraints to be overcome are the attitude of some customers to banks, the attitude of many branch managers and, if the gap is really to be closed, the cost to the clearers.

It will be remembered that earlier chapters indicated that there was a different attitude in those owner/managers whose firms borrowed from those whose fiems did not. It is conceded that many of this latter group are fiercely independent and see borrowing and what they consider a dependence on an outside body to be a challenge to their independence. On the other hand, many of the borrowers are also very independent but still consult their bank manager from time to time.

As we saw earlier in the chapter much of the problem is the lack of contact between banker and businessman. What is needed is for many branch managers to increase the level of visiting of business customers.

It is realized that head offices and managerial training in many of the clearers emphasize the need to see clients on their own territory, particularly in the case of non-borrowers, not nearly sufficient contact is being made. In the researcher's opinion, the result would be a softening of attitudes on both sides, a growing awareness by bank managers of the problems faced by small firms and a growing awareness by owner/managers of how bank managers can assist them. These changes in attitudes will take some time but a start must be made.

There is no doubt that many of the suggestions put forward in this section of the chapter will cost the banks considerable money. Only the individual clearing bank is in a position to decide if the benefits derived will exceed the cost.

REFERENCES

93. Solomons, *op.cit.*

94. See for example, Golby and Johns, *op.cit.*

95. Solomons, *op.cit.*

96. Inter-Board Study Group, *Management Training and Development in the Small Firm and the Role of the Industrial Training Boards*, Unpublished, October 1974.

97. Bolton, *op.cit.*, p.118.

98. P. Drucker, *The Effective Executive*, Pan Books, London, 1974.

99. Several of the practitioners interviewed volunteered the information that they made no attempt to keep up to date.

100. Drucker, *Effective Executive*, *op.cit.*

101. Solomons, *op.cit.*, p.189.

102. See results of inter-practice comparison prepared by the English Institute.

103. Drucker, *op.cit.*

104. Hedley Byrne & Co. Ltd v's Heller and Partners Ltd (1963).

105. See M.L.C. v's Evatt (1971) and the New Zealand case, Scott Group Limited v's McFarlane (1975).

106. J. Johnson, "The Productivity of Management Consultants", *Journal of the Royal Statistical Society, Series A (General)*, 126, Part 2, London, 1963, pp.237-249.

107. C.D. Jones, *Consultancy and the Smaller Firm*, Department of Industry, London, 1974.

108. *Ibid.*

109. The branch managers interviewed estimated that they spent 20% of their time dealing with all aspects of their small firm customers. Small firm customers only represent 9.2% of all customers served by the branches.

CHAPTER 7

CONCLUSION

As we have seen, accountants, and to a lesser extent, bank managers, dominate as advisers to small firms. But what of the future?

Throughout the Western world the topic of small business is becoming more popular and the failure rate of small firms which has occurred in Western economies in the past is becoming unacceptable. It seems probable that in Britain more government intervention in the form of assistance to small firms is likely.

Already the Government has given some indication of its willingness to support an advisory role. A good deal of the activities of industrial training board are being devoted to the training of management, the Bristol and Glasgow experiment in which consultants were subsidized seems likely to be repeated and the Small Firms Division of the Department of Industry assists with their Small Firms Information Centres and their retired executives advisory scheme.

How the future will turn out will largely depend on the decisions and actions of Britain's accountants. The history of decision making within the accounting bodies, particularly in controversial areas like education and current cost accounting, is such that it appears unlikely that the professional bodies will do very much at all. Clearly the English Institute will have to do something about the high failure of final stage students and this can only assist in reducing the shortage of accountants.

There is some hope that small business management will be included as a subject in Institute professional development courses but there seems very little chance that the Institute will commission a cost/benefit study or publicize the services provided by accountants.

At the level of the individual accounting practice it is likely that firms will either become practices providing services in taxation and bookkeeping only or they will move towards providing advice over a wider range of topics. Some impetus towards providing a comprehensive service will arise with the increased use of computers in public accountants' offices. Already in the higher labour cost countries of the United States, Canada and Australia there has been a considerable movement from handwritten to computerized bookkeeping. In Australia one computer company is currently offering a mini computer to accountants with well designed software for an all up cost as little as £12,000. The urge to merge, discussed in the previous chapter of this thesis, will result in mergers continuing between practices, thus enabling some specialization to occur.

And the banks.

For some time into the immediate future it seems likely that the major clearing banks will each take a different attitude to the provision of advice to their small firm clients. Those banks which are offering a free advisory service will undoubtedly continue to experience a heavy demand for the service, but eventually the costs

of offering the service may become such that they need to charge for the service. At this point it seems probable that other banks will begin to offer the service.

Rationalization of the branch structure of each of the clearers will certainly occur, perhaps along the lines mentioned in this thesis, and this should free more managers for the important task of advising small firms.

But if, as predicted, the accounting profession takes inadequate steps to meet the "actual" need for advice it is unlikely that the clearers will be in a position to close the advice gap.

It has been pointed out on a number of occasions, notably by Wood, that it is extremely difficult to support an industry which only provides advice to small firms without some form of subsidy. The costs of marketing and the costs of familiarizing an adviser with each small firm are such that the fee needed to be charged to each small firm would be well above the means of many small firms.

However, public pressure, arising from the awareness of the failure of so many small firms, seems likely to push government towards subsidizing some form of consulting service. Due to the mistrust by many owner/managers of government and government agencies it is important, if a subsidizing service is to have any real effect on the failure rate of small firms, that the service be independent of, and be seen to be independent of, government.

If the accountants really fail to pick up the ball and run with it there is a distinct possibility that one

other group who already advise small firms and who are not regarded in the same light as bankers will do so. Solicitors already provide advice to a substantial number of small firms and corporate lawyers, similar to those who already operate in America, are already starting to emerge.

Twenty years from now we may well see accountants, solicitors, branch bank managers, bank advisory services and subsidized consulting services all providing substantial advice to small firms.

Future research

This thesis has highlighted an urgent need for research into the cost/benefit relationship in providing accounting advice, both from the viewpoint of the small firm and the accounting practice. There is also need for considerable educational research into the approach which should be adopted to the teaching of small business management to accountants and bank managers.

The research described in this thesis has been restricted to London and East Anglia and it is believed that there would be considerable benefit in extending the research to other regions and other countries to determine the extent to which the conclusions reached are universally applicable.

Solicitors provide as much advice as branch bank managers do to small firms and a potential research topic is a comparative study to this research concentrating on

the role of the lawyer.

Conclusion

Much of this thesis has highlighted the problems being experienced with the present system of advice giving. It should not be forgotten that many hundreds of accountants and bank managers are already providing invaluable advice to small firms. If the problems are overcome, the benefits that will accrue to small firms and the economy as a whole will be considerable.

APPENDIX A

THE ACCOUNTANTS' INTERVIEW

QUESTIONNAIRE

Introduction

As the letter asking you to help indicated I'm a doctoral student at London Business School and am writing my thesis on the role which accountants and bankers play in advising small firms.

I'm a Fellow of the Australian Institute and before starting my Ph. D. I was in practice for many years.

Your firm is one of a number chosen at random to be interviewed.

I would like to emphasise that any information I obtain from your firm will be treated in strictest confidence.

The question most people ask when they find I'm working in the area of small firms is what do I mean by small firms.

Obviously a small firm can be defined in a number of ways.

In this research I've defined a small firm as (See Chapter 1).

Would you answer the questions in relation to your local firm if you are a part of a national or international firm.

Q 1. How many partners are there in your firm.

Q 2. How old are they.

Q 3. What is the total headcount of your firm (including partners).

Q 4. Approximately how many clients did you send bills to

last year.

Q 5. How many of these were small firms (as defined).

Q 6. Of the ..... small firm clients how many conferred with you or your partners last year.

More than twice in a year

Twice.

Once

Not at all

Q 7. On average how long would you or your partner spend in each conference with the managers of your small firm clients.

Q 8. What percentage of gross fees earned from your .... small firm clients would you estimate were derived from:

Auditing.

Preparation of income tax returns

Writing up books and registers

Preparing annual accounts

Tax advice

Other advice

Other services

Q 9. I'm now going to read to you a number of services which can be provided to a firm by an accounting firm.

Will you please indicate how many of your .... small firm clients have this service provided to them by your firm during the last three years.

1. Writing up financial records.

2. Preparation of firms' income tax or corporation

tax returns.

3. Preparation of annual accounts.

4. Preparation of accounts other than annual accounts.

5. Preparation of minutes and writing up registers.

6. Installation of accounting system.

7. Acting as trustee.

Q10. I'm now going to read you a number of types of advice which can be provided by an accountant.

Will you please indicate how many of your ....small firm clients have each type of advice provided to them by your firm during the last three years.

Taxation and legal advice

1. Income tax or corporate tax advice.

2. Estate planning advice.

3. Other tax advice.

4. Other business law advice.

Systems and controls

5. Advice on types of financial records.

6. Advice on debtors control.

7. Advice on stock control.

8. Advice on costing system.

9. Advice on computer and accounting machines.

10. Advice on budgeting.

Finance

11. Advice on borrowing.

12. Advice on leasing.

13. Advice on factoring.

14. Advice on investing cash funds.

15. Advice on export finance.

Planning

16. Advice on acquiring plant or premises.

17. Advice on acquiring a business.

18. Advice on preparing a long term plan.

19. Advice on retirement of owner/manager.

20. Advice on admitting new partner or shareholder.

Other

21. Marketing advice.

22. Production and/or purchasing advice.

23. Advice on insurance.

24. Advice on the British economy.

25. Advice on employee recruitment.

Q11. Will you please look at the list I have just read out. During the last three years did your firm give any advice not shown on the list. (If the answer is No turn to Q13.)

Q12. What is the advice given by your firm not shown on the list and how many small firm clients received each advice in the last three years.

Q13. You have now told me what advice your firm has provided to small firms.

Now I would like your opinion on the advice you consider accountants should give to small firms.

Use the list as a guide only; please list the fifteen most important types of advice you consider your firm should provide to small firms. (Place them in order of importance, with the most important first.)

Q14. In your list you have listed some types of advice

which have not been provided to many firms. Why do you think this is so.

Q15. How do you see the role of the practising accountant in relation to his small firm clients in the future.

APPENDIX B

THE BANK MANAGERS' INTERVIEW

QUESTIONNAIRE

Introductory statement

As your head office will have told you I'm a doctoral student at London Business School and am writing my thesis on the role which branch bank managers and firms' external accountants play in advising small firms.

As my accent undoubtedly tells you I'm an Australian and I'm a chartered accountant who has spent much of his working life advising small firms.

Your branch has been chosen at random from two areas in England, as one of twenty-five whose managers are to be interviewed.

I would like to emphasise that any information I obtain from you will be treated in strictest confidence and will not be available to anyone, including your head office.

The question most people ask when they find I'm working in the area of small firms is what do I mean by a small firm.

Obviously a small firm can be defined in a number of ways.

In this research I've defined a small firm as:

"Enterprises (both incorporated and unincorporated) which

1. Meet the following criteria

   Manufacturing - 100 employees or less

   Retailing, motor trades, professions and

   miscellaneous services - Turnover of £100,000 p.a.

   or less.

Wholesaling - Turnover of £500,000 p.a. or less.

Construction - 25 employees or less.

Road transport - 5 vehicles or less.

Catering - all other than multiples and brewery owned pubs.

2. Are independent of and do not form part of a larger enterprise which exceeds these limits.

3. Are not engaged in agriculture or fishing."

My first questions are related to you and the branch.

If you don't have exact figures would you estimate.

Q 1. How many years have you been with the bank.

Q 2. How long have you been at this branch.

Q 3. What were your last two positions before you joined this branch.

Q 4. How many staff are employed in your branch.

Q 5. Approximately how many customers would your branch handle at present.

Q 6. How many of these are small firms (as defined).

Q 7. Of those ..... firms how many would have overdraft facilities.

Q 8. Now dealing only with those ..... small firms who have overdraft facilities.

I am keen to know how often you confer with the managers of small firms who have overdraft facilities.

In this question and following questions when I use the word confer I mean a meeting to discuss the client's affairs. I do not mean a social meeting or a telephone call but I do include meetings on

routine matters (for example to arrange a direct debit).

How many of the ..... firms with overdraft facilities did you confer with last year

More than twice

Twice

Once

Not at all.

Q 9. On average how long would you spend in each conference with managers of small firms who have overdraft facilities.

Q10. How many of these small firms who have overdraft facilities did you visit during last year.

Q11. Now turning to those ..... small firm clients who do not have overdraft facilities.

How many of the small firms without overdraft facilities did you confer with last year

More than twice

Twice

Once

Not at all.

Q12. Of the firms you did not meet at all how many have you never met.

Q13. On average how long would you spend in each interview with managers of small firms who do not have overdraft facilities.

Q14. How many of these firms who do not have overdraft facilities did you visit last year.

Q15. I now wish to return to all your small firm clients

(i.e. those with overdraft facilities and those without).

I'm now going to read you a number of services which can be provided to a firm by a bank or bank subsidiaries.

Will you please indicate how many of your ..... small firm clients had this service provided to them by your bank or one of its subsidiaries during the last three years.

1. Providing leasing finance
2. Providing factoring finance
3. Providing finance other than overdrafts, factoring and leasing
4. Acting as a trustee
5. Insurance or superannuation broking
6. Preparation of income tax return
7. Computerization of records
8. International facilities
9. Travel facilities.

Q16. What proportion of a week would you spend dealing with small firms.

Q17. How many hours per week would your staff spend giving advice to small firms.

Q18. I'm now going to read a number of types of advice which can be provided by a bank.

Will you please indicate how many of your ..... small firm clients had each type of advice provided to them by your bank during the last three years.

Taxation and legal advice

1. Income tax or corporation tax advice
2. Estate planning advice and capital transfer tax advice
3. Other tax advice

Systems and controls

4. Advice on types of financial records
5. Advice on debtors control
6. Advice on stock control
7. Advice on costing system
8. Advice on computers/accounting machines
9. Advice on budgeting

Finance

10. Advice on borrowing
11. Advice on leasing
12. Advice on factoring
13. Advice on investing cash funds
14. Advice on export finance
15. Advice on foreign exchange

Planning

16. Advice on acquiring plant or premises
17. Advice on acquiring a business
18. Advice on preparing a long term plan
19. Advice on retirement of owner/manager
20. Advice on admitting new partners or shareholding

Other

21. Marketing advice
22. Production and purchasing advice
23. Advice on insurance

24. Advice on the economic environment

25. Employees

26. Travel advice.

Q19. Will you please look at the list. During the last three years did your branch give any advice not shown on the list. (If the answer is No turn directly to Q21.)

Q20. What is the advice given by your branch not shown on the list and what is the number of small firm clients who received the advice in the last three years.

Q21. You have now told me what advice your branch has provided to small firms.

Now I would like your personal opinion on the advice you consider banks should give to small firms. Use the list as a guide only; please list the ten most important types of advice you consider your branch should provide to small firms.

(Place them in order of importance with the most important first.)

Q22. In your list you have listed some types of advice which have not been provided to many firms. Why do you think this is so.

Q23. Do you have an appointment system.

Q24. How do you see the role of the branch bank manager in relation to his small firm clients in the future.

APPENDIX C

MAIL QUESTIONNAIRE OF ACCOUNTANTS

Small Business Unit,
London Graduate School
of Business Studies,
Sussex Place,
London NW1 4SA.

Dear Sir,

May I ask for your help in a survey I am carrying out.

I am an Australian chartered accountant currently carrying out research into the role of practising accountants in small firms.

You will find attached to this letter a questionnaire which has been forwarded to a limited number of accountants. I would be grateful if you would fill in your answers to the questions and post the completed form back to me using the enclosed envelope.

Your answer is anonymous.

Because research funds are limited I need every reply I can obtain. Will you please help.

Yours faithfully,

Please send your reply to:

David Back,
Small Business Unit,
London Business School,
Sussex Place,
Lonodn NW1 4SA.
Telephone 01-723-9024 Ext. 16
or 0279-722653.

Mail questionnaire to accountants

Definition of small firms

In this survey small firms have been defined as:

"Enterprises (both incorporated and unincorporated) which

1. Meet the following criteria

   Manufacturing - 99 employees or less

   Retailing, motor trades, professions and miscellaneous services - Turnover of £100,000 p.a. or less

   Wholesaling - Turnover of £500,000 p.a. or less

   Construction - 25 employees or less

   Road transport - 5 vehicles or less

   Catering - All other than multiples and brewery owned pubs.

2. Are independent of and do not form part of a larger enterprise which exceeds these limits.

3. Are not engaged in agriculture or fishing."

Answers

International and national firms should answer the questions in relation to their regional office only.

Where exact figures are not available please answer with estimates.

Mail questionnaire to accountants

Q 1. How many partners are there in your firm.

(Insert the number) .....partners

Q 2. What are their ages

a) .....years old e) .....years old

b) .....years old f) .....years old

c) .....years old g) .....years old

d) .....years old h) .....years old

(Insert the ages)

Q 3. Approximately how many clients did you send bills to during your last financial year.

.....clients

Q 4. You will notice a definition of small firms attached to this questionnaire. Will you examine it and then write down the number of clients (to whom you sent bills last year) who were small firms during your last financial year.

.....small firms

Q 5. Of your small firm clients (as defined) how many conferred with <u>you or your partners</u>

More than twice in the year .....

Twice in the year .....

Once .....

Not at all .....

Total (must agree with your answer to Q4) _____

(Insert the number)

Q 6. From your small firm clients what percentage of gross fees would you estimate were derived from

	%
Auditing	.....
Preparation of income & corporation tax returns	.....
Writing up books & registers	.....
Preparing annual accounts	.....
Tax advice	.....
Other advice	.....
Other services	.....
	100

Q 7. Listed below are a number of services which can be provided to a firm by an accounting firm.

Remembering the total number of small firm clients in your answer to Question 4. would you please insert in the space provided the number of small firm clients who had each service provided by your firm during the last three financial years.

1. Writing up financial records .....small firms
2. Preparation of firm's income tax or corporation tax returns.....small firms
3. Preparation of annual accounts.....small firms
4. Preparation of accounts other than annual accounts .....small firms.
5. Preparation of minutes and writing up registers .....small firms

6. Installation of accounting systems .....small firms

7. Acting as a trustee .....small firms.

Q 8. Listed below are a number of types of advice which can be provided by an accountant.

Remembering the total number of small firms in your answer to Question 4. would you please insert in the space provided the number of small firm clients who had each type of advice provided to them by your firm during the last three years.

Taxation and legal advice

1. Income tax or corporate tax advice .....
2. Estate planning advice .....
3. Other tax advice .....
4. Other business law advice .....

Systems and controls

5. Advice on types of financial records.....
6. Advice on debtors control .....
7. Advice on stock control .....
8. Advice on costing system .....
9. Advice on computer and accounting machines. .....
10. Advice on budgeting .....

Finance

11. Advice on source of borrowing .....
12. Advice on leasing .....
13. Advice on factoring .....
14. Advice on investing cash funds .....
15. Advice on export finance .....

Planning

16. Advice on acquiring plant or premises .....

17. Advice on acquiring a business .....

18. Advice on preparing a long term plan .....

19. Advice on retirement of owner/ manager .....

20. Advice on admitting new partners or shareholders .....

Other

21. Marketing advice .....

22. Production and/or purchasing advice .....

23. Advice on insurance .....

24. Advice on the economic environment.....

25. Advice on employee recruitment .....

Q 9. Will you please look at the list of types of advice shown in Question 8. During the last three years did your firm provide any advice to small firms not shown on the list.

Yes ☐

No ☐

(Tick the correct statement)

If your answer to Question 9. is No please turn to Question 11.

Q10. Please list (in the space provided) the type of advice provided by your firm to small firms not listed in Question 8. together with the number of

small firms who had the advice provided to them by your firm during the last three years.

_____

_____

_____

_____

_____

Q11. You have now indicated the advice your firm has provided to small firms.

Now we would like your opinion on the advice you consider accountants should give to small firms. Using the list in Question 8. and your answer (if any) to Question 10. as a guide only, please list the fifteen most important types of advice you consider your firm should provide to small firms. (Place them in order of importance with the most important first.)

1. Most important.....
2. .....
3. .....
4. .....
5. .....
6. .....
7. .....
8. .....
9. .....
10. .....
11. .....
12. .....

13. .....

14. .....

15. .....

Q12. If any other types of advice in your answer have not been provided to many of your clients would you briefly state the reasons for the omission (in the space provided).

Thank you.

Would you please return your reply to:

David Back,

Small Business Unit,

London Business School,

Sussex Place,

London NW1 4SA.

Small Business Unit,
London Graduate School
of Business Studies,
Sussex Place,
London NW1 4SA.
Telephone 01-723-9024
Ext. 16 or
0279-722653.

Dear Sir,

Two weeks ago I forwarded a survey questionnaire to you.

Because the replies are anonymous I am unable to tell whether you have replied.

If you have, thank you.

If you have not would you be good enough to forward it to me as soon as possible.

Yours faithfully,

APPENDIX D

TELEPHONE SURVEY OF OWNER/MANAGERS OF SMALL FIRMS QUESTIONNAIRE

Introduction

Hello my name is ..... and I am a member of the Small Business Unit of London Business School.

We are asking a random sample of firms about their attitude to their external accountant and their bank manager.

Q 1. How many times have you conferred with your bank manager during the past year, other than on the phone?

Q 2. Do you consider bank managers should give advice and guidance to firms such as yours?
If No, go to Q4.

Q 3. What types of advice and guidance do you think your bank manager should provide to your firm?

Q 4. Are you satisfied with the advice you have been given by your bank manager?

Q 5. Does your firm have an overdraft facility.

Q 6. How many times have you conferred with your external accountant during the past year, other than on the phone?

Q 7. Do you consider that accountants should give advice and guidance to firms such as yours?
If No, go to Q9.

Q 8. What types of advice and guidance do you think your accountant should provide to your firm?

Q 9. Are you satisfied with the advice you have been

given by your accountant?

Q10. Does your firm have

- Less than 100 employees?

  (or other criteria for industry involved).

APPENDIX E

MAIL QUESTIONNAIRE OF SMALL FIRMS

Small Business Unit,

London Business School,

Sussex Place,

London NW1 4SA.

Dear Sir,

Lots of people are not exactly being helpful to business firms at the moment.

But some people including some bank managers, solicitors and accountants are anxious to help.

I am a member of the Small Business Unit, London Business School, and I am currently carrying out a survey into advice given to firms to see how it can be improved.

You will find attached to this letter a questionnaire which has been forwarded to a limited number of firms. I would be grateful if you would fill in your answers to the questions and post the completed form back to me using the enclosed envelope.

Your answer is anonymous.

Because research funds are limited I need every reply I can obtain. Will you please help.

Yours faithfully,

Mail questionnaire to managers of small firms

Q 1. Which would you consider the major activity of your firm to be.

Manufacturing	
Retailing	
Wholesaling	
Construction	
Mining/Quarrying	
Motor Trades	
Road Transport	
Catering (including public houses)	
Profession	
Miscellaneous service	

(Tick only one space)

Q 2. Listed below are a number of services which can be provided to a firm.

Please indicate (by ticking the appropriate spaces) who provided these services to your firm in the last three years. If the service was not provided at all during the last three years please leave all the spaces against the service blank.

Preparation of Documents	External Accountant	Clearing Bank	Solicitor	Other External Sources	From within your firm
1. Writing up financial records					
2. Preparation of firm's income tax or corporation tax return					

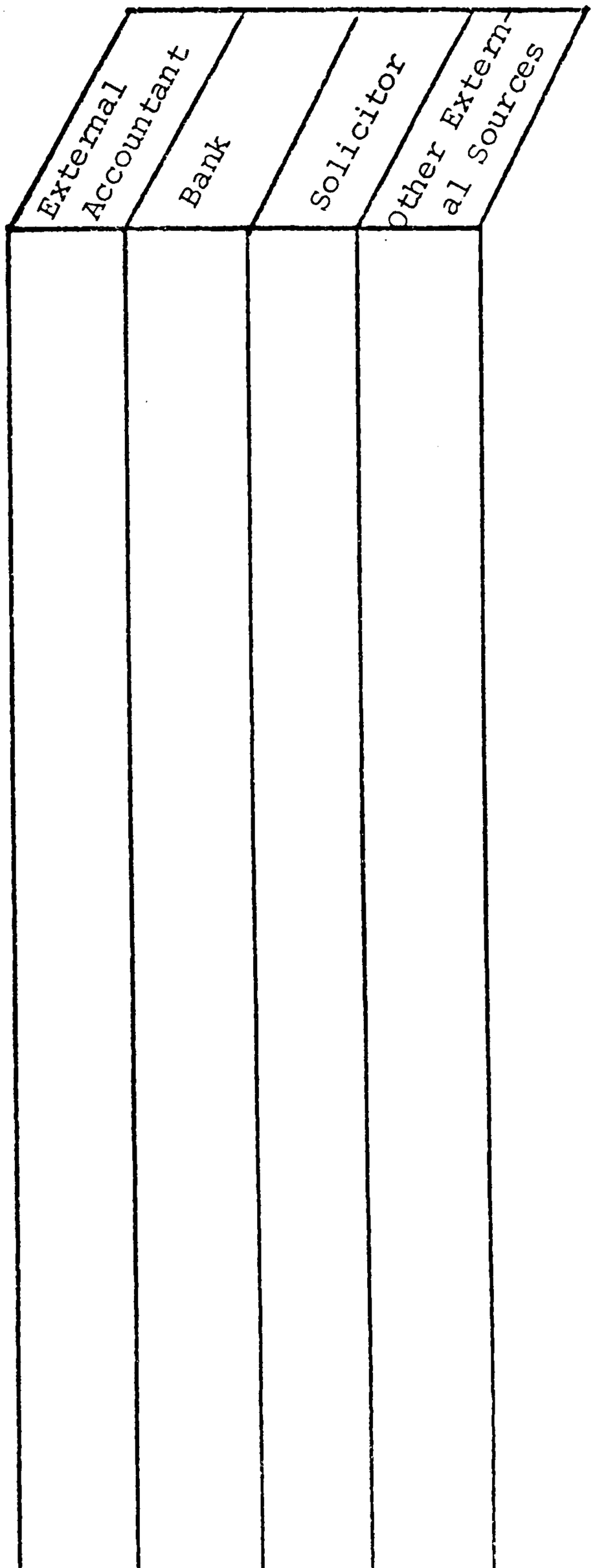
	External Accountant	Clearing Bank	Solicitor	Other External Sources	From within your firm
3. Preparation of annual accounts					
4. Preparation of accounts other than annual accounts					
5. Preparation of minutes and writing up of registers					
Financial					
6. Providing an overdraft					
7. Providing leasing finance					
8. Providing factoring finance					
9. Providing other sources of finance					
Other					
10. Auditing					
11. Installation of accounting system					
12. Acting as a trustee					
13. Insurance broking					
14. Computerization of records					
15. International banking facilities					
16. Travel facilities					

Q 3. Listed below are a number of types of advice and guidance which can be provided from a number of sources outside your firm.

Please insert the number of occasions in the last

three years you received this advice.

If the advice has not been provided from sources outside your firm during the last three years please leave the space blank.



Taxation and legal

1. Income tax or corporation tax advice
2. Estate planning advice
3. Other tax advice
4. Other business law advice

Systems and controls

5. Advice on the type of financial records
6. Advice on debtors control
7. Advice on stock control
8. Advice on costing system
9. Advice on computers and/or accounting machines
10. Advice on budgeting

Finance

11. Advice on sources of borrowing
12. Advice on leasing
13. Advice on factoring
14. Advice on investing cash funds
15. Advice on export finance

16. Advice on foreign exchange

Planning

17. Advice on acquiring plant or premises

18. Advice on acquiring a business

19. Advice on preparing a long-term plan

20. Advice on retirement of owner/manager

21. Advice on admitting new partners or shareholders

Other

22. Marketing advice

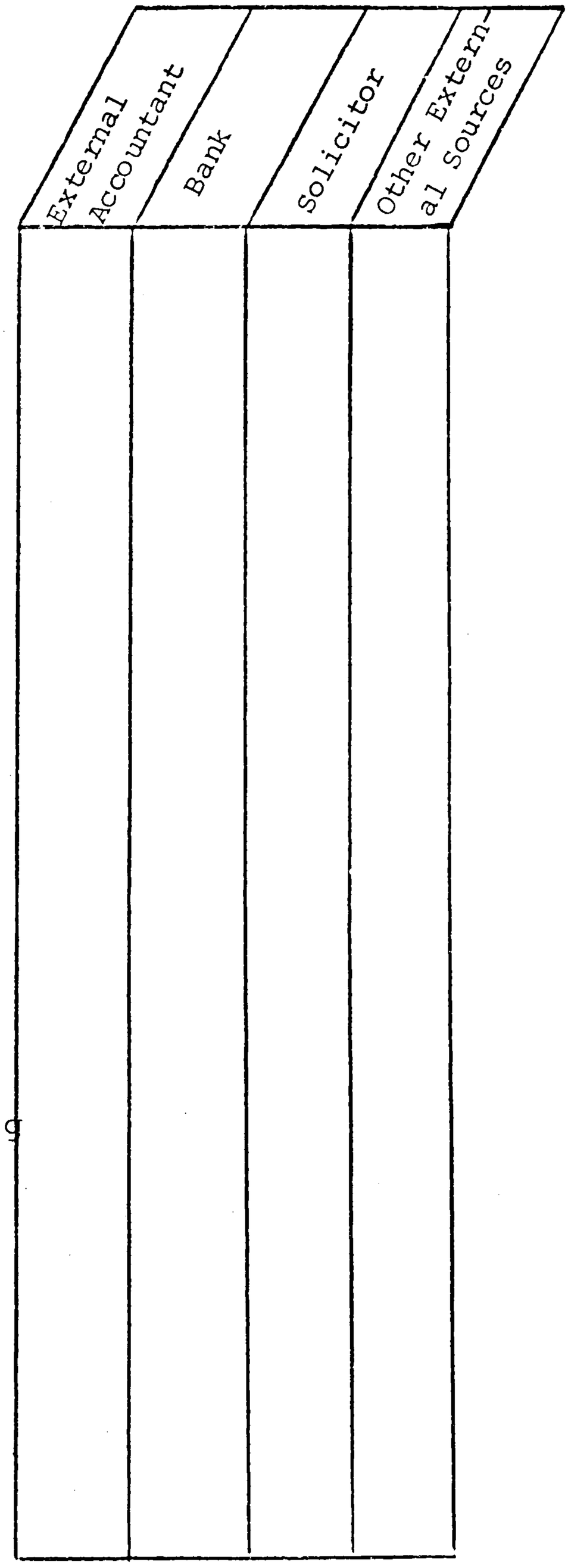
23. Production and purchasing advice

24. Advice on insurance

25. Advice on the economic environment

26. Advice on employee recruitment

27. Travel advice.



We now turn to your external accountants.

Q 4. During the last three years did you receive any advice or guidance from your external accountants not listed in the previous question (Q 3.)

Yes ☐

No ☐

(Please tick the correct statement.)

If your answer to Question 4. is No please turn to Question 6.

Q 5. Please list the advice or guidance given by your external accountants not shown in Question 3 and insert the number of occasions during the last three years the advice was provided by them.

Advice or Guidance	Number of times in last 3 years

Q 6. In Question 3. and Question 5 you have told us what advice and guidance, if any, your external accountants have provided. Now we want your opinion on the advice and guidance you would like them to provide.
Using the list in Question 3 and your answer (if any) to Question 5 as a guide only, please list up to ten of the most important types of advice or guidance you would like to be provided by your accountants. (Place them in order of importance to you with the most important first.)

1. Most important.....
2. .....
3. .....
4. .....
5. .....
6. .....
7. .....
8. .....

9. .....

10. .....

Q 7. If any of the types of advice and guidance listed in your answer to Question 6. have not been provided by your external accountants would you briefly state why you think this advice hasn't been provided.

If all the advice mentioned in Question 6. has been provided, turn to Question 8.

Q 8. Does your firm employ a qualified accountant.

Yes ☐

No ☐

(Please tick the correct statement.)

We now turn to your clearing bank.

Q 9. How many times did you confer with your own bank manager or your assistant bank manager during the last three years. .....occasions

If your answer to Question 9. is Nil turn directly to Question 12.

Q10. During the last three years did you receive any advice or guidance from your bank not listed in Question 3.

Yes ☐

No ☐

(Please tick the correct statement.)

If your answer to Question 10. is No turn directly to Question 12.

Q11. Please list the advice or guidance given by your bank not shown in Question 3. and insert the number of

occasions during the last three years the advice was provided.

Advice or Guidance	Number of times in last 3 years

Q12. In Question 3. and Question 11. you have told us what advice and guidance, if any, your bank has provided. Now we want your opinion on the advice or guidance you would like the bank to provide.
Using the list in Question 3. and your answer (if any) to Question 11. as a guide, please list up to five of the most important types of advice and guidance you would like to be provided by your bank.
(Place them in order of importance to you with the most important first.)

1. Most important.....
2. .....
3. .....
4. .....
5. .....

Q13. If any of the types of advice or guidance listed in your answer to Question 12. have not been provided by your bank would you briefly state what you consider the reasons for the omission.
(If all the advice mentioned in Question 12 has been provided turn to Question 14.)

Q14. Is your firm's turnover (Sales) p.a.

£100,000 or less p.a.

Between £100,001 and

£400,000 p.a.

Over £400,000 p.a.

(Please tick the correct statement.)

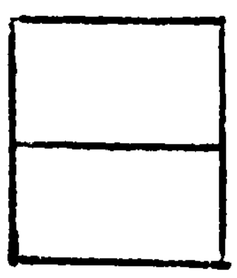
Q15. What is your firm's total number of employees at the moment. .....full time

.....part time.

Q16. Is your firm a part of a group of firms.

Yes

No



(Tick the correct statement.)

If your answer to Question 16. is No turn directly to the final note.

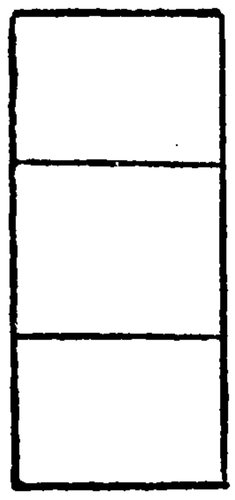
Q17. Is the total turnover of your group of firms

£100,000 or less p.a.

Between £100,001 and

£400,000 p.a.

Over £400,000 p.a.



Q18. What is your group's total number of employees at the moment. .....full time

.....part time.

Thank you.

Would you please slip the questionnaire into the envelope provided and return it to.

David Back,
Small Business Unit,
London Business School,
Sussex Place,
London NW1 4SA.

Small Business Unit,
London Graduate School
of Business Studies,
Sussex Place,
London NW1 4SA.

Telephone 01-723-9024
Ext. 16
or 0279-722653.

Dear Sir,

Two weeks ago I forwarded a survey questionnaire to you.

Because the replies are anonymous I am unable to tell whether you have replied.

If you have, thank you.

If you have not would you be good enough to forward it to me as soon as possible.

Yours faithfully,

APPENDIX F

CASE SUMMARIES

Introduction

This appendix contains the summaries of the analysis of each of the nine firms within the set of small firms. The summaries are not intended to be either case studies or case histories but a short report of each of the steps taken in the analysis.

Each summary is divided into the following sections:

General description

(a) The unstructured interview with the owner/ manager.

(b) The unstructured interviews with other participants.

(c) The interaction between participants' views.

(d) The firm's objectives.

(e) The fulfilment of the objectives.

(f) The diagnosis.

(g) The future.

(h) The needs of the firm.

(i) The need for advice.

FIRM I1

MATERIAL INTENSIVE INFANT

RETAIL GROCER

General description

At the time of the analysis the firm was an unincorporated grocery shop which was owned by an individual. The firm was situated in a township in the home counties, thirty miles north of London.

The town had a population of approximately 8,000 and is situated five miles north of a "new town" and seven miles south of a township with a population of approximately 35,000. The area is basically rural, although a high proportion of its employed inhabitants work in the new town or commute to London.

At the time of the analysis the main shopping centre was situated in a high street which ran off a major trunk road. Parking was impossible in the narrow high street but free parking facilities were available at one end of the high street.

The firm had been established for a little over three years. Starting as a general grocer, the firm had increasingly moved into delicatessens. Purchases were made from wholesale grocers situated in the area and in general prices were based on those recommended by the wholesalers.

The shop was staffed by the proprietor, his wife and three part-time employees. The firm operated from 8.30 a.m. to 6.00 p.m. six days a week.

Competitors in the town consisted of two chain grocery stores and one other independent grocer. The firm being analysed had the distinct advantage that it was directly opposite the main car park. The two larger adjoining towns contained many large supermarkets owned by the major chain grocery stores.

The proprietor was in his mid-fifties and before starting the store had been a senior executive in a multi-national chemical company. The proprietor and his wife lived above the shop and also maintained a house in East Anglia.

(a) <u>The unstructured interview with the owner/manager</u>

The owner/manager considered that the broad objectives of the firm were:

(i) To provide himself and his wife with a quality of life away from the pressures of big business.

(ii) To be a vehicle for his "imagination and creativity".

(iii) To provide service to the community.

(iv) To provide an adequate income to his family.

(v) To grow at a "steady" pace.

(vi) Within five years to be sold by the proprietor.

(b) <u>Unstructured interviews with other participants</u>

<u>The proprietor's wife</u>

The proprietor's wife considered that the objectives of the firm were:

(i) To provide a living to the family.

(ii) To enable the husband and wife to work together.

(iii) To be an outlet for her husband's "drive".

The customers

While no major attempt was made to question the firm's customers, informal discussion with several of them indicated that the major attractions of the shop were the personal service and the range and good quality of goods available to them.

(c) The interaction between the participants' views

Although at law the firm was a sole trader, in the decision making process there was little doubt that the firm was a partnership between the husband and the wife with some regard being had to the views of customers. Decisions as to objectives and the day-to-day running of the shop were reached by discussion between the couple, with the wife acting as a constraining influence on some of her husband's more radical ideas.

(d) The firm's objectives

Based on the unstructured interviews and the assessment of the interaction between participants' views, it was considered that the broad objectives of the firm were:

Financial

(i) To provide an "adequate" income to the proprietor and his wife.

(ii) To grow steadily for a period of up to five years to enable the proprietor to sell the firm

with a substantial capital gain.

(iii) To be a source of income for the employees.

Others

(iv) To be an outlet for the proprietor's "imagination".

(v) To provide an interest for the proprietor and his wife without the "pressures of big business".

(vi) To enable the proprietor and his wife to work together.

(vii) To provide a service to the community.

(e) The fulfilment of the other objectives

Financial objectives

As an unincorporated firm the business was not required to produce an annual balance sheet. However, the proprietor had income tax returns prepared for the years ended 31st December, 1973, 1974 and 1975 and these are summarized in Figure 1. In addition the researcher was able to prepare a list of assets and liabilities as at 31st December from these returns and other information provided by the owner/manager.

The firm was failing to achieve the objective of providing an adequate income to the proprietor and his wife.

Although net income had failed to be satisfactory during the previous three years there had been a steady increase in turnover and gross profit. Because grocery shops are valued on the basis of turnover and the gross profit being achieved rather than net profit, the firm's

objectives may be considered to have at least been partly met.

As the firm paid above average wages for the area the firm could be considered to be meeting the objective of being a source of income for the employees.

Other

After observing the firm the researcher came to the opinion that the firm was meeting all the non-financial objectives mentioned earlier.

(f) The diagnosis

The major causes of the firm failing to meet its objectives were considered to be:

(i) The poor financial planning at time of purchase.

There was little doubt that the proprietor had overestimated the profit which the firm was capable of achieving even if normal economic conditions had occurred. This appears to be largely as a result of the proprietor's lack of experience with the industry and the inexperience of his accountant.

(ii) The economic conditions.

Although turnover had increased at a rate equal to or greater than inflation and the gross profit percentage had been increased from 14.8% to 16.2%, overheads had increased as a result of the economic conditions, by more than £4,000 and as a result net profit in 1975 was only £1,137 higher than in 1973.

(iii) Condition of fixed assets and lease.

Almost £2,000 of major and non-recurring repairs had been expended in the three years ended 31st December, 1975, and this had had a material effect on the firm's net profit.

(iv) Decision not to open on Sunday and for late night shopping.

The owner/manager had made the decision not to open on Sundays nor on the evening of late night shopping. It was considered that this had a material effect on net profits and that up to £15,000 sales were being lost per annum.

(g) <u>The future</u>

It was not expected that the firm would have remained in the same owner's name for more than five years. It was noticeable that very little planning, including financial planning had occurred.

(h) <u>The needs of the firm</u>

Based on the diagnosis of the unfulfilled objectives and the assessment of the firm's future it was considered that the major needs of the firm were:

(i) To carry out market research to determine the size of the market, the share being held by the firm, the demand for products and particularly delicatessens and the likely effect of opening on Sunday and one evening.

(ii) Based on the market research to prepare a plan

for the next few years.

(iii) To prepare financial budgets based on the plan.

(iv) To organize the firm's ownership so as to reduce the impact of capital gains.

(v) To plan for the retirement of the owner/manager.

(i) The need for advice

It is considered that the firm will need assistance and advice in each of the subjects mentioned in the firm's needs, namely advice on:

(i) Market research

(ii) Planning.

(iii) Budgeting

(iv) Capital gains tax

(v) Retirement of owner/manager.

It was considered that none of these needs for advice was critical but that there was an urgent need for advice on market research, planning and budgeting.

TABLE 11.1 FINANCIAL RESULTS

	Year ended 31st December		
	1973	1974	1975
Turnover	29,744	47,164	59,072
Less Materials	25,348	39,948	49,503
Gross profit	4,396	7,216	9,569
Overheads	5,249	9,022	9,285
Net Profit (Loss)	£(853)	£(1,806)	£ 284

No salary has been allowed for the proprietor or his wife.

Assets as at 31st December, 1975

Equipment (Insured value)		4,000
Motor vehicle (Cost less depreciation)		1,437
Bank account		256
Debtors		253
Stock		5,800
		11,746
Creditors (Estimated)	3,407	
Overdraft	850	4,257
Net tangible assets		£ 7,489

Ratios

(i) Return on investment - before salaries to the proprietor and his wife.

For 1975 4%

- after salaries of £4,000 to the proprietor and £2,500 for his wife.

For 1975 -83%

(ii) Current ratio 31.12.75 1.48

(iii) Stock turnover 1975 10 times p.a.

(iv) Gross profit percentages

1973	14.8%
1974	15.3%
1975	16.2%

FIRM I2

THE LABOUR INTENSIVE INFANT

A GUEST HOUSE

General description of the firm

At the time of the analysis the firm was in a very early stage of development. The decision had been taken by the firm's proprietors, an ex-service officer and his wife, to acquire a guest house in the West Country capable of handling up to eight guests. They had been actively searching for a suitable property.

The husband had joined the services shortly before the outbreak of World War II. After the completion of the hostilities he accepted the opportunity of remaining in the armed forces and had retired from the services approximately two years before the decision to acquire a guest house. During these two years he was employed in a middle management position with a company engaged in the leisure industry. At the time of the analysis he had been informed by his employers that they intended placing the leisure firm into voluntary liquidation and he expected to become unemployed. He had become disillusioned with private enterprise during his two years in the leisure industry and was seeking a position where he felt he could overcome this feeling.

The wife had been employed in a variety of positions connected with the hotel trade and at the time of analysis was managing a small guest house in south east England.

The family, which also included two young sons, had travelled extensively during the previous decade.

(a) The unstructured interviews with the owner/manager

Separate interviews were held with the husband and the wife as well as two interviews with both of them present.

The husband

The husband considered that the broad objectives of the firm were:

(i) To provide a vehicle which would be an outlet for his organizational and administrative abilities.

(ii) To provide an environment where he could work with his wife.

(iii) To provide an income sufficient for him to be able to feed and house his family (the pension from the services being enough for him to educate the children and pay for other household expenses).

The wife

The wife considered that the objectives of the firm were:

(i) To provide an income of at least £5,000 per annum to the family.

(ii) To be an outlet for her husband's abilities.

(iii) To be a means by which she could reconcile her wish to spend time with her children and her wish to have some form of career.

(b) The unstructured interviews with other participants

At the time of the analysis there was no other person who could be described as a participant.

(c) The interaction between participants' views

With the exception of the financial objectives the views of the two participatns were very similar. As the husband had no objection to the firm being more profitable than he expected the wife's financial objective was that adopted by the firm.

(d) The firm's objectives

The broad objectives of the firm were considered to be:

Financial objectives

(i) To provide a pre-tax income of £5,000 to the family.

(ii) To remain solvent.

Other objectives

(iii) To be an outlet for the husband's organizational abilities.

(iv) To provide a home for the family.

(v) To enable the wife to have a career as well as being with the children.

(e) The fulfilment of the objectives

At the time of the analysis the only action by the firm had been the physical examination of a number of properties by the participants and the unfulfilled

objectives were identical with objectives which have been stated above.

(f) The diagnosis of the unfulfilled objectives

The major causes of the firm's failure to achieve its objectives were considered to be:

(i) Time.

There is always a time period between the decision to begin a business and the commencement of operations. The analysis of the firm was completed midway through this period. Both the proprietor and his wife were reluctant to forego their present income and the time involved in starting up was considerable.

(ii) The inability of the proprietors to compare alternative investments.

From discussions with the proprietors it became obvious that both the husband and the wife had little idea how to compare the alternative financial opportunities that were being presented to them.

(iii) The proprietors' lack of knowledge of property values and costs of improving properties.

Similarly both the husband and wife had little idea of the value of properties in the area they were considering or the likely costs of any improvements.

(iv) The proprietors' lack of knowledge of planning requirements and requirements of local

authorities including the fire brigade. Discussion with the proprietors indicated that they were relying on the knowledge of local estate agents as to the requirements of local authorities, including planning requirements and fire regulation, and had made no attempt to gain this knowledge themselves.

(g) The future

The assessment of the extent to which the firm's objectives were likely to be fulfilled in the future raised the following deficiencies.

The financial objectives

The major question which arose in assessing the future of the firm was whether the firm was capable of achieving the net income sought by the proprietors. Particular problems appeared likely to be:

(i) Occupancy rates.

The proprietors had made no attempt to examine occupancy rates of similar institutions and the extent to which these were likely to vary during the year. A major problem may occur if insufficient boarders are attracted to the guest house.

(ii) Rentals.

Apart from details of rental charged by the firm who employed the wife neither of the proprietors had any idea of rentals that the guest house would be likely to receive. Again this could

mean insufficient gross income.

(iii) Availability of labour.

No enquiries had been made by the proprietors as to the availability of labour of the type required by the guest house. This was also an area of likely problems.

(iv) Cost of labour.

Similarly no enquiries had been made as to the cost of suitable labour. If these costs were excessive the whole project's financial viability would be in question.

(v) External finance.

Although the proprietors had approximately £35,000 available from their own sources it appeared likely that some external finance would be necessary.

The non-financial objectives

The relative modest non-financial objectives appeared likely to be achieved in the future provided that the firm was financially viable and that the problems mentioned above overcome.

(h) The needs of the firm

Based on the diagnosis of the unfulfilled objectives and the assessment of the future of the firm carried out it was considered that the major needs of the firm were:

(i) A detailed examination of the feasibility of the project.

(ii) Market research on - occupancy rates, rentals.

(iii) Information on

- Availability of labour
- Cost of labour
- Property values
- Costs of improvements
- Legislative requirements.

(iv) A suitable property.

(v) To recruit and train suitable staff.

(vi) External finance.

(vii) To market the guest house.

(i) <u>The need for advice</u>

Based on the needs of the firm set out above it was considered that the firm needed advice in the following areas:

(i) Forward planning.

(ii) Budgeting.

(iii) Market research.

(iv) The availability, cost and recruitment of staff.

(v) Selection of a site.

(vi) Council planning permission.

(vii) The availability, sources and costs of external finance.

(viii) The marketing of the guest house.

All of the needs for advice were considered to be urgent, but not critical.

FIRM I3

MATERIAL/LABOUR INFANT

AN ALCOHOLIC BEVERAGE MANUFACTURER

General description

The company was formed to manufacture and market an alcoholic beverage in Southern England. The beverage was not consumed in any large quantities in any country in the world and part of its marketing appeal is the unusual nature of the liquor.

At the time of the analysis, manufacturing had not yet begun.

The shareholders at 14th August, 1976, were:

(i) A long established family firm which engaged in the manufacture of a product used by the manufacturers of wines. It is referred to in this summary as S.L. Ltd.

(ii) The managing director of the new firm. He was in his mid-thirties and had been a director and executive of S.L. Ltd for eleven years. In this summary he is referred to as B.L.

(iii) A company which had been formed to manufacture and market an identical product to the product of the new firm in the north of England. Apart from the shareholding in the new firm there was no shareholding relationship between this firm and the other two shareholders. This firm is referred to in this summary as N.M. Ltd.

The executives of N.M. Ltd took no part in the management of the new company but were available for consultations if required.

The new firm had decided the general area in which they wished to set up operations but had been refused planning permission by the local council for one site the firm had considered suitable. Designs of the factory office and salesrooms had already been completed for this first site and it was thought that these would be suitable, with a few minor alterations, for alternative sites.

The firm had carried out extensive market research of the product and had compiled detailed costings based on N.M. Ltd manufacturing costs. Detailed cash budgets had been prepared.

Borrowing requirements, including a stand-by credit, had been negotiated with CoSIRA. Preliminary arrangements had been made to recruit labour.

(a) <u>The unstructured interview with the owner/manager</u>

The managing director was the only person who owned shares in the company and held a managerial position.

He saw the firm's broad objectives as being:

(i) A source of income to his immediate family.

He considered that his family's income from S.L. Ltd would be insufficient for their purposes in the future and saw the new firm as a solution to this problem.

(ii) To enable him to use his own managerial talents.

He had been in a managerial position with the

family firm for some years and considered he was inhibited by other family members who participated in the older firm.

(iii) Rapid growth.

He regarded rapid growth as an essential aim of the firm and was looking to maximize the firm's return on investment.

(b) Unstructured interviews with other participants

Other participants in the decision making process of the firm were:

The chairman of S.L. Ltd.

An executive director of S.L. Ltd.

The owner/manager of N.M. Ltd.

The chairman of S.L. Ltd

Although the chairman of S.L. Ltd took no part in the management of the new firm because of his company's share-holding and his directorial and family position he was a participant in the decision making process of the new firm.

He opposed the formation and continuation of the firm because he considered that it diverted managerial time from the older family firm particularly because it was intended that the administration of the new firm would be partly carried out at the factory rather than in London.

An executive director of S.L. Ltd

The third director of S.L. Ltd was an employee director who was not a member of the family. He took no part in the new firm other than the preparation of the financial records but because of his chairman's opposition to the project,

was involved in the new firm's decision making.

He agreed with the concept of the new firm and saw its objectives as being:

(i) To provide income to the older family firm.

(ii) To support the older firm particularly when the product life of the older firm's major product was coming to an end.

The owner/manager of N.M. Ltd

Although it was not possible to interview the managing director of N.M. Ltd, from discussions with the other participants all confirmed that he saw the objectives of the new firm as being:

(i) To maximize his return on investment provided that the new firm did not reduce the profits of N.M. Ltd nor involve him in any major time commitment.

(c) The interaction of participants' views

Because the views of the managing director of the new firm and the chairman were largely incompatible there was considerable interaction between the views of all the participants.

The final result was that the new firm was actively supported by the managing director of the new firm, the chairman of S.L. Ltd views were largely overcome (not without some considerable protest) by the support of the executive director of S.L. Ltd. The owner/manager of N.M. Ltd played no part in the interaction.

(d) The firm's objectives

Based on the views of the participants and the interaction between these views it was ocnsidered that the basic objectives of the firm were:

Financial objectives

(i) To maximize return on investment.

(ii) To grow as rapidly as possible.

(iii) To provide income to the family firm.

(iv) To provide income to the managing director.

Other objectives

(v) To provide a vehicle for the managing director's managing skills.

(e) The fulfilment of the objectives

Because the firm had not begun to operate, none of the firm's objectives were being achieved.

(f) The diagnosis

The causes of the objectives failing to be achieved were considered to be:

(i) The lack of support given to the managing director.

There is little doubt that much of the reason why the firm was not operating and meeting its objectives was the lack of support given to the managing director by the other participants and the active opposition of the chairman of S.L. Ltd. Quite apart from the delays which had been caused by this lack of support the result was

also that the managing director's personal performance was affected.

(ii) The lack of premises.

Because it was intended to market the product from the factory site there was a clash between the firm's desire to have a prominent site and the reluctance of the local council to allow a factory in a prominent site, no matter how pleasant its appearance. Each potential site had to be examined in detail both by the firm and the local council and this resulted in delays.

(g) <u>The future</u>

Once the immediate problems of establishing the firm were overcome the future of the firm looked promising and the rapid growth sought appeared likely to be achieved. The only major problems appeared to be in the recruitment of adequate top and middle management, particularly in the area of production to provide support for the managing director.

(h) <u>The needs of the firm</u>

Based on the diagnosis of the unfulfilled objectives and the assessment of the future of the firm, it was considered that the major needs of the firm were:

(i) Solving the dispute between participants.

(ii) A suitable site.

(iii) Planning permission for the site.

(iv) Recruitment of a management team.

(v) Recruitment of labour force.

(i) The need for advice

It was considered that management required advice and assistance in each of the needs set out above. It was considered that the need for advice on the dispute between participants was critical and all the other needs for advice were urgent.

FIRM M1

MATURE MATERIAL INTENSIVE

TIMBER MERCHANT

General description

The firm was formed in 1947 by two Jewish ex-service-men to wholesale timber. Shareholding was divided equally with no method, other than liquidation or court action, for settling disputes between the shareholders.

One of the founding directors died in the nineteen sixties but his son (referred to as J.P. in this summary) was, at the time of the research analysis, one of the three executive directors. The other two were the surviving founder (referred to as Father) and his son (referred to as Son). Shareholding remained equally divided between the families.

The firm was situated on G.L.C. rented property in the East End of London. The lease had been renewed eight years before the analysis and had a further thirteen years to run.

Although most of the sales arose from the sale of timber the firm did possess a small number of machines which were capable of cutting and moulding timber.

(a) The unstructured interviews with owner/managers

The surviving founder

The surviving founder considered that the objectives of the firm should be:

(i) To remain in the same industry.

(ii) To remain the same size.

(iii) To be a source of income for himself.

(iv) To be a source of income for his son.

(v) To be a source of income for older employees.

(vi) To be a source of income for the widow of his co-founder.

His son

The son of the surviving founder concidered that the objectives of the firm should be:

(i) To grow rapidly and to maximize profits.

(ii) To be a source of income and wealth for his family.

(iii) To be an outlet for his skills, knowledge and energy.

The son of the deceased founder

The son of the deceased founder considered that the objectives of the firm should be:

(i) To be a source of income for himself.

(ii) To be a source of income for his mother and invalid sister.

(iii) To grow in line with other firms in the industry.

(iv) To be an outlet for his managerial skills.

(b) Unstructured interviews with other participants

Several of the older employees occasionally became involved with the decision making of the firm. They considered that the objectives of the firm should be:

(i) To be a source of income for themselves.

(ii) To remain in the same industry.

(iii) To remain the same size.

(c) The interaction between participants' views

The executives of the firm were constantly clashing with each other. Arguments between the directors were frequent and heated. Relationships between the Father and J.P. were what could only be described as frigid and the relationship between the two sons was poor. There was no animosity between Father and Son on a personal level but they frequently disagreed on the course the firm should follow.

It appeared likely that if the firm had not enjoyed a good financial performance the firm would not survive and the three directors would go their own way.

(d) The firm's objectives

Because of the hostile interaction between the participants they rarely reached a consensus of opinion as to the objectives the firm should strive to achieve. The best way of describing the firm's objectives is as follows:

Financial

(i) Growth.

Maximization - Supported by Son

"Steady" growth - Supported by J.P.

No growth - Supported by Father and older employees.

(ii) Source of income to Father and Son.

Supported by all.

(iii) Source of income to J.P. - Supported by J.P.

(iv) Source of income to deceased founder's widow (J.P.'s mother) - Supported by J.P. and Father. Opposed by Son.

(v) Source of income to older employees. Supported by Father and older employees. Tolerated by both sons.

Others

(vi) Diversification. Supported by both sons. Opposed by Father and older employees.

(vii) An outlet for Son's managerial talents. Supported by both sons. Tolerated by Father.

(viii) An outlet for J.P.'s managerial skills. Supported by J.P. Opposed by Father and Son.

(e) The unfulfilled objectives

Financial

As the results and analysis shown in Table 1 indicate the firm had an outstanding financial performance during the three financial years before the analysis. The firm had a high growth rate and had been a source of income for Father, Son, J.P. and J.P.'s mother and the older employees.

Other objectives

At the time of the analysis the firm had not diversified. Increasingly Son was taking managerial control of the firm but he felt he was in a very weak position. Although J.P.'s family held half the shares in

practice he was being excluded from the management of the firm.

(e) Diagnosis

The cause of the firm's failure to diversify was considered to be the feeling of animosity between the executives. Until such time as they had settled down to rational decision making or alternatively that one of the families had resigned from the management this failure appeared likely to continue.

(f) The future

Although the firm was achieving good financial results its future seemed far from secure.

Ultimately the problem of the two hostile families would have to be completely solved or the results of the timber operation would suffer.

Because of the firm's financial success the shares in the company had become very valuable and the indirect impact on the firm arising from the death of a major shareholder would be very considerable.

Yet another problem was that many of the "key" employees were near retirement. The younger management was aware of the problem but the opposition of Father and older employees to the recruitment of younger skilled workers was considerable.

The firm had a good system of monthly financial reports though no attempt had ever been made to determine future action nor to budget future performance. In the

past, because the firm had been such a profitable trader, this had no material effect but it was felt that as the firm grew and particularly if it diversified it would have been essential that planning and budgeting commence.

(h) The needs of the firm

Based on the diagnosis of the unfulfilled objectives and the assessment of the firm's future, it was considered that the major needs of the firm were:

(i) To stop the disagreements between executives.

(ii) To solve the impasse between the two families.

(iii) To take steps to avoid the impact of capital transfer tax on the death of a shareholder.

(iv) For forward planning.

(v) For budgeting.

(vi) To recruit younger skilled workers.

(vii) To transfer responsibility from older employees.

(viii) To continue the search for diversification.

(ix) To plan for the retirement of Father.

(i) The needs for advice

It was considered that there was a need for advice on each of the needs set out above. The need for advice on stopping the disagreements between executives and to solve the impasse between the two families was considered to be critical. The need for advice on capital transfer tax was considered to be urgent.

TABLE M1.1 FINANCIAL RESULTS

	Years ended 31st October	
	1973	1974
Sales	215,161	310,784
Insurance Claim	5,243	-
	220,404	310,784
Less		
Materials	133,628	204,026
Direct labour	16,068	12,789
Factory exps.	8,914	12,039
	158,610	228,854
Gross Profit	61,794	81,930
Sundry income	265	-
	62,059	81,930
Less		
Overheads*	46,365	54,484
Net Profit before tax	15,694	27,446
Taxation	5,430	14,932
Net Profit	£ 10,264	£ 12,514

* Includes directors' remuneration
(1974 £24,820, 1973 £22,126)

Balance Sheets as at 31st October

Fixed Assets		16,375		14,250
Current Assets				
Stock	13,276		22,625	
Debtors	55,522		53,497	
Cash at bank	-		14,251	
	£ 68,798		£ 90,373	
Current Liabilities				
Creditors	24,266		24.036	
Accruals	10,636		9,286	
Shareholders' loans	15,000		21,819	
Overdraft	5,623		-	
Corporation tax	8,042		20,362	
	£ 63,567		£ 75,503	
		5,231		14,870
		£ 21,606		£ 29,120

Ratios

(i)	Return on investment - before tax	73%	94%
(ii)	Expenses to Sales		
	Materials	62%	66%
	Direct Labour	7%	4%
	Factory Expenses	4%	4%
(iii)	Gross Profit %	29%	26%
(iv)	Current Ratio	1.08	1.20
(v)	Debtors days	94 days	63 days
(vi)	Stock turnover	10 times	9 times

FIRM M2

MATURE LABOUR INTENSIVE

MINI CAB PROPRIETOR

General description

The firm was formed in 1965 and at the time of the analysis was an unincorporated sole proprietorship.

The firm was engaged in operating mini cabs and a small school bus in a township in Hertfordship, thirty-five miles north of London. In addition to the proprietor there were three full-time drivers and one part-time driver.

No financial results for the four years prior to the analysis were available because no accounts or income tax returns had been prepared.

Much of the firm's revenue arose from contracts with the education departments of Hertford and Essex counties for the transportation of school children.

The firm was not licenced to pick up custom from the roadside (nor were any of its competitors). Competition was fierce with one larger firm in the town and up to ten separate one car mini cab owners. Most of the independent operators were licenced to pick up fares from the local British Rail station but this facility was not available to the firm being analysed nor its bigger competitor.

(a) The unstructured interview with the owner/manager

The owner/manager considered that the basic objectives

of the firm were:

(i) To provide a "decent" living for his family.

(ii) To grow.

(iii) To be independent.

(b) The unstructured interviews with other participants

The other major participants comprised

The proprietor's wife

The drivers.

The proprietor's wife

The proprietor's wife was actively involved in the business, being responsible for most of the telephone reception, the bookings and communication via the radio with the cars.

She saw the objectives of the firm as being identical to those expressed by her husband but particularly wanted the firm to grow to a point where it could employ a part-time telephone operator to enable herself and her husband to get away from the business.

The drivers

The objectives of the firm were not considered to be important to the two drivers interviewed. They looked upon the firm as a source of income only and were both dissatisfied with their gross weekly income of £35.

(c) The interaction between participants

The views of the owner/manager and his wife largely corresponded with each other. The personality of the owner/manager was such that the views of the drivers were largely

ignored in the decision making process.

(d) The firm's objectives

The basic objectives of the firm were considered to be:

Financial objectives

(i) To provide a "decent" income to the proprietor.

(ii) To grow.

Other objectives

(iii) To be a vehicle to enable the proprietor to exercise his independence.

(iv) To enable the proprietor and his wife to have more free time.

(e) The fulfilment of the objectives

Financial objectives

As already explained, no financial results were available to the firm or researcher for the four years prior to the analysis. It was impossible to determine the extent to which the firm was achieving its financial objectives.

Although gross taking had appeared to grow by about fifty percent during the three years, with the increase in expenses which had occurred, particularly in petrol, motor vehicles and spares, the owner/manager had no real idea whether net earnings had grown.

Very rough calculations indicated that net income was less than £2,000 per annum and if these calculations were correct this would confirm the owner/manager's view that

he was not earning a "decent living".

Other objectives

The firm was achieving the objective of being a method of the owner/manager exercising his wish for independence.

However, by normal standards, the amount of leisure time the owner/manager and his wife had was minimal and the objective of more leisure time was not being achieved. This appeared to be largely as the result of the failure to meet the firm's financial objectives.

(f) The diagnosis

The major causes of the firm's failing to meet its objectives was considered to be:

(i) The market.

Because the barriers to entry were minimal there had been a considerable increase in the number of cabs in the area. There appeared to be insufficient income for all.

(ii) The poor economic conditions.

The effects of the poor economic conditions had been steep; increase in fuel and automotive parts, coupled with a drop in the use by the public of mini cabs.

In monetary terms the owner/manager considered that fares from the public had decreased over the three years and the firm had only been saved by educational institutions.

(iii) The staff.

Because of the poor salaries paid, the staff was of a low calibre and lacked motivation. The owner/manager felt that it was impossible to sack them because very few people were prepared to work for such a low wage and he would find it hard to replace them.

(iv) Lack of control.

There was no real attempt to control the firm. In addition to the lack of overall management information, the procedures for collection of debts was almost non-existent. The firm had no idea of whether it had an outstanding liability for income tax.

(v) Reliance on one product and one market.

One of the reasons for the apparently poor financial performance was that the firm was subject to all the pressures which arise with a firm based on one product and a limited market.

(vi) The personal attributes of the owner/manager.

The researcher was left with the definite impression that although the owner/manager could adequately handle a single vehicle or two vehicle firm, the management of the firm at the time of the analysis was beyond his personal managerial talents.

(g) The future

Because of the problems that existed at the time of the analysis and because there had never been any attempt to plan the future, the firm's future was most uncertain. An added complication was that licensed taxi cabs had been introduced in the nearby new town and it was likely that they would be introduced in the town where the mini cab operated. The firm would then be faced with the even greater competition.

(h) The needs of the firm

Based on the diagnosis of the unfulfilled objectives and the assessment of the firm's future, it was considered that the major needs of the firm were:

(i) To recruit suitable labour paid at adequate rates (possibly from the one car competitors).

(ii) Preparation of a forward plan.

(iii) A rationalization of the number of cabs the firm needs based on the market survey.

(iv) To write up the books of account and prepare accounts and income tax returns so that the actual financial position could be ascertained.

(v) To install a suitable debt collection system.

(vi) To install an adequate management reporting system.

(vii) To review the possibility of the firm diversifying into new products and new markets.

(viii) To prepare a financial budget based on proper forward planning.

(ix) To plan the owner/manager's retirement.

Once the accounts had been prepared, it may be that the firm had other needs not disclosed by the analysis, including the need to borrow funds.

(i) The need for advice

It was considered that there was a need for advice in all of the needs of the firm set out above.

It was considered that there was a critical need for advice on the writing up of books, preparation of accounts and the preparation of income tax returns, and the need for an adequate reporting system. There was an urgent need for advice on installing a suitable debt collection system, forward planning and budgeting.

FIRM M3

MATURE MATERIAL/LABOUR

AN EDUCATIONAL FURNITURE MANUFACTURER

General description

The firm was incorporated in 1955 and was formed by two brothers to manufacture and market educational furniture.

At the time of the analysis the firm was engaged in selling all types of educational furniture, other than chairs, to local educational authorities. Traditionally the firm had concentrated on cupbaords, trays and shelves but with the reduction in local government expenditure had begun to sell more desks. The firm was faced with fierce competition from large mass producing competitors, particularly in the production of desks. Many of the competitors had been re-equipped with modern automated plants during the previous decade and at the time of the analysis were said to have considerable idle capacity.

The firm was situated on leasehold property in the dockland of London. Top management consisted of one of the founders and his son. The son had joined the firm during the previous two years, having spent the first twelve years of his working life in civil engineering.

Marketing of the products was the responsibility of the top management.

(a) Unstructured interviews with owner/managers

There were two owner/managers of the firm, the chairman and his son.

The chairman

The chairman saw the broad objectives of the firm as being:

(i) To survive as a family firm.

(ii) To be a source of interest for himself.

(iii) To be a source of income for his family.

(iv) To be a source of income for long serving employees.

His son

(i) To survive.

(ii) To provide an adequate source of income for himself.

(iii) To provide an adequate return on investment for shareholders.

(iv) To be a vehicle for the expression of his managerial talents.

(b) Unstructured interviews with other participants

Because of the ill health of the other founder it was not possible to interview him. Discussion with his nephew indicated that the uncle's view's as to the objectives of the firm were:

(i) To survive as a family firm.

(ii) To be a source of income for his family.

(c) The interaction of views

There was consensus between the participants as to the aims the firm should be attempting to achieve. The only area of potential conflict seemed likely to arise if the son decided that the firm should move to other premises which did not meet the older employees requirements.

(d) The firm's objectives

The firm's broad objectives were therefore considered to be:

Financial objectives

(i) To survive.

(ii) To be a source of income for the chairman and his son.

(iii) To return an adequate return on investment.

(iv) To be a source of income for long serving employees.

Other objectives

(v) To continue as a family firm.

(vi) To be a vehicle for the utilization of the son's managerial talents.

(vii) To be a source of interest for the chairman.

(e) The unfulfilled objectives

Financial objectives

As the schedule of financial information indicates the firm had £36,562 in share capital and retained earnings as at 31st March 1975 and at that date was achieving the

objective of economic survival.

With directors' remuneration totalling £16,060 for the year ended 31st March 1975 and with no reduction since that date the firm is achieving the objective of providing an income for the chairman and his son.

Verbal enquiries indicated to the researcher that long serving employees were receiving incomes above the level of the industry and therefore the firm was achieving the objective of being a source of income for the long serving employees.

However, as the financial schedule indicates that the firm only achieved a before-tax return on investment of 4% for the year ended 31st March 1975. As bank deposit interest for the same period was above 4% this return on investment cannot be regarded as "adequate". Although no financial results had been prepared after 31st March 1975, informed guesses by management indicated that there had been no improvement up to the date of the researcher's analysis.

Other objectives

At the time of the analysis by the researcher the firm was meeting all its non-financial objectives.

(f) The diagnosis

The major causes of the firm failing to meet the financial objective of an "adequate return on investment" were considered to be:

(i) The reduction in local government expenditure.

There is little doubt that the general economic

conditions had a considerable effect on the financial performance of the firm. The firm was faced with very steep increases in the cost of raw material and labour and the firm was unable to pass all the increases on to their customers. Furthermore the management considered that the quantity of goods purchased from the industry was substantially reduced during 1974/75.

(ii) The firm's reliance on one type of customer. Because the firm was engaged in marketing and manufacturing to only one sector of the English economy it was subject to considerable stress when problems occurred in the market.

(iii) Poor plant layout and obsolete equipment. Although the researcher was not an expert in production it was obvious that the layout of the plant was very poor with excessive handling of materials. In much of the factory the ceiling was so low that a fork lift truck was unable to operate. Coupled with this was the very low investment by the firm over the years prior to the analysis in modern equipment. The result was that much of the equipment was obsolete.

(iv) Possible sale of goods at a loss as a result of no costing system, no analysis of sales and inadequate managerial accounting. The firm had no costing system, made no attempt

to analyse sales by product. The firm had virtually no management accounting and at the time of the researcher's visit in June 1976 the last financial result available to management was for the year ended 31st March 1975. The result was that it was impossible to determine if products were making a contribution towards overheads and profits. It appeared probable that products were being sold that made a negative contribution.

(g) <u>The future</u>

Although at the time of the researcher's visits the firm was achieving most of its objectives, the future for the firm appeared far from bright and there was a real possibility that the firm would not survive.

Part of the reason lay in the weaknesses already commented on, but in addition there were a number of problems likely to upset the future of the firm. The major ones were:

(i) The premises.

Although the layout of the premises was poor the premises did have the advantage that the rental being paid was nominal (at £500 per annum). The reason for this was that the lease signed in 1955 was for a fixed rental and at that time there were no buildings on the property. However on the last day of the researcher's visit the firm received a letter from its

landlord informing them that the duration of the lease had expired, that the new rental was to be £15,000 per annum and that under the terms of the lease all buildings erected by the tenant (book value £11,450) were now the property of the landlord.

The results of these matters, if accepted by the firm, would have been that the firm was likely to suffer sizeable losses in the future, that shareholders' funds would be reduced by the value of leasehold improvements to £25,112 and that borrowing from external sources would have been increased from 54% of gross assets to 63%.

(ii) Capital transfer tax.

Because of the age of the founders it appeared probable that the firm would suffer from the impact of capital transfer tax on the death of the two founders. Although the firm would not be responsible for the tax it was likely that the firm would be affected by the resulting illiquidity of a major shareholder.

(iii) Management succession.

While the problem of managerial succession had been partly overcome by the son's entry into the firm, a major problem still existed. Apart from the son all top management and most of the middle management were of an age that they would need to be replaced in the near future.

(iv) Lack of planning coupled with the conservative nature of the founders.

Many of the problems discussed earlier may have been overcome had the firm been adequately planned and had the founders been less conservative.

(h) The needs of the firm

Based on the diagnosis of the unfulfilled objectives and the assessment of the future of the firm it was considered that the major needs of the firm were:

(i) An economic study of the future of the firm considering all the alternative action available including:

- Changing premises
- Diversification of product market
- Voluntary liquidation.

(ii) A detailed plan based on the economic study.

If, as appears likely, the firm would continue, the firm would need to:

(iii) Re-equip with modern plant

(iv) Install an adequate costing system

(v) Institute an adequate management reporting system

(vi) Plan the retirement of the older director.

(vii) Institute an estate planning scheme.

(viii) Recruit new younger managers.

(i) The need for advice

Based on the needs of the firm it was considered that the firm needed advice in the following subjects:

(i) Preparation of a company plan

(ii) Budgeting

(iii) Selection of a site

(iv) The acquisition of plant

(v) Plant layout

(vi) Costing systems

(vii) Management reporting

(viii) Retirement of the older director

(ix) Estate planning

(x) Recruitment of managers

(xi) The development and marketing of new products.

If the firm did decide to move there would have been an extra need for advice on

(xii) The problem of long serving employees.

It was considered that the needs for advice on budgeting, preparation of a company plan, periodic reporting, and the selection of a site were critical and that the need for advice on a costing system, diversification and estate planning were urgent.

TABLE M3.1 FINANCIAL RESULTS IN RESPECT OF THE YEARS ENDED 31ST MARCH

	1973	1974	1975
Net profit before tax	11,055	12,626	1,313
Less			
Corporation tax	4,233	4,590	1,568
NET PROFIT AFTER TAX	£ 6,822	£ 8,036	(£ 255)

Assets and Liabilities as at 31st March

Current Assets			
Stock	16,266	26,662	25,088
Debtors	39,608	34,327	30,665
Other	44	11,004	437
	55,919	71,993	57,899
Less			
Current Liabilities	48,811	58,874	43,497
	7,108	13,119	14,402
Leasehold Improvements	12,550	12,000	11,450
Fixed Assets	10,523	12,398	10,710
	£ 30,181	£ 37,517	£ 36,562

Turnover in 1975 is known to have been approximately £200,000.

Net profit has been struck after charging:

	1973	1974	1975
Rent	500	500	500
Directors' remuneration	14,000	15,000	16,060

Ratios

Return on investment - Before tax	37%	34%	4%
Return on investment - After tax	23%	21%	(1%)
Current ratio	1.15	1.22	1.33
Gearing	62% : 38%	61% : 39%	54% : 46%
Net profit on sales			(0.13%)
Stock as % Sales			13%
Debtors in days			55 days

FIRM A1

AGED MATERIAL INTENSIVE

CORK MERCHANT

General description

The firm was formed in the early nineteenth century and was involved in the importation, branding and cleaning of wine corks. Since formation the firm had been owned by the one family and at the time of the analysis the firm was being managed by the fourth and fifth generations.

Most of the world's cork trees grow in Portugal and the vast bulk of cork used by the wine industry in the United Kingdom is imported direct from Portugal.

At the time of the analysis the main customers of the cork merchant were English firms engaged in the bottling of imported wine. There had been a steady contraction in the number of customers being served by the firm partly because an increasing number of wine bottlers were purchasing corks direct from Portugal and partly as a result of the amalgamation of many of the British wine bottling firms.

In addition the reduction in the total quantity of wine being drunk in the United Kingdom over the previous three years was considered by management to have had a material effect on the quantity of cork sold by the industry.

During the year before the analysis there had been great uncertainty about the future of the cork growing industry in Portugal because of the political instability

of that country but management of the cork importer considered that the situation was returning to normal with the emergence of parliamentary democracy.

The cork merchant occupied premises in south London which it rented from a partnership of shareholders at a rental about half that of comparable rentals for the area.

Top management consisted of two members of the family (an uncle and nephew) and an employee director.

(a) Unstructured interviews with the owner/managers

The owner/managers were:

The chairman (Uncle)

The managing director (Nephew).

The chairman

The chairman considered that the broad objectives of the firm should be:

(i) To survive as a family firm.

(ii) To earn an "adequate" income for the shareholders.

(iii) To be a source of income for the directors.

(iv) To be a centre of unity for the family.

His nephew

The managing director considered that his uncle's views were correct but felt that there was an urgent need to diversify from being a one product firm.

(b) An unstructured interview with a participant

The only other person who appeared to have a material effect on the decision making process was the employee director. His view of the basic objectives the firm

should be striving to achieve were identical to his chairman except that he considered that the firm would need to diversify.

(c) The interaction between participants' views

There was unanimity between the participants as to the broad objectives the firm should strive to achieve except for the question of the need and speed with which the firm should diversify. The differences as to diversification appeared to be overcome by the chairman and his nephew agreeing somewhat reluctantly that the firm would gradually diversify.

(d) The firm's objectives

The firm's broad objectives were therefore considered to be:

Financial objectives

(i) To survive.

(ii) To return an adequate return on investment to the shareholders.

(iii) To be a source of income for the directors.

Other objectives

(iv) To continue as a family firm.

(v) To be a centre of unity for the family.

(vi) To gradually diversify from the firm's dependence on one product.

(e) The unfulfilled objectives

Financial objectives

As the schedule of financial information indicates the book value of the firm's net assets was £61,715 at 31st December 1975 and at that date the firm was achieving the objective of economic survival.

Remuneration paid and payable to directors for the year ended 31st December 1975 totalled £25,676 and was divided between the three executive directors. Based on this figure and the views of the directors expressed to the researcher, it was considered that the firm was achieving the objective of being a source of income to the directors.

The return on investments was considered to be adequate.

Other objectives

The firm was achieving the objectives of continuing to be a family firm and being a centre of unity for the family.

However discussions with the executives indicated that very slow progress was being made with the diversification objective.

(f) The diagnosis

It was considered that the cause of the firm failing to achieve satisfactory progress with the achievement of the diversification programme was that insufficient support was being given to the managing director by his chairman.

(g) The future

With the correct decisions the firm appeared likely to have a promising future. Nevertheless, the firm did have the following problems.

(i) The contracting market.

As already explained the number of customers for the firm's product was slowly contracting and as the directors were aware there was a need for some form of diversification away from being a one product firm.

(ii) Management succession.

Although the managing director was only in his thirties there was a management succession problem because his uncle was in his late seventies and the other employee director was approaching retirement.

(iii) The family.

It was probable that with the death of the uncle his descendants would be less and less identified with the firm. None of his children were interested in being employed in the firm. While this trend seemed to be unavoidable it did clash with the objective of the firm being a centre of family unity and in addition may cause problems for the future management.

(h) The needs of the firm

Based on the diagnosis of the unfulfilled objectives and the assessment of the firm's future it was considered

that the major needs of the firm were:

(i) To diversify from their dependence on one product.

(ii) To recruit younger management.

(iii) To plan the retirement of the uncle.

(iv) To overcome the problems of the increasing division of the family shareholding.

(i) <u>The need for advice</u>

Based on the needs of the firm set out above it was considered that the firm needed advice on the following subjects:

(i) The developing and marketing of new products.

(ii) The recruitment of managers.

(iii) The retirement of the uncle.

(iv) The shareholding by the family.

It was not considered that any of these needs for advice were critical or urgent.

TABLE A1.1 FINANCIAL RESULTS FOR THE YEARS ENDED 31ST DECEMBER

		1973	1974	1975
Sales		288,184	351,172	275,313
Less				
Materials	180,455	216,772	157,833	
Direct Wages	21,288	25,757	22,147	
Factory expenses	1,266	1,090	1,379	
		203,009	243,619	181,359
Gross profit		85,174	107,553	93,953
Sundry income		606	583	708
		85,780	108,136	94,661
Less				
Overhead expenses after taking account of Rent	1,525	2,662	1,945	
Directors' remuneration	21,577	26,446	25,676	
		67,852	78,054	82,085
Net profit before tax		17,926	30,082	12,576
Less				
Taxation		8,100	14,620	6,571
NET PROFIT		£ 9,829	£ 15,462	£ 6,005
Assets and liabilities as at 31st December				
Current Assets				
Stock		44,044	54,284	35,738
Debtors and bills		86,718	78,428	48,236
Cash		10,773	15,798	22,656
		141,535	148,510	106,630
Less				
Current liabilities				
Creditors	80,516	72,943	38,517	
Current tax due	11,896	9,855	9,191	
Dividend due	3,600	4,500	3,150	
Overdraft	-	2,225	-	
		96,012	89,523	50,858
		45,523	58,987	55,772
Fixed assets		9,386	12,304	15,055
		54,909	71,291	70,827
Less				
Taxation		7,000	12,411	9,112
		£ 47,909	£ 58,880	£ 61,715

RATIOS

Return on investment	1973	1974	1975
As per accounts			
Before tax	37%	51%	20%
After tax	21%	26%	10%
At commercial rental			
Before tax	30%	47%	16%
Variable expenses to sales			
Materials	63%	62%	57%
Factory direct labour	7%	7%	8%
Current ratio	1.47	1.66	2.00
Gearing ratio			
External borrowing to external funds	68% : 32%	63% : 37%	48% : 52%
Average debtors	109 days	80 days	66 days
Stock turnover to sales	6.54	6.47	7.70

FIRM A2

AGED LABOUR INTENSIVE

CURTAIN MAKER

General description

The firm was formed in 1924 to manufacture curtains. The firm was established in a southern suburb of London in the home of the founder.

At the time of the analysis the firm employed three full time curtain makers, seventeen part time curtain makers, one male cutter, two fitters, a secretary and a managing director.

The firm manufactured curtains from material supplied by the firm's customers. They operated at the expensive section of the market, manufacturing many of the curtains used in stately homes and other exclusive locations. Their customers consisted of the major furnishing contractors or "high class" department stores.

The managing director was a man who had been employed in the industry before purchasing his interest in the firm. He was 59 at the time of the analysis and had recently undergone surgery for carcinoma of the bladder.

The firm recruited staff from the local area. It was noticeable that the average age of the staff was over forty with two of the curtain makers being over seventy.

(a) Unstructured interview with the owner/manager

The only owner/manager of the firm was the managing

director. Because of his illness he was uncertain as to his future in the firm and this influenced his views as to the objectives of the firm.

The owner/manager saw the broad objectives of the firm as being:

(i) To survive.

(ii) To grow sufficiently to "keep up with inflation" provided the nature of the firm remained as it was.

(iii) To provide his family with the maximum income consistent with his attitude to growth.

(iv) To continue to produce high quality curtains.

(b) Unstructured interview with another participant

The only other participant who took part in the decision making was the other shareholder. He played a very minor role in the firm and saw the basic objective of the firm as being to earn a satisfactory return on his initial investment.

(c) The interaction of the participants' views

The relationship between the two shareholders was that of two close friends, one who ran the firm (the owner/manager) and the other who took the attitude that provided the firm remained profitable he would not interfere with the running of the firm.

(d) The firm's objectives

Based on the unstructured interviews and the assessment

of the interaction between the participants' views, it was considered that the basic objectives of the firm were:

Financial

(i) To survive.

(ii) To grow just sufficiently to keep up with inflation.

(iii) To maximize income to the owner/manager provided that the maximization was consistent with the "growth" objective.

(iv) To earn a satisfactory return on shareholders' investments.

Others

(v) To continue to produce high quality curtains.

(e) The unfulfilled objectives

For tax reasons the remuneration of the shareholders was paid as earned rather than unearned income and therefore the accounts needed to be adjusted before any meaningful analysis could be made.

With share capital and reserves totalling only £3,579 at 31st December 1975 unless the directors' loans were regarded as part of the shareholders' funds the capital was insufficient to provide a secure base for the firm's survival. However, the directors all regard the loans as part of the share capital and based on this assumption the sum of £18,687 at 31st December 1975 was adequate.

During the years ended 31st December 1973 to 1975

sales rose by 22%, net contribution by 21% but overheads other than directors' remuneration rose by 71%. The result was that directors' remuneration and net profit before tax dropped by 5%. During this period inflation was in excess of the 22% increase in sales experienced by the firm. Therefore the objective of maintaining growth "to keep up with inflation" was not achieved whether one measured growth by sales, net contribution or directors' remuneration and net profit.

The managing director had received a net income in excess of £8,000 for the previous three years and he considered that this level of remuneration was the maximum which could be reasonably expected having regard to the constraints imposed by other objectives.

Although the adjusted return on investment had dropped from 26% in 1973 to 21% in 1975 the return was regarded as satisfactory by the researcher and by the two shareholders.

Of the four financial objectives at the time of the analysis it was considered that other than the "growth" objective all the objectives were being achieved.

The question of whether the firm was achieving the objective of producing quality curtains involved a judgment which was beyond the ability of the researcher but from the list of outstanding orders from firms such as Maples and Libertys it appeared that the objective was being achieved.

(f) The diagnosis

As already explained the firm failed to achieve the growth objective set by the managing director and the total of net profit and directors' remuneration actually dropped from £11,437 in 1973 to £10,848.

The immediate reasons for this were the failure of sales to "keep up with inflation" and the steep increase in overheads experienced by the firm. Yet during this period the firm made no real attempt to increase its customers or substantially increase the quantity of sales per customer because the firm did not have, nor had it been able to recruit, sufficient skilled labour capable of producing the quality of production required by the firm.

The firm had also failed to take sufficient account of the increases in overheads when setting prices. While labour had continued to be approximately 50% of sales, overheads (apart from directors' remuneration) had increased from approximately 14% of sales in 1973 to approximately 19% of sales in 1975.

(g) The future

The firm was fairly secure at the time of the analysis, but its future was far from certain. Apart from the weaknesses already mentioned there were a number of problems that were likely to upset the firm's achievement of its objectives in the future. The major ones were:

(i) Management succession.

With the ill health of the managing director the need for future management was critical. The owner/manager was anxious to employ a younger manager but had little idea how to go about finding a suitable person.

(ii) Death of shareholder.

Because of the method of funding the firm through loans repayable on demand from shareholders, the death of a shareholder would be a major problem for the firm.

In addition because the shares of the company were held equally by the two shareholders the death of a shareholder could upset the future of the firm.

(iii) Age of employees.

Although the forewoman of the work room and her assistant were in their twenties, the ages of a number of operators were such that they were likely to have only a few more years working life. With the lack of skilled workers available to replace them the problem of even keeping up production was likely to be serious.

(iv) The premises.

Because the factory was situated in an area which had been zoned residential the firm was not allowed to make any alterations or additions to the exterior of their buildings. At the time of the analysis there was no idle space available and if expansion of the work-

room was needed in the future this would involve the firm in additional or substitute premises.

(h) The needs of the firm

Based on the diagnosis of the unfulfilled objectives and the assessment of the firm's future it was considered that the major needs of the firm were:

(i) To recruit additional full time skilled labour.

(ii) To recruit and train a younger manager.

(iii) To consider the impact of the death of a share-holder on the firm.

(iv) To review pricing procedures to ensure that all increases in overheads are accounted for in price increases.

(v) To plan for the future expansion of the premises of the firm.

(vi) To plan the retirement of older employees.

(vii) To plan the retirement of the owner/manager.

(i) The need for advice

It was considered that the firm required advice in all of the needs mentioned previously, that the need for advice on estate planning was critical and that the needs for advice on pricing and costing, recruitment of new management, retirement of owner/manager and to recruit labour were urgent.

TABLE A2.1 FINANCIAL RESULTS FOR THE YEARS ENDED 31ST DECEMBER

	1973	1974	1975
Sales (000)	51	53	62
Direct labour (£000)	25	23	30
Materials (£000)	7	8	9
Contribution (£000)	32	31	39
	19	22	23
Overheads (£000)	18	21	23
Net Profit (£)	547	557	131
Corporation tax	110	-	-
Net profit after tax	£ 437	£ 557	£ 131
Directors' remuneration	£ 11,000	£ 9,500	£ 10,717
Directors' remuneration plus net profit before tax	£ 11,437	£10,057	£ 10,848
Assets and liabilities as at 31st December			
Fixed assets	4,019	3,967	4,212
Current assets			
Stock	799	724	1,013
Debtors	5,616	10,040	11,494
Cash	12,607	4,921	2,696
Deposit	-	4,050	4,179
	£ 19,022	£ 19,735	£ 19,382
Current liabilities			
Creditors	5,197	4,588	4,913
Corporation tax	117	114	-
Directors' loans	14,818	15,558	15,108
	20,132	20,260	20,021
	1,110	525	639
	£ 2,909	£ 3,442	£ 3,579
Directors' loans with capital and reserves	£17,727	£16,083	£18,687

Ratios

Return on investment	1973	1974	1975
As per accounts Before tax	19%	16%	4%
Adjusted before tax to take account of			
(i) High directors' remuneration Decreased from actual to £7,000			
(ii) Investment to include directors' loans	26%	19%	21%
Variable expenses to sales			
Material	15%	15%	15%
Labour	49%	43%	48%
Current ratio			
As per accounts	0.94	0.97	0.97
Without directors' loans	3.58	4.20	3.95
Average debtors	40 days	70 days	70 days
Gearing ratio			
As per accounts	87% : 13%	85% : 15%	85% : 15%
Directors' loans treated as shareholder funds	23% : 77%	32% : 68%	21% : 79%

FIRM A3

AGED MATERIAL/LABOUR

BRUSH MANUFACTURER

General description

The company was incorporated in 1942 and at the time of the analysis was in the third generation of the founding family. The firm was owned and controlled by one individual who had spent much of his adult life working for the firm. At the time of the analysis he was in his fifties.

The firm manufactured and sold brushes based on imported natural bristles. It had originally concentrated on paint brushes but over the years had diversified into all types of brushes and brooms. Customers could be divided into three groups - hardware stores, government departments and other brush manufacturers.

After World War II there was considerable reduction in the number of brush makers (estimated to have been reduced from 400 to less than 50 firms) as a result of the emergence of several large mechanized firms. The firm being analysed had survived as a result of producing specialist, high quality, small batch products. Even so its staff had fallen from thirty employees to eighteen employees in just over three years. The firm had also moved from being largely manufacturing to the marketing of products of other manufacturers as well as their own products.

At the time of the analysis the firm was situated in leased premises in south London. The lease had ten years to run.

(a) The unstructured interview with the owner/manager

The owner/manager considered that the basic objectives of the firm were:

(i) To remain as a "one man" firm.

(ii) To provide an income to the owner/manager of about £10,000 for up to ten years.

(iii) To reduce the manufacturing to a minor activity of the firm.

(iv) To cease trading in about ten years.

(b) Unstructured interviews with other participants

The personal characteristics of the owner/manager were such that other than his wife (who shared his views but took no part in the firm), no one else played any part in the decision making process of the firm.

(c) The interaction of views

The result was that no interaction between participants took place and the owner/manager's views were the firm's objectives.

(d) The firm's objectives

The basic objectives of the firm were considered to be:

Financial objectives

(i) To provide an income to the owner/manager of about £10,000 per annum for up to ten years.

Other objectives

(ii) To remain a "one man" firm.

(iii) To reduce manufacturing to a minor activity.

(iv) To cease trading in about ten years.

(e) The fulfilment of the objectives

Financial

As the financial results shown in Table 1 indicate the firm was achieving the objective of earning £10,000 for the owner/manager.

Other

The other objectives of remaining a "one man" firm and reducing manufacturing were being achieved at the time of the analysis. Manufactured goods accounted for approximately 30% of sales in 1975 compared with over 70% in 1973.

The objective of ceasing to trade in about ten years can only be achieved in the future.

(f) The future

While the firm was achieving all of its objectives at the time of the analysis there was no certainty that it would do so in the future.

As the analysis of the accounts showed, the return on investment was reducing and there was a real danger that the market for natural bristled brushes would not be

able to support the firm for the ten years.

Because of the owner's intention to close the firm in about ten years, short-term solutions to the problem were needed.

One possible solution would have been to move, because although the firm paid a low rent for the area, the insurance (at £5,000 p.a.) was extremely high. It was felt that there could be a saving of £3,000 p.a. from this move.

Because of the low margins and the low stockturnover of manufactured goods the continual reduction in manufacturing and staff appeared to be the correct action.

There appeared to be no impediment to the firm ceasing to trade in about ten years.

(g) The needs of the firm

Because of the competence of the owner/manager and the nature of the firm's objectives the firm had very few needs.

The only major needs were to evaluate the possibility of the firm moving to new premises, to arrange shareholding so that when the firm ceased trading the minimum capital gains tax would be paid.

(h) The need for advice

It was considered that the firm needed advice on

(i) The location of alternative premises and the evaluation of the impact of moving.

(ii) Planning to reduce capital gains tax to a minimum.

None of the needs for advice were considered to be critical or urgent.

TABLE A3.1 FINANCIAL RESULTS FOR YEARS ENDED 30TH SEPTEMBER

	1973	1974	1975
Sales	*	152,477	174,479
Less			
Material	97,174	113,457	
Labour	20,489	20,460	
		117,663	133,916
Gross Profit		34,814	40,563
Less			
Overheads+		30,771	36,982
Net profit before tax	4,200	4,043	3,581
Less			
Corporation tax	1,450	1,949	1,388
Net Profit	£ 2,750	£ 2,094	£ 2,193

* The detailed accounts for 1973 have been lost. Sales were about £140,000.

\+ Overheads for 1975 include director's salary £8,000, other salaries £14,692 (1974 £8,000 and £11,973).

Balance sheets as at 30th September

Fixed Assets	3,743	2,759	3,189
Current Assets			
Stock	27,013	41,300	34,832
Debtors	30,191	24,769	30,822
Corporation tax refund	-	-	-
Cash at bank	3,865	131	3,146
	61,069	66,200	70,278
Less			
Current liabilities			
Creditors	26,108	26,999	27,926
Corporation tax	2,237	-	3,136
	28,345	26,999	31,062
	32,724	39,201	39,216
	36,467	41,960	42,405
Less			
Deferred tax	-	3,427	1,679
	£ 36,467	£ 38,533	£ 40,726

Ratios

	1973	1974	1975
Return on investment			
Before tax	12%	10%	9%
Variable expenses to sales			
Material		64%	65%
Labour (direct)		13%	12%
Gross Profit %		22.8%	23.2%
Current ratio	2.15	2.45	2.26
Debtors - day	80 days	58 days	73 days
Stock turnover - times p.a.		2.35	3.26

APPENDIX G

EXTRACT FROM SOLOMONS' *PROSPECTUS FOR A PROFESSION*

EXTRACT FROM SOLOMONS' *PROSPECTUS FOR A PROFESSION*

Size of Office	2-20									
Ranking	Not Ranked									
Activity	%	%	%	%	%	%	%	%	%	%
Accounting for trusts and estates	76.9	-	-	-	3.3	3.3	3.3	6.6	6.6	-
Audits of public companies	93.4	-	-	-	3.3	3.3	-	-	-	-
Audits other than public companies	6.6	30.2	16.7	6.6	10.0	10.0	13.3	6.6	-	-
Directorships	63.4	6.6	-	3.3	-	10.0	3.3	-	-	13.4
Estate planning	70.3	3.3	3.3	-	-	6.6	3.3	3.3	3.3	6.6
Financial advisory services	40.2	13.3	3.3	6.6	10.0	-	20.0	3.3	-	3.3
General accountancy services	6.6	36.9	13.3	13.3	3.3	23.3	-	3.3	-	-
Incomplete records	10.0	26.9	20.0	16.6	13.3	6.6	-	-	3.3	3.3
Insolvencies, liquidations and receiverships	70.1	-	-	-	10.0	-	6.6	-	-	13.3
Investigations	86.8	-	-	-	-	-	3.3	3.3	3.3	3.3
Systems design and installation	83.5	3.3	-	-	-	3.3	6.6	3.3	-	-
Taxation advice - companies	16.7	10.0	3.3	20.0	23.5	10.0	6.6	3.3	3.3	3.3
Taxation advice - individuals	6.6	16.6	20.1	30.2	10.0	6.6	3.3	6.6	-	-
Non-chargeable time:										
General office administration	30.2	6.6	10.0	-	-	-	10.0	13.3	13.3	16.6
Staff training	50.3	3.3	-	-	-	-	6.6	16.6	16.6	16.6

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