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Financial Management

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WEB VERSION: INTRODUCTION

The Lloyds Bank/TSB-sponsored series of small business management reports commenced in 1992, and concluded in 2009. In total, 53 reports were published over a period of 17 years.

Our target audience comprised the owner-managers of independent small businesses, typically employing fewer than 50, and based in mainland UK.

The series originated from a longitudinal study of small business management, undertaken by the Polytechnic of Central London (now University of Westminster), and culminating in: *The Management of Success in 'Growth Corridor' Small Firms*, (Stanworth, Purdy & Kirby, Small Business Research Trust, 1992).

THEMES

The themes were wide-ranging – including such as entrepreneurship, work & stress, employment strategies, and the environment – a full list is shown overleaf.

INSIGHT

In addition to asking questions and supplying the respondents with a range of answer options, the corresponding questionnaire was included as an appendix to each report so that readers would know exactly what questions had been put to respondents.

We also sought qualitative information – in the form of verbatim comments about the key theme – to help elaborate on whatever related challenges respondents felt they were facing at the time.

Finally, the findings are primarily intended to be indicative rather than definitive – partly due to the sample size, which is, on average, 111 for the 2003-09 reports.

PUBLISHING FORMAT

The reports were published in hard copy form, obtainable via subscription. Initially

by the Small Business Research Trust, and from 2003, by the Small Enterprise Research Team (SERTeam), both research charities based at the Open University.

Regrettably, SERTeam ceased operating in 2009, and so in 2010 the authors felt that the more recent reports would find wider interest if they were made freely available in Acrobat format via the Internet – especially with the UK economy set for a protracted journey out of recession, and with the government in turn refocusing on smaller businesses to aid the recovery.

It is worth mentioning that the series commenced as the UK economy emerged from the early 1990s recession.

In 2015, the earlier reports were also converted (1993 to 2003), with the full series made available at Kingston University: <http://business.kingston.ac.uk/sbrc>

SUPPORTING INFORMATION (WWW)

In later years – as the world-wide-web developed and an increasing number of sources of information became more readily available – suggestions for online sources of related material were included.

N.B. For reports 2003 onwards - where successfully validated, the web links (URLs) were enabled in 2009. And in the case of many invalid web links, an alternative was offered, but not where the organisation appeared defunct and an obvious replacement was not traced.

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University of Westminster**
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Kingston University**
<http://business.kingston.ac.uk/sbrc>

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1993 (Vol.1)

- 1 Surviving The RecessionFebruary 1993
- 2 Using Your TimeJune 1993
- 3 Management Style September 1993
- 4 Financial ManagementDecember 1993

1994 (Vol.2)

- 1 Purchasing March 1994
- 2 Quality Standards & BS 5750June 1994
- 3 Management Succession.....August 1994
- 4 Customers & Competitors . November 1994

1995 (Vol.3)

- 1 Information Technology..... March 1995
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- 4 Pricing Policies..... November 1995

1996 (Vol.4)

- 1 Training March 1996
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- 3 Financial Management September 1996
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1997/8 (Vol.5)

- 1 'Europe' & Small Businesses ... March 1997
- 2 Employee Recruitment.....July 1997
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1998/9 (Vol.6)

- 1 Entrepreneurship..... May 1998
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1999/2000 (Vol.7)

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- 4 Exit Routes..... March 2000

2000/01 (Vol.8)

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- 3 Transport & GovernmentDecember 2000
- 4 Government & RegulationsApril 2001

2001/02 (Vol.9)

- 1 Marketing & Sales.....July 2001
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- 3 Health Issues January 2002
- 4 Premises.....April 2002

2002 (Vol.10)

- 1 Networking in BusinessAugust 2002
- 2 The EuroDecember 2002

Lloyds TSB & Research Team
Small Business Management Report
ISSN 1478-7679

- 3 Crime Against Small Firms June 2003

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Small Enterprise Research Report
ISSN 1742-9773 No.2 (Vol.1) onwards

2003-04 (Vol.1)

- 1 Small Firms And PoliticsOctober 2003
- 2 Pensions February 2004
- 3 Work-Life Balance..... July 2004

2004-05 (Vol.2)

- 1 Education & EnterpriseOctober 2004
- 2 Made in Britain February 2005
- 3 Management & Gender Differences..... July 2005

2006 (Vol.3)

- 1 Local or Global ?.....January 2006
- 2 Managing IT May 2006
- 3 Networking in Business September 2006

2006-07 (Vol.4)

- 1 Owner-Manager Flexible Working..... December 2006
- 2 The Ageing Workforce..... April 2007
- 3 Travel & Transportation..... August 2007

2008-09 (Vol.5)

- 1 The London 2012 Olympic And Paralympic Games..... April 2008
- 2 Competition: Small Firms Under Pressure.....January 2009

WEB VERSION PUBLISHING

<http://business.kingston.ac.uk/sbrc>

Certain content needed to be re-set, e.g., the figures in the earlier editions, but the report body content is intended to be identical to that in the printed original. This web version - an Acrobat document - is derived from the original DTP text and will permit searching.

LIABILITY DISCLAIMER

The information and analysis in each report is offered in good faith. However, neither the publishers, the project sponsors, nor the authors, accept any liability for losses or damages which could arise for those who choose to act upon the information or analysis contained herein. Readers tracing web references are advised to ensure they are adequately protected against virus threats.

HIGHLIGHTS

This is the fifteenth of a series of small business management reports based on surveys of a panel of small firms, mainly in manufacturing, retail/distribution and business services. The focus of this survey was on **Financial Management**. The principal findings were as follows:

- **Book-keeping** - in 45% of cases the books are kept by the owners. Even among the larger firms (20 or more employees), owners kept the books in one out of three cases. Only 13%, mostly very small firms, use an external book-keeper, the rest (42%) have their own staff book-keeper.
- **Cashflow forecasts** - at least 76% of respondents produce cashflow forecasts. One in five firms make their cashflow forecasts only once a year and 56% update them monthly or quarterly. Very profitable firms are most likely to update these forecasts on a monthly basis: there was a clear positive relationship between profitability and frequency of updating. There was no clear relationship between firm size and frequency of updating.
- **Management accounts** - at least 94% of respondents produce management accounts, 59% produce these accounts monthly while 21% produce them quarterly. Larger firms are more likely to produce monthly accounts but the relationship between accounting period frequency and profitability is weak.
- **Business plans** - at least 71% of respondents have a business plan. Less than 20% of respondents updated these plans more than once a year. There was no clear relationship between the existence of a business plan and profitability or between frequency of updating of the plan and profitability.
- **Use of financial reports** - this was mainly to help manage the business. Only 21% said that financial reports were prepared mainly at the request of their bank. The vast majority of respondents (93%) thought the time spent on reports to be well spent.
- **Time spent on reports** - 47% of respondents spent 1-5% of their time on financial reports and 16% less than one per cent of their time. Only 13% of respondents spent more than 10% of their time on financial reports (other than tax and audit).
- **Desire to learn more** - many respondents would like to know more about some aspect of financial management: 45% wanted to know more about taxation, 35% more about cashflow forecasting and financial planning. Relatively few wanted to know more about balance sheets (22%) bank account management (18%) or book-keeping (12%).
- **Scope for improvement** - the respondents seem, in general to be well aware of the importance of financial management and are not complacent: many wish to know more about this subject. The clearest scope for improvement seems to lie in cashflow forecasting and, in particular in updating forecasts more frequently.

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The Trust acknowledges the help provided by Graham Bannock & Partners Ltd, David Purdy, The Open University and The University of Westminster in designing the survey, processing data and analysing the results.

The Small Business Research Trust is particularly pleased to acknowledge the generous support provided by Lloyds Bank plc in sponsoring the research, analysis and presentation of this report. However, it is important to note that any opinions expressed in this publication are not necessarily those of Lloyds Bank plc.

MANAGEMENT ISSUES

The emphasis of our Quarterly Management Reports is on monitoring the key management problems and practices of smaller business, with an emphasis on survival and success. Accordingly, each issue of the Lloyds Bank/Small Business Research Trust Management Report addresses one or more highly topical small business management issues. In this survey we focus on ***Financial Management***.

Past surveys have covered:

1993: Vol.1

No.1 Surviving The Recession

2 Using Your Time

3 Management Style

4 Financial Management

1994: Vol.2

1 Purchasing

2 Quality Standards & BS 5750

3 Management Succession

4 Customers & Competitors

1995: Vol.3

1 Information Technology

2 Holidays

3 Company Vehicles

4 Pricing Policies

1996: Vol.4

1 Training

2 A Day in the Life

It is planned to cover the following management issues in future:

- Compliance/regulation

THE SAMPLE

This report is based on responses received from a panel of some 350 small businesses situated in the Northern, Midland and Southern regions of Britain. Respondents are predominantly small firms with fewer than 50 employees, drawn mainly from the manufacturing, business services, and retail/distribution sectors of the economy. Over half of the participating firms employ fewer than 10 people and over one-third of the firms are less than 5 years old.

RESULTS

The questionnaire completed by sample firms appears at the end of this report as an appendix. This survey was carried out during July 1996.

FINANCIAL MANAGEMENT

Most small business owners are well aware of the importance of financial management. This is clear both from the responses to the questions put to our respondents and from the additional comments made by a small proportion of them (23% added comments). Of those making comments, 35% emphasised the key role of close financial management. Typical of these comments were:

“Up-to-date financial information is the single most important requirement for controlling a business. The use of computerised accounting systems greatly facilitates this, and is a must for the owner-manager of small business.”

“(Small business owners). Must be sufficiently disciplined to regard financial management as essential, productive time and not as a rushed together tedious chore.”

“A business must know how it stands financially. How else can you hope to manage a business profitably ?”

“The recession has taught us the necessity of knowing exactly what is happening in our Company, and we now meticulously record everything. It has been a revelation and we have benefited enormously....”

Only two respondents drew attention to poor standards of financial control in (other) small firms. A firm of accountants however wrote:

“There are too many small businesses who do not appreciate the necessity for strong financial management and control until it is too late !”

One respondent made it clear that large firms are not exempt from criticism:

“..we have to liaise regularly with.. big companies who are either our Principals or Customers and it is quite evident that their own internal monitoring systems leave something to be desired..”

Late payment was mentioned by 19 per cent of those adding comments as a key issue in financial management:

“Most of the problems of financial management in small businesses are cashflow problems caused by late payment, usually by big companies and government departments.”

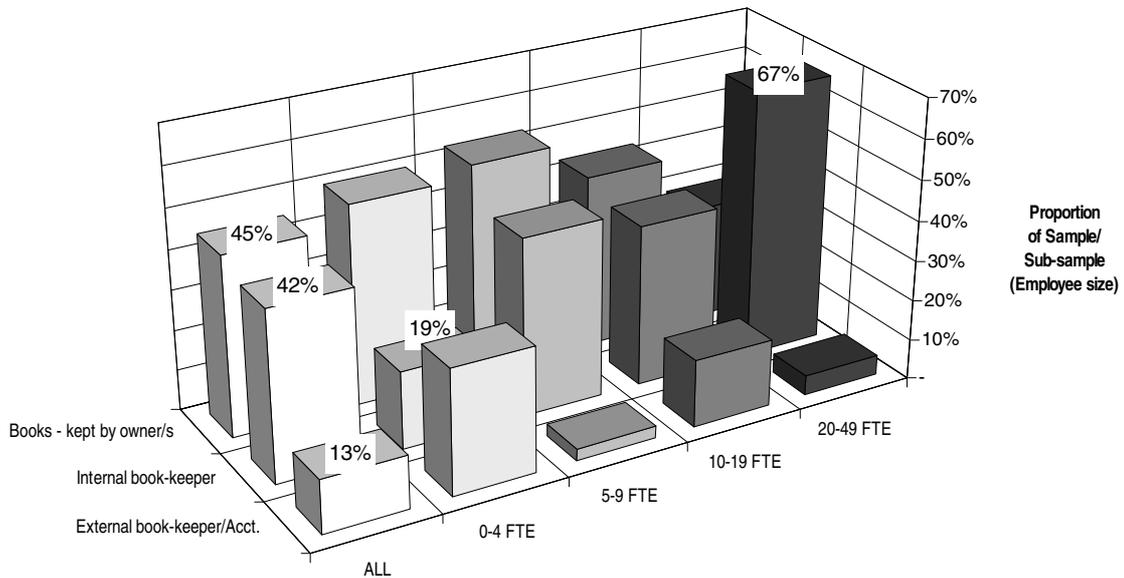
Several respondents wanted government action on late payment but there was no unanimity on the measures to be taken.

Two respondents emphasised the importance of keeping day to day financial management within the firm:

“Only one way - do-it yourself. Every outside agency has a vested interest and it's always loaded in their self assistance, not ours.”

There were two comments about the administrative burdens of the tax system and two about the role of banks. One of these referred to the inconvenience of bank branch closures and the other was praise for the “*Lloyds Bank initiative to help new client small firms with a bookkeeping and financial control system...*” Three respondents referred to a chronic lack of profitability in the construction trade.

Fig 1 - MAIN KEEPER OF BOOKS: BY EMPLOYEE SIZE

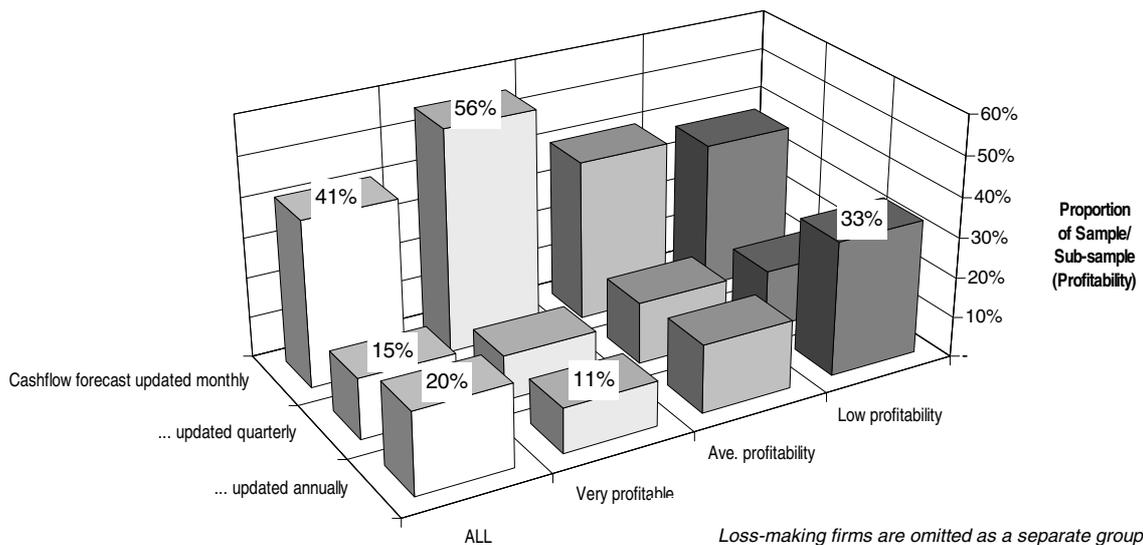


KEEPING THE BOOKS

Overall most respondents keep their own books, only 13 per cent, mostly smaller firms, use an external book-keeper.

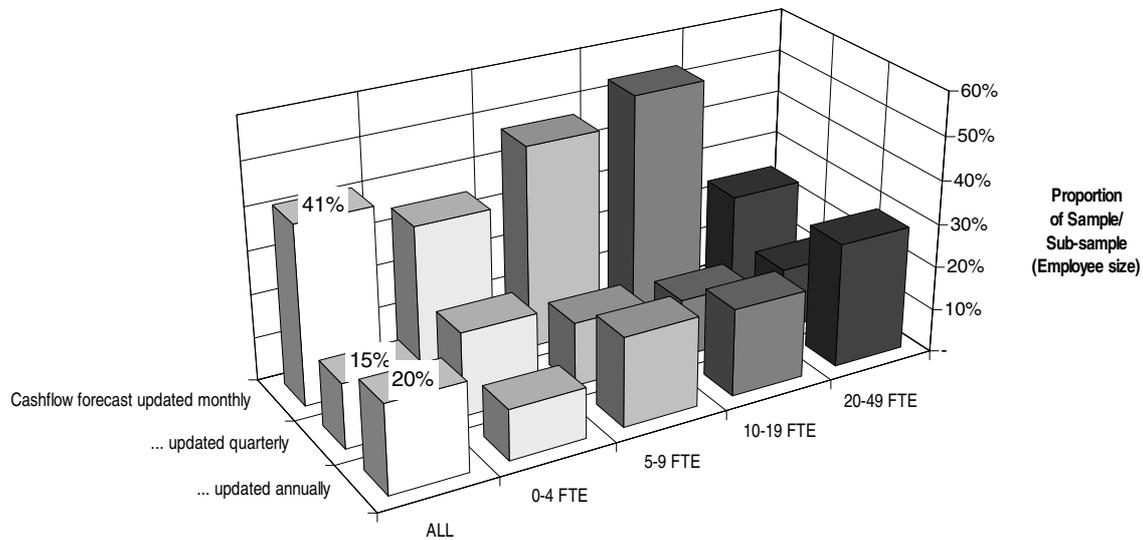
(Figure 1). The proportion of firms having an internal book-keeper increases with size - 67% for those with 20 or more employees. In approaching half of all cases (45%) the books are kept by the

Fig 2 - UPDATING OF CASH-FLOW FORECAST: BY PROFITABILITY



Loss-making firms are omitted as a separate group due to the small number of responses in that group

Fig 3 - UPDATING OF CASH-FLOW FORECAST: BY EMPLOYEE SIZE



owners, even among the larger firms in our survey (20 or more employees) owners kept the books in nearly one out of three cases.

These patterns occur in all sectors and did not differ significantly between firms of average and low profitability. Both very profitable firms and firms in loss made above average use of external book-keepers.

FINANCIAL REPORTS

At least 76 per cent of respondents produce cashflow forecasts, 71 per cent have a business plan and 94 per cent prepare management accounts. (We assume here that non respondents to the question did not produce these documents).

Frequently updated cashflow forecasts are regarded as essential in a well-run small firm by most experienced observers. Our responses show clearly that frequency of cashflow forecasting is related to profitability. Of the very profitable firms, 56 per cent updated

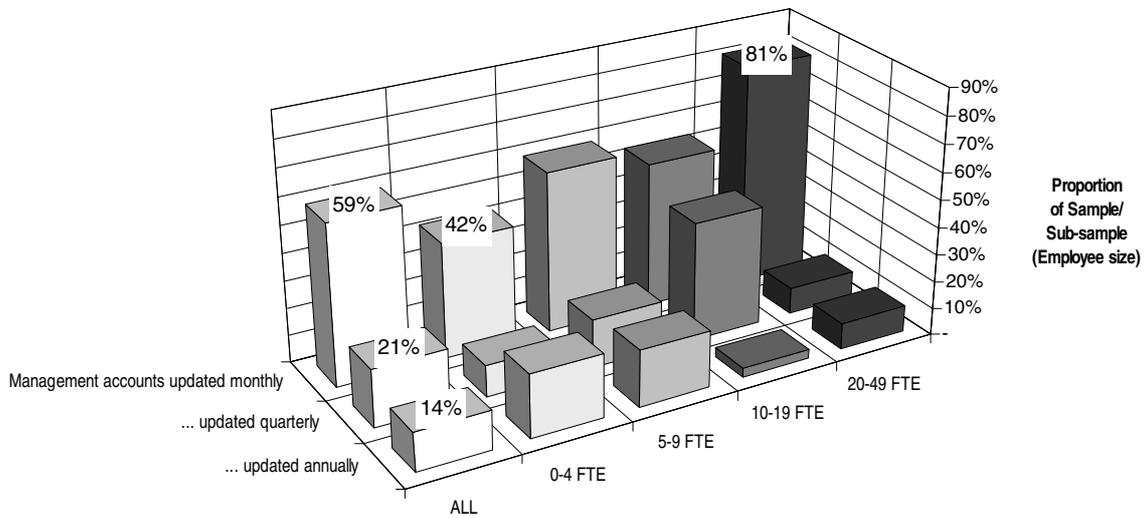
cashflow forecasts monthly while 37 per cent of firms with low profitability updated these forecasts monthly. (Figure 2). Surprisingly, one in five firms update cashflow forecasts only annually - 33% for the least profitable firms.

Figure 3 suggests that there is only a weak relationship between frequency of updating cashflow forecasts and firm size in general, perhaps because although larger firms have more finance staff they also have more stable cashflows. Larger firms in fact seem more likely to update cashflows annually than smaller ones. Over half of all respondents (56%) produce monthly or quarterly cashflow forecasts.

By contrast, larger firms are much more likely to prepare monthly management accounts though even among the smallest group (4 or fewer employees) 42% prepare monthly accounts, the average for all firm sizes being 59%. (Figure 4).

The frequency with which management accounts are updated, unlike cashflow forecasts, has only a weak relationship

Fig 4 - UPDATING OF MANAGEMENT ACCOUNTS: BY EMPLOYEE SIZE



with profitability. However, this seems to be because most firms produce management accounts fairly frequently. Eighty per cent of all respondents irrespective of profitability level produce

monthly or quarterly accounts whereas, as shown, only 56% produce cashflow forecasts as often as this.

In the nature of things, business plans do

Fig 5 - UPDATING OF BUSINESS PLAN: BY EMPLOYEE SIZE

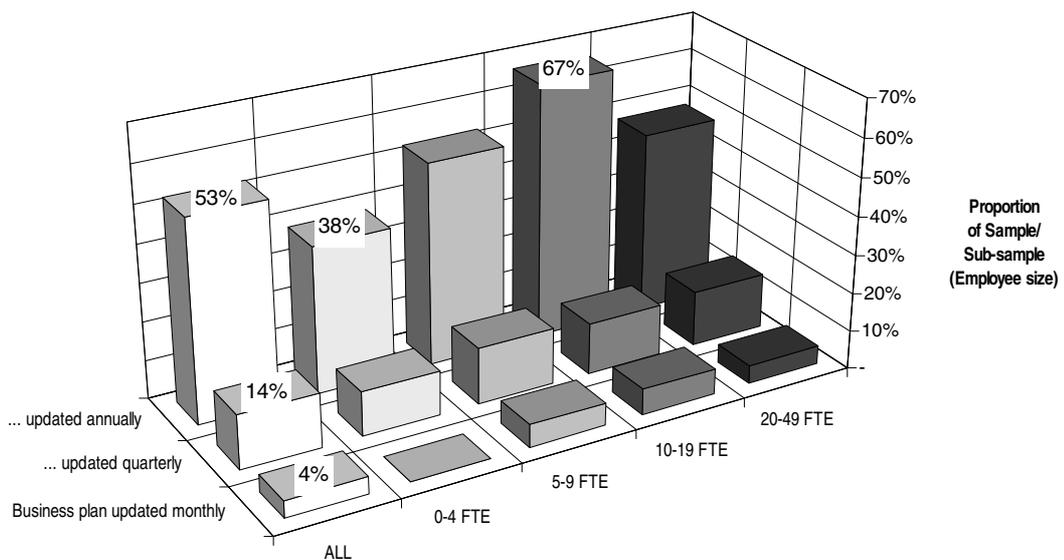
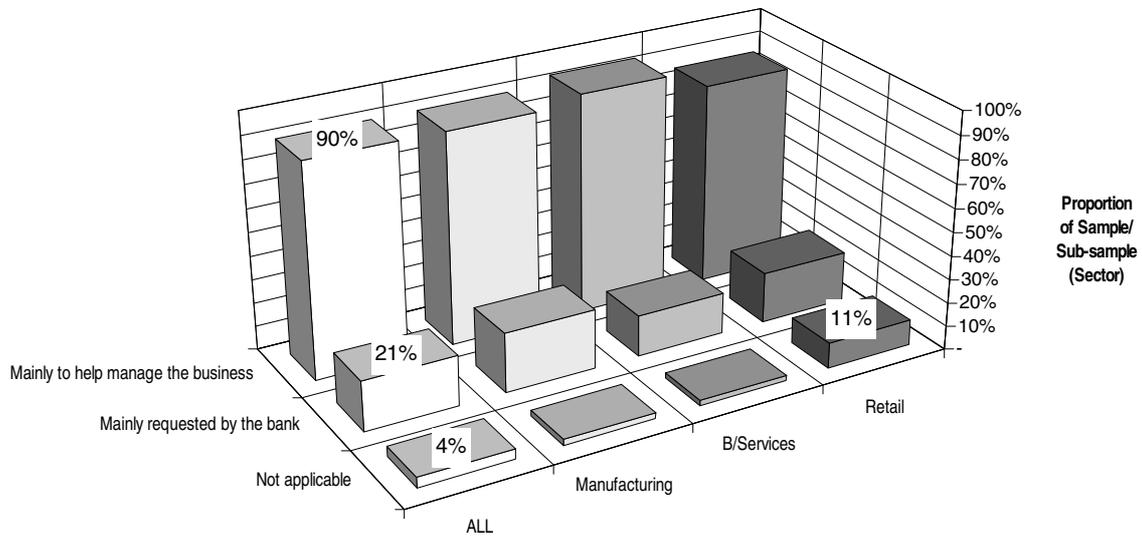


Fig 6 - PURPOSE OF FINANCIAL REPORTS PRODUCED: BY SECTOR

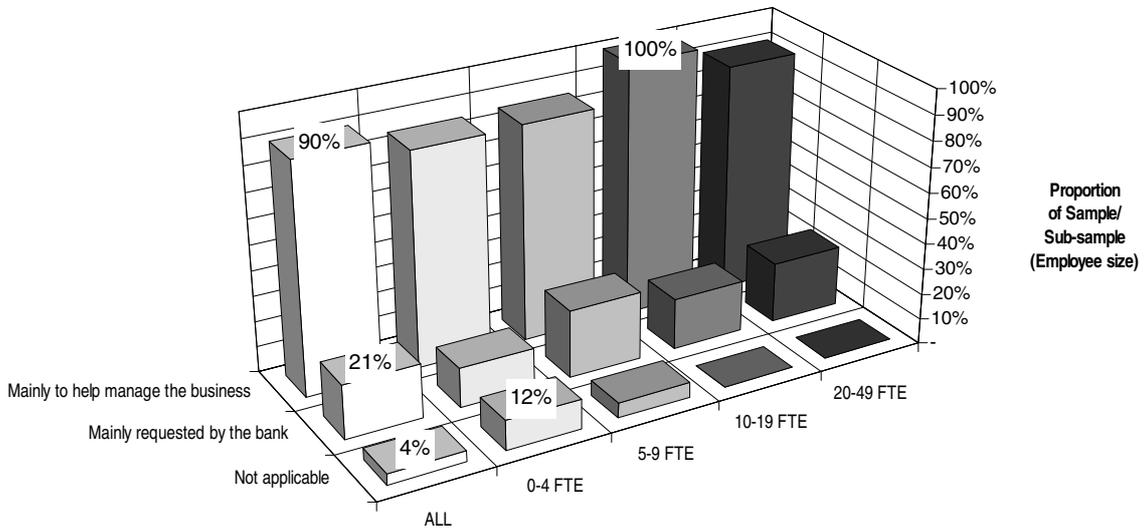


not normally need updating as frequently as cash flow or management accounts though 4% of respondents updated their plans monthly and 14% quarterly. Some 53% updated their business plans once a year. There was no clear relationship between the frequency of updating of business plans and either firm size or profitability, though the larger firms were more likely to have a business plan (**Figure 5**). The existence of a plan was not related to profitability.

All but 4% of respondents produced one or more of the three financial reports. Ninety per cent indicated that the reports were mainly to help manage the business and only 21% said they were mainly requested by the bank (these figures add to more than 100% because of multiple mentions - three sets of reports were being referred to).

Manufacturers and larger firms were more likely than others to have reports required by their bank, probably because they were more likely to have loans (**Figures 6 and 7**).

Fig 7 - PURPOSE OF FINANCIAL REPORTS PRODUCED: BY EMPLOYEE SIZE



TIME SPENT ON REPORTS AND THEIR VALUE

The most common proportion of respondents time spent on preparing

these reports was 1-5% (47% of cases), though 16% of respondents spent less than 1% of their time on this activity, 21% between 5 and 10% and 13% more than 10% of their time. Two per cent of the

Fig 8 - TIME SPENT PREPARING FINANCIAL REPORTS: BY SECTOR

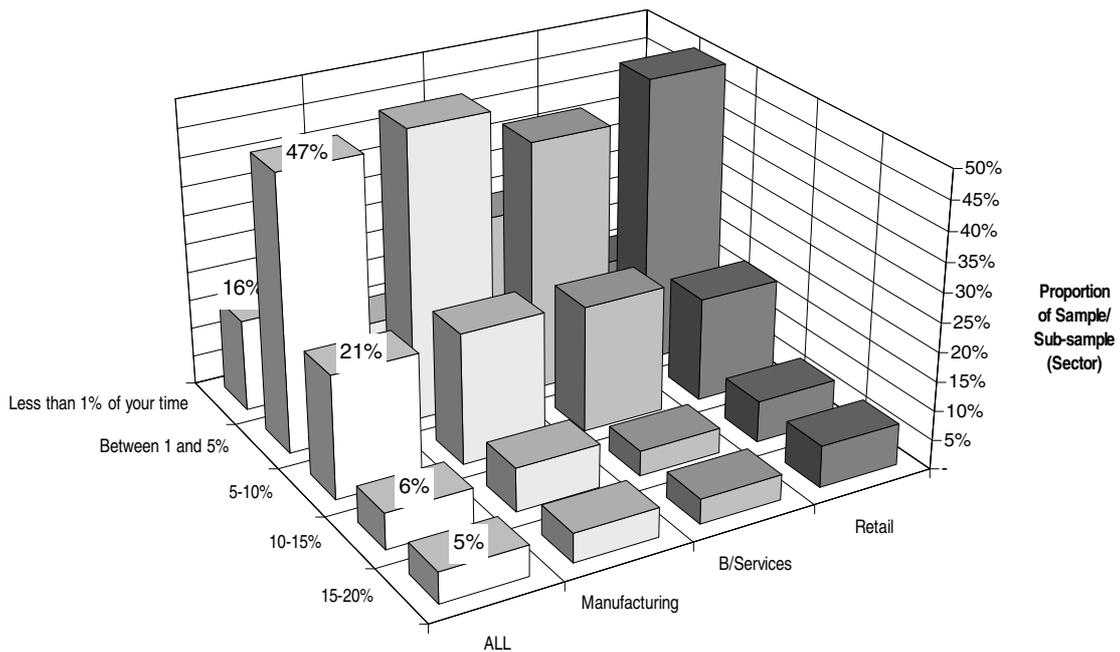
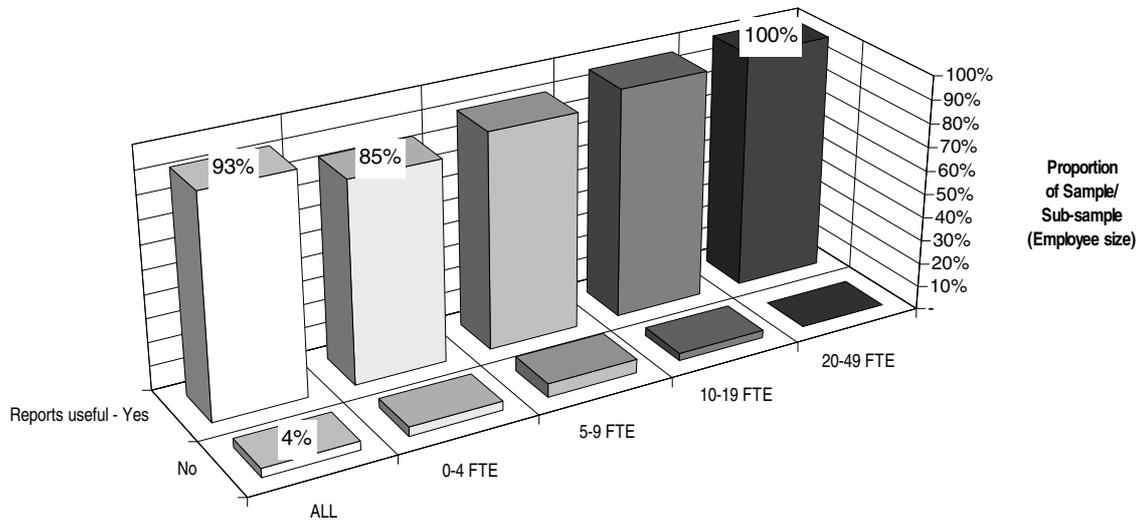


Fig 9 - USEFULNESS OF FINANCIAL REPORTS PRODUCED: BY EMPLOYEE SIZE



respondents (just two respondents) claimed to spend more than a fifth of their time on financial reporting other than tax and audit (**Figure 8**).

The vast majority (93%) thought this time well spent (**Figure 9**). This was true for all firm sizes and all activity sectors but the percentage of respondents finding reports useful was slightly higher in the more

Fig 10 - USEFULNESS OF FINANCIAL REPORTS PRODUCED: BY PROFITABILITY

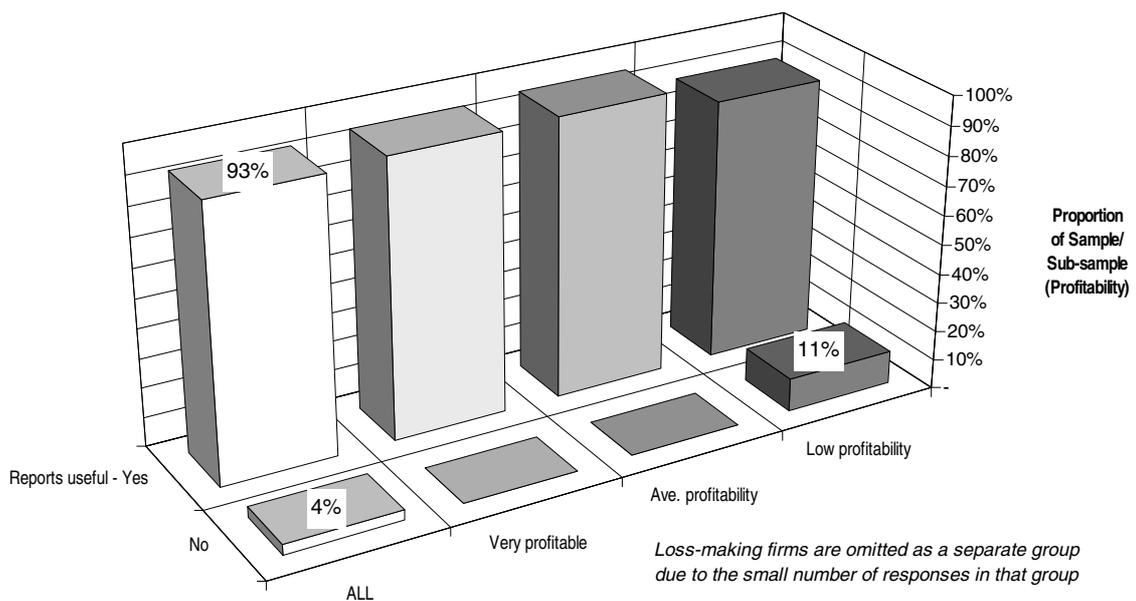
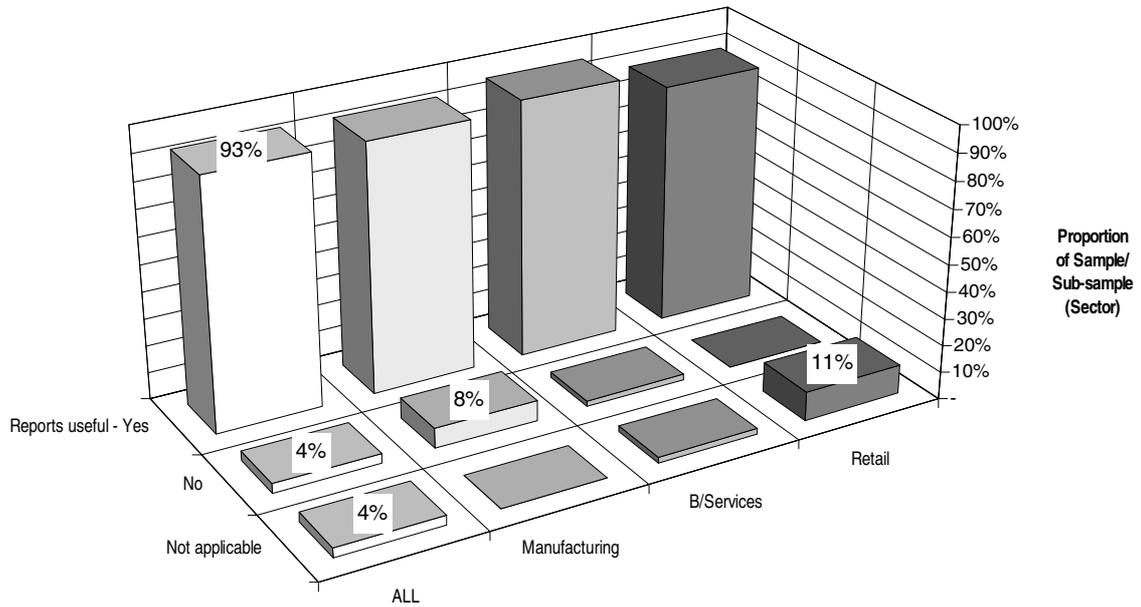
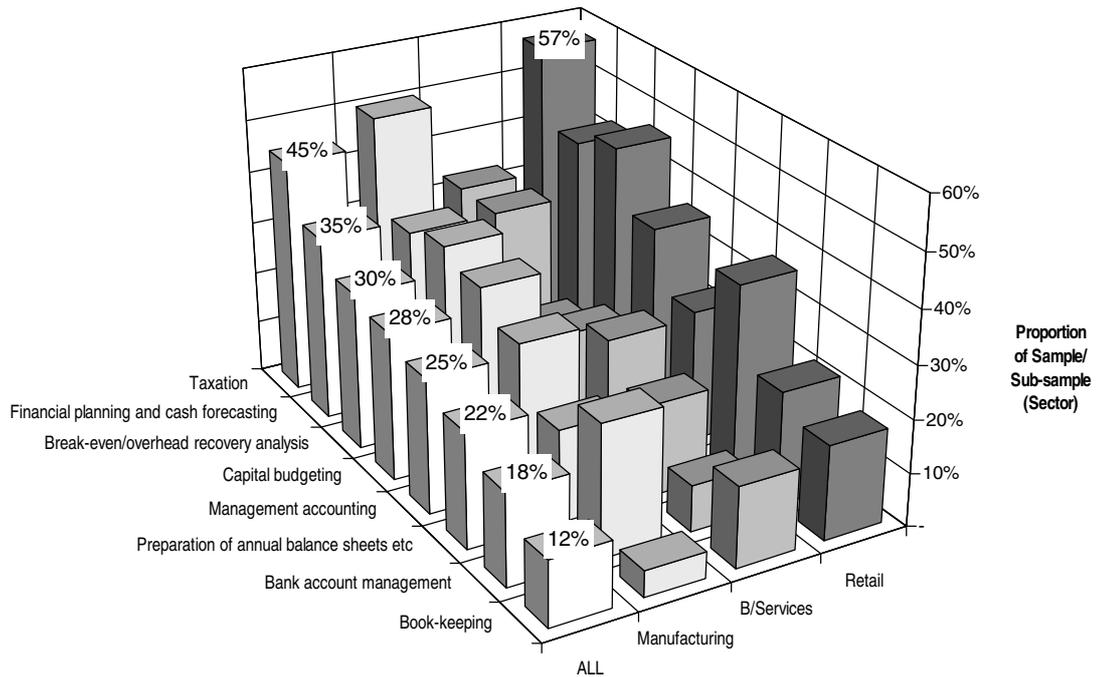


Fig 11 - USEFULNESS OF FINANCIAL REPORTS PRODUCED: BY SECTOR



profitable firms (**Figure 10**) and also rose with firm size (**Figure 9**). Retailers were most likely to indicate that the question about value was not applicable to them, for example because they did not produce reports (**Figure 11**).

Fig 12 - INTEREST IN FINANCIAL MANAGEMENT TECHNIQUES: BY SECTOR



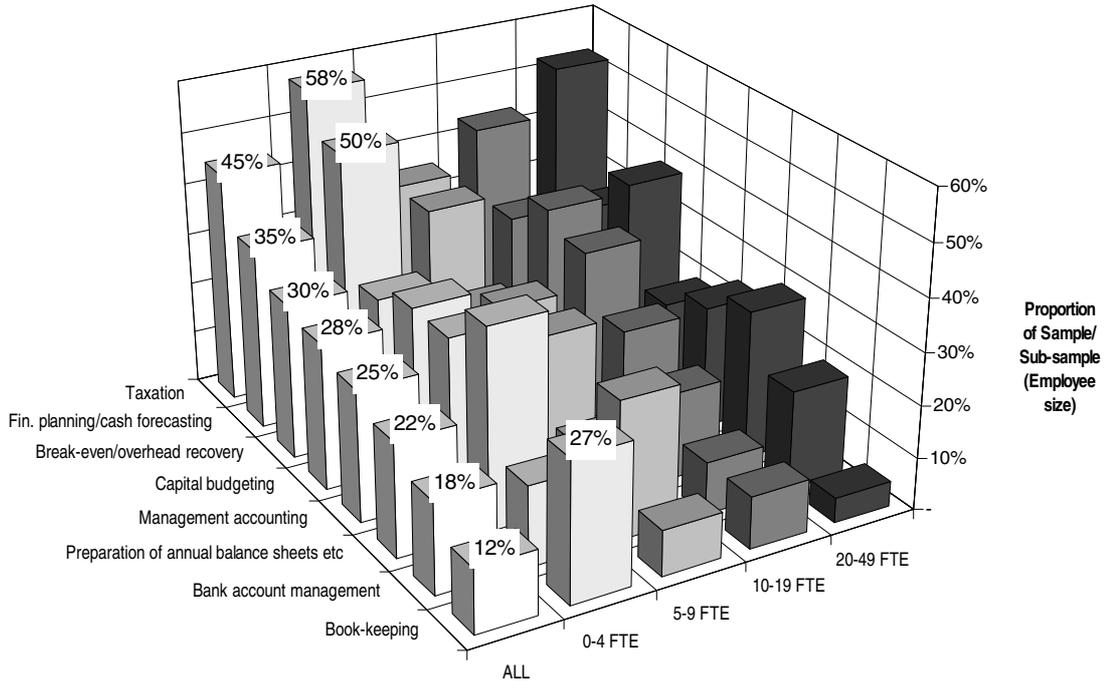
DESIRE TO LEARN MORE

Respondents were asked to identify from a list of management techniques those areas that they would personally like to know more about. Many small business owners would like to know more about some aspects of financial management.

Taxation was a clear leader: 45% of respondents would like to know more about that, 50% among manufacturing firms and 57% among retailers (**Figure 12**). Financial planning and cash forecasting came next with 35% wanting to know more, 43% among retailers. These two techniques were followed by break-even/overhead recovery analysis (30%), capital budgeting (28%) and management accounting (25%). Fewer wanted to know more about balance sheets (22%), bank account management (18%) or book-keeping (12%).

The smallest firms (0-4 employees) gave by far the highest rankings for taxation (58%) and financial planning and cash forecasting (50%) while larger firms (10-49 employees) noticeably showed a more than average interest in break-even/overhead recovery analysis (**Figure 13**).

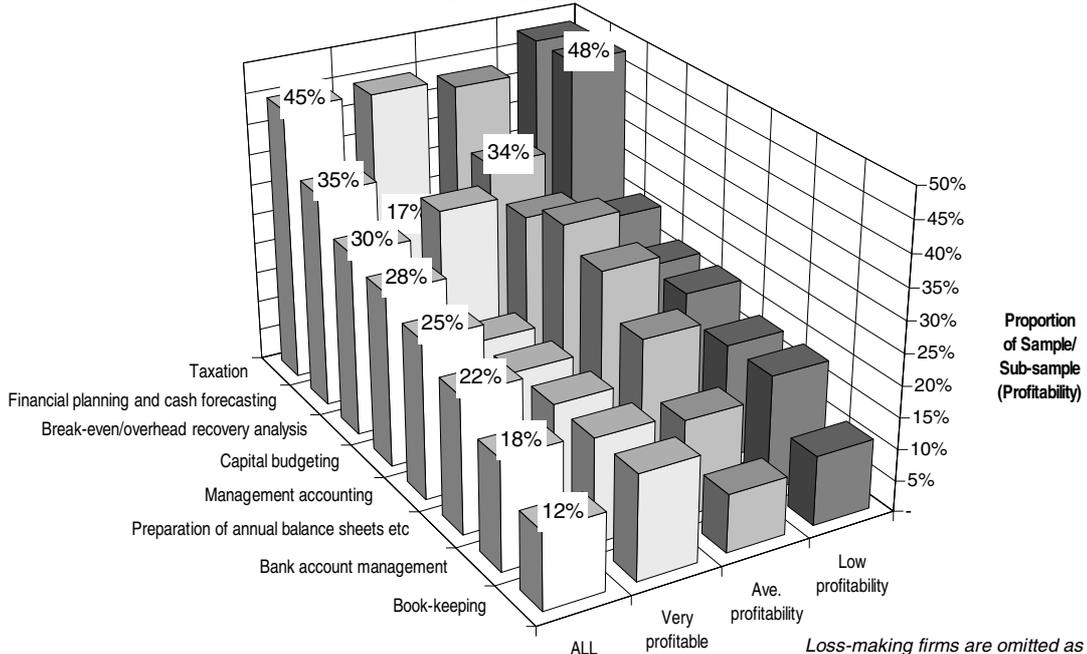
Fig 13 - INTEREST IN FINANCIAL MANAGEMENT TECHNIQUES: BY EMPLOYEE SIZE



A broadly similar proportion of respondents (45%) was interested in knowing more about taxation whether they were very profitable or of average profitability but somewhat more of the

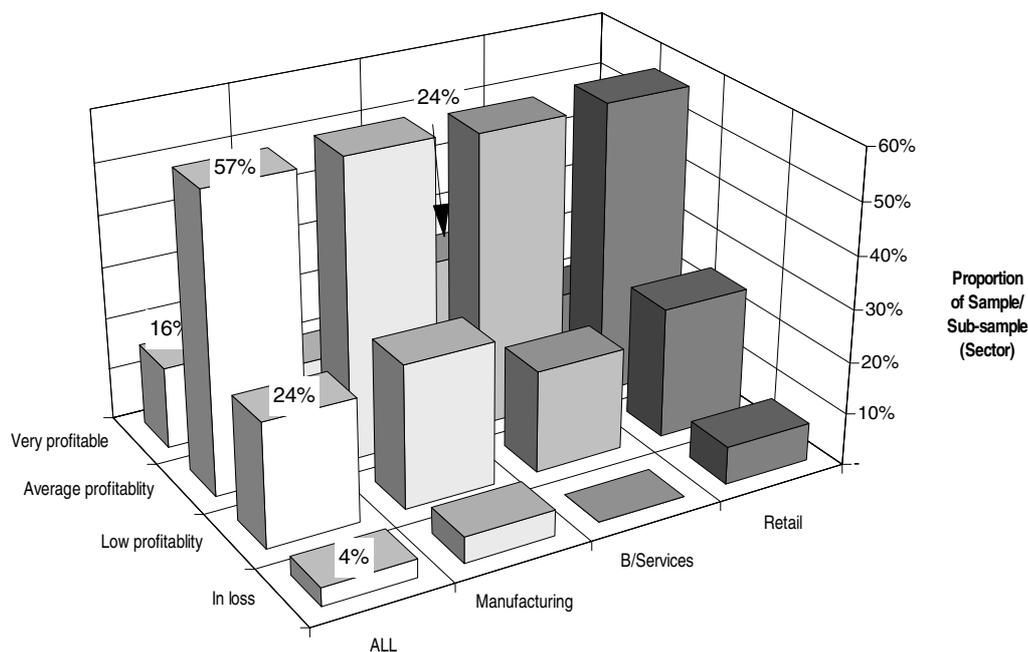
least profitable and loss making firms were interested in this subject (Figure 14). Only 17% of very profitable firms were interested in knowing more about planning and cash forecasting compared

Fig 14 - INTEREST IN FINANCIAL MANAGEMENT TECHNIQUES: BY PROFITABILITY



Loss-making firms are omitted as a separate group due to the small number of responses in that group

Fig 15 - PROFITABILITY: BY SECTOR

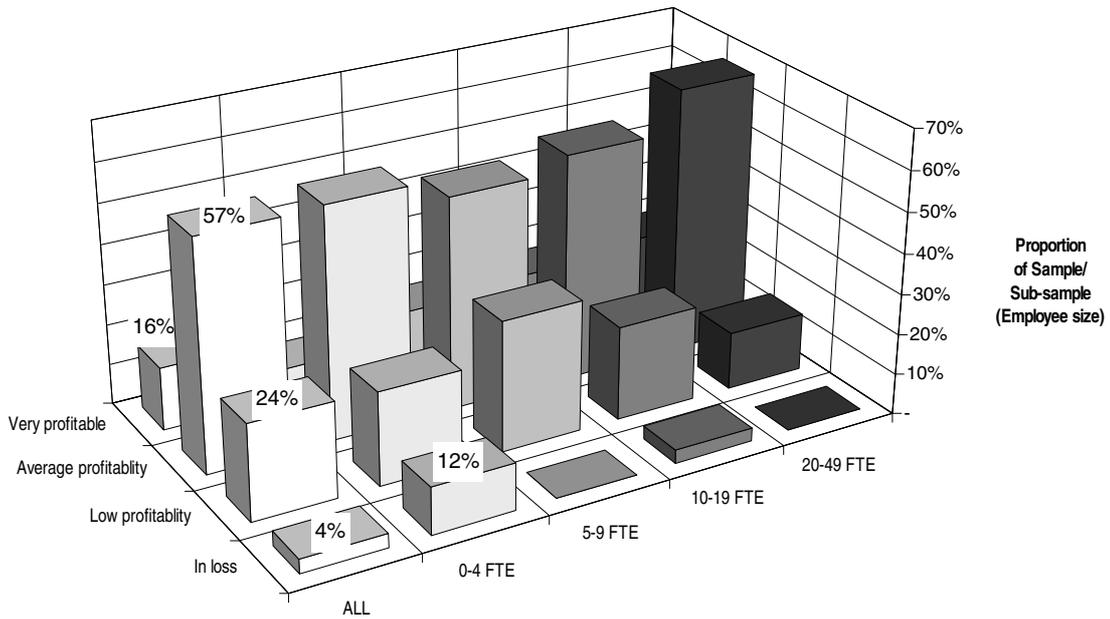


with the average of 35%. This is consistent with the fact that, as shown earlier, such firms are more likely to update their cashflow forecasts frequently. In fact, it is clear from Figure 14 that a smaller proportion of the very profitable firms were interested in capital budgeting, management accounting and balance sheet preparation than the average, probably because they are more familiar with these techniques than less profitable firms.

PROFITABILITY

Respondents were asked to classify their present profitability into four categories: very profitable (16% of all respondents); average profitability (57%); low profitability (24%) and in loss (4%). Considerably more than the average proportion (16%) of respondent firms were 'very' profitable in business services (24%) and fewer in Manufacturing (10%) and retailing (11%) (Figure 15). There was a clear tendency for average profitability to rise with firm size (Figure 16). Three of the four firms reporting losses were in the 0-4 employee size band though this firm size group accounted for only 23% of all respondents. The over 10 employee size bands included 61% of firms describing themselves as very profitable even though this size group accounted for only 47% of all respondents.

Fig 16 - PROFITABILITY: BY EMPLOYEE SIZE



CONCLUSION

Our respondents seem, in general, to be well aware of the importance of financial management and are not complacent about this subject: many wish to know more about various aspects of finance. These findings are somewhat at variance with received opinion. It also seems, contrary to the common view, that our small firms do not produce financial reports mainly for their bank but predominantly to help manage the business. It should be borne in mind that our panel is not intended to be representative of all small firms but within our sample these particular findings are remarkably similar for all activities and firm sizes.

The clearest scope for improvement seems to be in cashflow forecasting where frequency of update our survey suggests, is clearly related to profitability. Although at least 76% of respondents produce cashflow forecasts, only 56% update these forecasts monthly or quarterly and 20% make them only once a year. It seems likely that many of these firms do not have sufficiently stable cashflows to justify such infrequent reviews of their forecasts. Some 35% of respondents would like to know more about financial planning and cashflow forecasting so the will seems to be there to make improvements in these areas.

RESPONDENTS' COMMENTS

A major selection of respondents' comments is shown on the following pages.

MANUFACTURING

Computer Hardware and Software	<i>"Up-to-date financial information is the single most important requirement for controlling a business. The use of computerised accounting systems greatly facilitates this, and is a must for the owner-manager of small business."</i>
Fabrication, Welding, Machining, Special Purpose Machines	<i>"Generally find engineers unwilling to tackle financial issues effectively."</i>
Manufacturer of Laboratory Robotic Automation Systems	<i>"Small business is about owner management. As such it is about personal risk, financial and psychological (ownership goes way beyond that of assets). I feel that this is seldom understood by the financial institutions."</i>
Manufacturing	<i>"Only VATman - there is no flexibility allowed for late payers: you owe it so you pay it on time, or else."</i>
Pipe Supports for Oil Refineries, Power Stations, Processing Plants etc.	<i>"Some large companies expect small companies to accept long payment periods and prey on the fear of small companies losing business. Surely this attitude and philosophy must change. Perhaps banks should consider a role to play in this matter."</i>
Production of Plastic Mouldings	<i>"Only one way - do-it-yourself. Every outside agency has a vested interest and it's always loaded in their self-assistance, not ours."</i>
Publishing	<i>"I firmly believe, after much experience with small firms, that book-keeping and financial control is probably the single most difficult and poorly completed operation in small firms, yet probably the most important. Accountants seem to have a Victorian attitude of trying to make small firms dependent upon them. For small firms, I honestly believe "If you don't do your own day-to-day book-keeping and financial control, you shouldn't run a business - annual auditing or occasional auditing/checking by accountants (i.e. historical reviewing) is useless as a means of controlling your business." [The] Lloyds bank initiative to help new client small firms with a book-keeping and financial control system has to be the right approach. Well done Lloyds Bank !"</i>
Publishing. Trade and Leisure magazines	<i>"[Small business owners] Must be sufficiently disciplined to regard financial management as essential, productive time and not as a rushed together tedious chore."</i>
Toys/Educational Products	<i>"[There is a] Need to extend the development of equity funding."</i>

BUSINESS SERVICES

Accountancy, Audit, Tax & Management Consultancy	<i>“Every small business should have some form of financial management system to assist the proprietors with running, controlling and developing their business.”</i>
Architect	<i>“[Financial management is] A useful and essential discipline, particularly when operating within a tight overdraft facility.”</i>
Architectural Design and Project Management	<i>“It surprises me that the government feels that it is acceptable to have a construction industry on the verge of mass bankruptcy while computer companies make 30-40% profit. Also, why the state pays medical consultants (6 years full-time training) £80k p.a. when it pays architects (6 years full-time training) £30k p.a. Tinkering at the edges of Financial Management pales into insignificance.”</i>
Audit Accountancy and Taxation	<i>“[Financial management] Small businesses achieve by accident rather than design - this is OK so long as you can get away with it !”</i>
Broadcast & Corporate TV Production & Provision of Technical Facilities	<i>“Most of the problems of financial management in small businesses are cashflow problems caused by late payment, usually by big companies and government departments.”</i>
Chartered Accountants	<i>“There are too many small businesses who do not appreciate the necessity for strong financial management and control until it is too late !”</i>
International Freight Forwarding Services	<i>“A business must know how it stands financially. How else can you hope to manage a business profitably !”</i>
Management Training Courses	<i>“[A problem is the] Closing of bank branches without consideration of businesses who have accounts with those branches and the work involved for the businesses.”</i>
Microfilming Bureau Service	<i>“There should be FREE help, guidance, planning grant information, provided by [the] government sector for the growth and development of small businesses.”</i>
Secretarial Recruitment	<i>“I have a very strong opinion about government legislation over prompt payment to small businesses - it's high time a law was passed to enforce this protective measure for small businesses.”</i>
Telephone Marketing and Telephone Sales Company	<i>“As a service company, I have realised that banks and accountants although understanding the importance of service, have little understanding of day-to-day pressures placed on the OWNERS of companies.”</i>
Textile Marketing	<i>“The recession has taught us the necessity of knowing exactly what is happening in our company, and we now meticulously record everything. It has been a revelation and we have benefited enormously. But we have to liaise regularly with other big companies ... and it is quite evident that their own internal monitoring systems leave something to be desired. Do large companies know where they are, and if they do, it seems their employees do not. In spite of our efforts, our poor profitability reflects the disgraceful modus operandi of large company account settlement departments behaving badly. In our experience, those connected to the retail sector soon won't, and do not deserve to have any suppliers. Let us hope that a general election will prompt a commitment to do something about this late payment situation before all our manufacturing industry is lost...”</i>

RETAIL AND DISTRIBUTION

Electrical Distributors	<i>"In these tough trading times financial management is essential for small companies however [it is] not as exciting as trading."</i>
Hardware and Pet Store	<i>"Avoid consultants, use only professionals, i.e. bank, accountant; remember at all time that they are profit-making too !"</i>
Training of Engineering Skills	<i>"Inland Revenue do not appreciate that a large number of small businesses do not have specific personnel to deal with Inland Revenue taxation, and yet they seem to inundate us with varying paper work that include demands incorrectly calculated, numerous publications, demands for the same taxation from local office followed by the same from national office. This year my partner and I have received over 1 dozen - [they] all take time to read - some already dealt with. [There is a] Lack of communication between departments. Who pays ?"</i>

ADDENDUM - ADDITIONAL INFORMATION

As an aid to the interpretation of the various figures (histograms), we have included some further information about the firms responding to this survey. The analyses involve key variables, and **industry sector, region and employee size** are those most frequently used as they are reasonably reliable indicators and less prone to misinterpretation.

Industrial sectors - based on the descriptions supplied by respondents, each firm is coded according to the Standard Industrial Classification (SIC 1980). Firms are then grouped into manufacturing, business services, retail/distribution. From 1996 onwards, firms falling outside these 3 bands - previously classified as 'other' - are now allocated to the foregoing sector which offers the closest match.

Regions - firms are also classified according to their physical location, namely, North, Midlands and the South.

Employee size - finally, firms are placed

in bands according to the number of employees. Each part-time employee is assumed to be equivalent to 40 per cent of a full-time employee ('FTE' = full-time equivalent). All of the surveys to date have received only a small number of responses from firms with 50 or more FTE employees. These responses have been **included** in the breakdowns for the sectoral and regional analyses, but have been **excluded** as a '50+FTE' band in the **employee-size** analyses (the 'All' band in each histogram includes all usable responses regardless). This is because a percentage breakdown band based on just two or three firms may not be representative of this size of business.

DISTRIBUTION OF FIRMS

The highest concentration is in business services (40%), followed by manufacturing, see **Figure 17**.

Regionally, the predominant sector in all areas is **business services**.

Fig 17 - INDUSTRIAL SECTOR: BY REGION

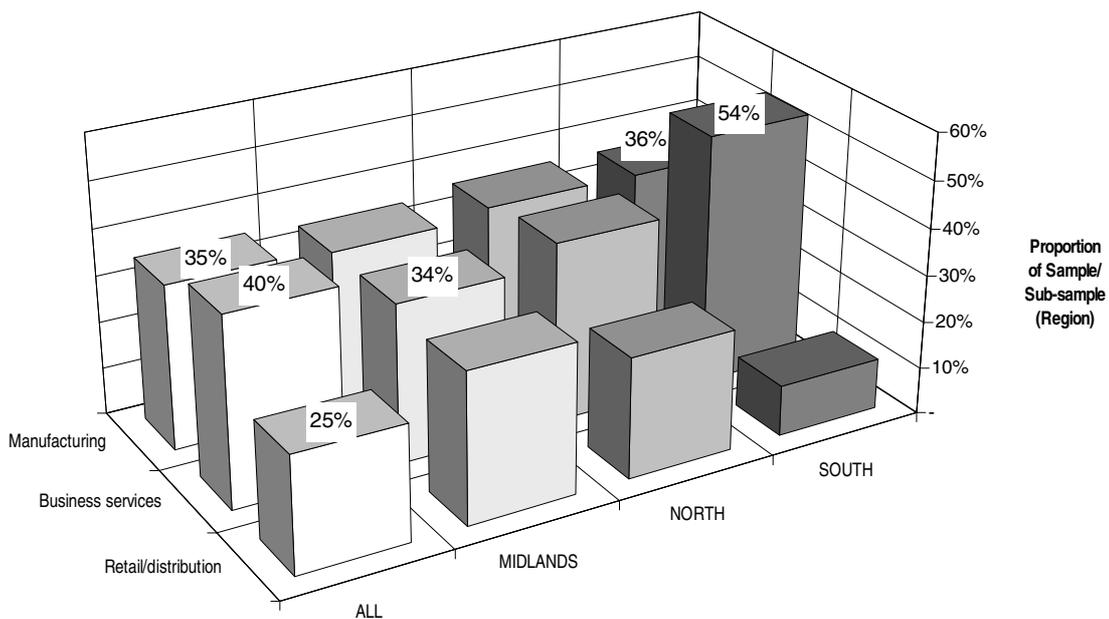
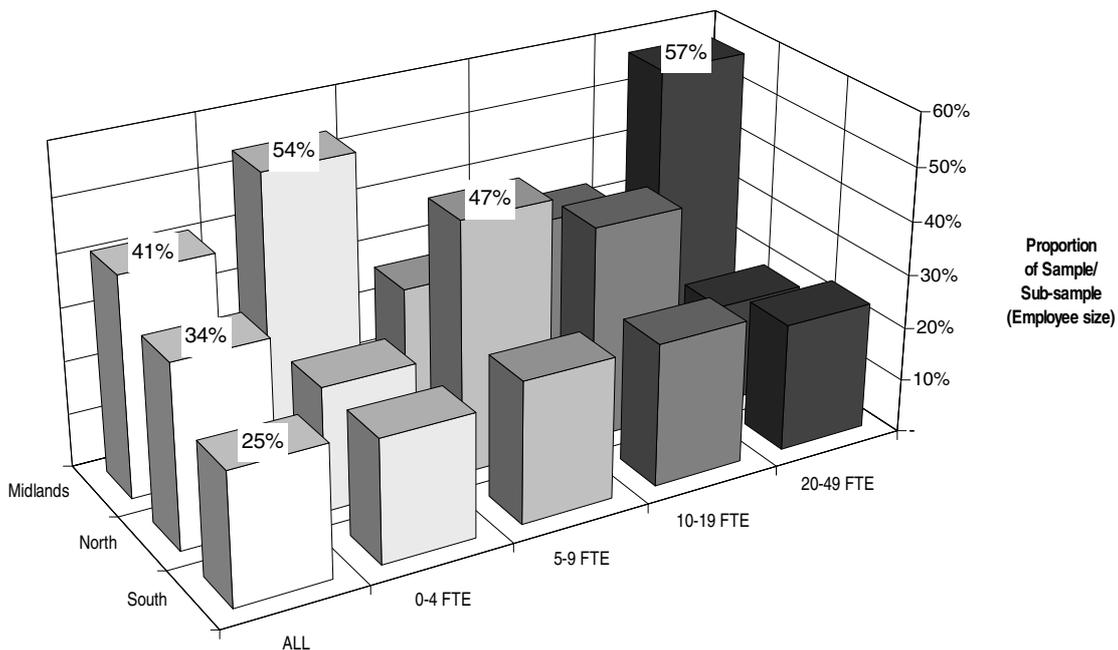


Fig 18 - REGION: BY EMPLOYEE SIZE

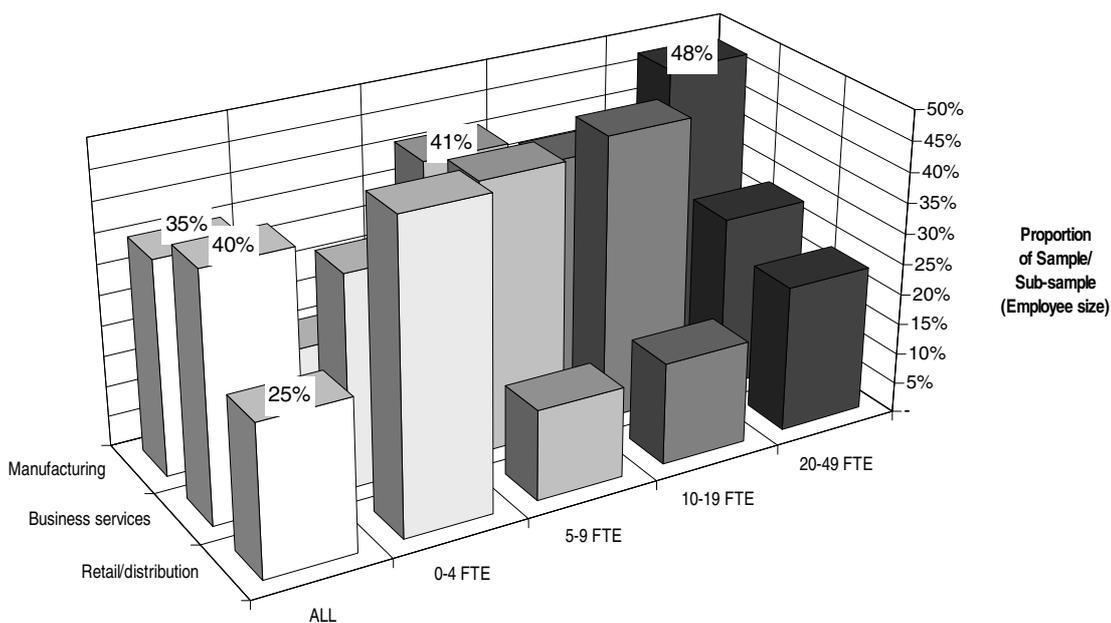


The sub-sample in the **Midlands** for this survey has 54% of the smallest businesses (see **Figure 18**).

The **Manufacturing** and **business**

services firms in the sample tend to be **larger**, in terms of employees, whereas the firms in **retailing/distribution** tend to have **fewer full-time equivalent employees** (**Figure 19**).

Fig 19 - INDUSTRIAL SECTOR: BY EMPLOYEE SIZE





Lloyds Bank

Lloyds Bank/Small Business Research Trust Quarterly Small Business Management Report - No.15

This questionnaire will take approximately 5-10 minutes to complete - most answers require only a single tick. All information received will be treated in complete confidence. **PLEASE DESPATCH AS SOON AS POSSIBLE.**

MANAGEMENT ISSUE: Financial Management

- 1** Please indicate the number of people working in your business (including yourself):
- Full-time : _____ A
- Part-time (16 hours/wk or less)..... : _____ B

- 2** Book-keeping - Who mainly keeps the books for your business ? *Just ONE ✓ only*
- The owner/s A
- OR** Internal book-keeper..... B
- OR** External book-keeper/accountant..... C

- 3** Financial reports - If you regularly produce any of the following, please indicate the highest frequency of updating ('monthly' = most frequent): *Just ONE ✓ for each report type produced*
- | | Monthly | Updated Quarterly | Annually | |
|-----------------------------|--------------------------|--------------------------|--------------------------|---|
| a) Cashflow forecast..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | A |
| b) Management accounts..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | B |
| c) Business plan..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | C |
| | 1 | 2 | 3 | |

- 4** Purpose of the above reports (Q3) - Are they: *✓ Against all which apply*
- Mainly to help manage the business A
- Mainly requested by the bank..... B
- OR** Question not applicable (e.g. no reports produced) C

- 5** Preparing the above reports (Q3) - What proportion of your time personally is spent in their preparation (ignoring annual audit or taxation work): *Just ONE ✓ only*
- Less than 1% of your time A
- Between 1 and 5%..... B
- 5 - 10% C
- 10 - 15% D
- 15 - 20% E
- 20 - 25% F
- Greater than 25% G

6

Usefulness of the reports (Q3) - Is this time well spent in your opinion ?

Just ONE ✓ only

Yes..... A

No B

OR Question not applicable (e.g. no reports produced) C

7

Financial management techniques - Please identify which of the following areas you personally would like to know more about:

Just ONE ✓ for each topic

YES NO *Not relevant to my business*

Bank account management..... A

Book-keeping B

Break-even/overhead recovery analysis C

Capital budgeting D

Financial planning and cash forecasting E

Management accounting F

Preparation of annual balance sheets etc. G

Taxation..... H

Other (Please state): I
1 2 3

8

Profitability - How profitable is your business at present ?

Just ONE ✓ only

Very profitable..... A

Average profitability B

Low profitability C

In loss D

9

Financial management - If you have any strong views about the topic, especially if you feel that any aspect is not fully appreciated by important sections of the business community (such as the government help agencies or the financial services), then please comment

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