

above between small enterprises and medium-sized enterprises. There do not seem to be statistically significant associations between classification as either a small or a medium-sized enterprise and success rate in the case of start-up financing (n=110, Cramér's V=0.059, p=0.827) or temporary working capital financing (n=326, Cramér's V=0.061, p=0.546) or permanent working capital financing (n=291, Cramér's V=0.055, p=0.648) or replacement of existing capacity financing (n=122, Cramér's V=0.084, p=0.647) or export financing (n=56, Cramér's V=0.249, p=0.176) or additional capacity financing (n=244, Cramér's V=0.148, p=0.068) or new product financing (n=91, Cramér's V=0.156, p=0.331) or research and development financing (n=57, Cramér's V=0.114, p=0.691) or business acquisition financing (n=76, Cramér's V=0.150, p=0.428) or meeting other financing needs (n=40, Cramér's V=0.106, p=0.800).

6.3.4 Financial Reporting to Financiers

This sub-section of the chapter continues consideration of the potential influence of financiers upon the financial reporting practices of respondents to the *Best Financial Practice* survey. In particular, findings are presented on actual financial reporting to finance providers by the SMEs concerned. In all, 783 enterprises indicate that they have sought external debt and/or equity finance at some stage since their formation.

The table below indicates the types of financial reporting to their financiers apparently undertaken by enterprises in the study sample (based on responses to parts of Question 34 in the survey instrument, names for the relevant nominal study variables are indicated in the table):

Table 6.4 Financial Reporting to Financiers

Financial Report (VARIABLE NAME)	Yes		No		Total	
	No.	Per Cent	No.	Per Cent	No.	Per Cent
Business plan (BUSPLFIN)	482	68.9	218	31.1	700	100.0
Future-oriented financial statements (FOSTMFIN)	465	68.2	217	31.8	682	100.0
Historical financial statements - annual (ANSTMFIN)	648	89.0	80	11.0	728	100.0
Historical financial statements - periodic (PRSTMFIN)	358	53.6	310	46.4	668	100.0

Note that business plans normally contain both historical and future-oriented financial statements, often covering several years. Future-oriented financial statements are most likely to be part of annual budgets. Periodic historical financial statements are those prepared at least quarterly. Clearly, there is an high incidence of provision of annual

historical financial statements to financiers; and future-oriented financial reporting to financiers also seems relatively commonplace.

Associations between the various forms of financial reporting to financiers identified in the previous paragraph are shown in the table below:

Table 6.5: Associated Financial Reporting to Financiers

		BUSPLFIN	FOSTMFIN	ANSTMFIN	PRSTMFIN
Phi coefficient	BUSPLFIN	1.000			
	FOSTMFIN	.466	1.000		
	ANSTMFIN	.309	.403	1.000	
	PRSTMFIN	.344	.419	.247	1.000
Statistical significance (p)	BUSPLFIN	.			
	FOSTMFIN	.000	.		
	ANSTMFIN	.000	.000	.	
	PRSTMFIN	.000	.000	.000	.
Number of enterprises	BUSPLFIN	700			
	FOSTMFIN	654	682		
	ANSTMFIN	655	664	728	
	PRSTMFIN	632	632	627	668

These associations range from weak through to moderate, and all are statistically significant. This suggests a tendency for some financiers to be reasonably demanding across the range of financial information that might be requested by them from those SMEs seeking financing support.

A series of Mann-Whitney tests suggests that a statistically significant relationship exists in the study sample between enterprise size in employment terms and provision to financiers of business plans ($n=700$, $U=44,672.000$, $p=0.001$) or future-oriented financial statements ($n=682$, $U=38,965.000$, $p<0.000$) or annual historical financial statements ($n=728$, $U=18,372.500$, $p<0.000$) or periodic historical financial statements ($n=668$, $U=38,208.000$, $p<0.000$). In each case, larger enterprises are more likely to provide the financial information indicated to their financiers. A series of Chi-Square tests indicate that a statistically significant difference exists between small enterprises and medium-sized enterprises in terms of their provision to financiers of business plans ($n=700$, $\chi^2=5.045$, $df=1$, $p=0.025$) or future-oriented financial statements ($n=682$, $\chi^2=8.577$, $df=1$, $p=0.003$) or annual historical financial statements ($n=728$, $\chi^2=4.568$, $df=1$, $p=0.033$) or periodic historical financial statements ($n=668$, $\chi^2=18.692$, $df=1$, $p<0.000$). In each case, medium-sized enterprises are more likely to provide the financial information indicated to their financiers.

It is interesting to note that, of 312 enterprises which claim to have experienced some type of external financing problem, only four report that they have been refused finance because they have submitted insufficient financial information (data for a nominal study variable INSFIND based on responses to part of Question 30 in the survey instrument). This could reflect that SMEs are generally forthcoming with financial information when applying for finance and/or, more plausibly, that lenders can ultimately insist that such information is provided. Because of the very small number of cases involved, no further description or analysis of this variable is undertaken here.

Including the four referred to in the previous paragraph, 162 respondents to the *Best Financial Practice* survey report having been asked to supply more financial information than they initially provided in support of their most recent loan application (data for a nominal study variable MOREINFO based on responses to Question 35(a) in the survey instrument). This amounts to 23.2 per cent of those who considered the question relevant to their circumstances and answered it. Curiously, a series of Chi-Square tests reveals that no statistically significant difference exists between the likelihood of being asked to provide more financial information by a potential financier and reported provision to financiers of business plans ($n=584$, $\chi^2=0.528$, $df=1$, $p=0.468$) or future-oriented financial statements ($n=574$, $\chi^2=1.217$, $df=1$, $p=0.270$) or annual historical financial statements ($n=609$, $\chi^2=1.243$, $df=1$, $p=0.265$) or periodic historical financial statements ($n=563$, $\chi^2=0.126$, $df=1$, $p=0.723$).

A Mann-Whitney test suggests that no statistically significant relationship exists in the study sample between enterprise size in employment terms and the likelihood of being asked to provide more financial information by a potential financier ($n=697$, $U=42,258.500$, $p=0.618$). Furthermore, a Chi-Square test indicates no statistically significant difference between small enterprises and medium-sized enterprises in terms of their likelihood of being asked to provide more financial information by a potential financier ($n=697$, $\chi^2=0.003$, $df=1$, $p=0.953$).

6.3.5 Financier Relationship:

This sub-section of the chapter concludes consideration of the potential influence of financiers upon the financial reporting practices of respondents to the *Best Financial Practice* survey. Findings in the previous sub-section suggest that the level of financial reporting to financiers undertaken is quite substantial. Consideration is now given to the closeness of the relationship in other respects, and to respondents' views on how well their financiers understand their businesses. The more familiar the relationship between a business and its financier, and the better the financier's grasp of the intricacies of the business, the less might be the external financial reporting required – because information asymmetry between those managing the business and the financier is less pronounced.

The closeness of the relationship beyond financial reporting that exists between businesses in the research sample and their external financiers is reflected in two study variables detailed as follows:

- Whether or not financiers have visited the factory premises of businesses they financially support is indicated by a nominal study variable VISITFIN based on responses to part of Question 34 in the survey instrument. Such visits are reported to have occurred by 88.1 per cent of those who considered the question relevant to their circumstances and answered it.
- Whether or not financiers are kept informed of significant issues by those within the businesses they financially support is indicated by a nominal study variable ISSUEFIN based on responses to part of Question 34 in the survey instrument. Such information sharing is reported to occur by 80.6 per cent of those who considered the question relevant to their circumstances and answered it.

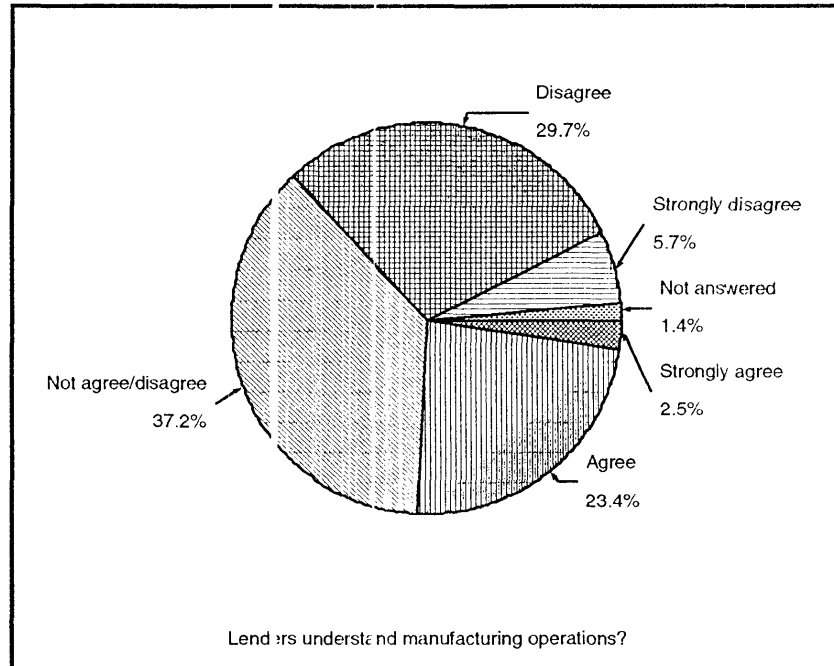
There appears to be a weak to moderate, statistically significant association between being visited by financiers and keeping them informed on significant issues ($n=689$, Phi coefficient=0.441, $p<0.000$). Together, these findings suggest that relations beyond just financial reporting do exist between respondents to the *Best Financial Practice* survey and external finance providers.

Mann-Whitney tests reveal that a statistically significant relationship exists in the study sample between enterprise size in employment terms and incidence of financier visits ($n=732$, $U=18,261.500$, $p<0.000$) or informing financiers on significant issues ($n=713$, $U=27,458.500$, $p<0.000$). Larger enterprises seem more likely to have had visits from financiers, and they are apparently more inclined to keep financiers informed on significant issues. Chi-Square tests suggest that a statistically significant difference exists between small enterprises and medium-sized enterprises in terms of the incidence of financier visits ($n=732$, $\chi^2=4.133$, $df=1$, $p=0.042$) or informing financiers on significant issues ($n=713$, $\chi^2=5.124$, $df=1$, $p=0.024$). Medium-sized enterprises appear more likely to have had visits from financiers, and they are evidently more inclined to keep financiers informed on significant issues.

While relations beyond just financial reporting appear to exist between businesses in the study sample and external finance providers, this does not necessarily imply a high degree of understanding of these manufacturers' affairs amongst their financiers. The ordinal study variable UNIDSTOPS, reflecting beliefs amongst respondents to the *Best Financial Practice* survey about whether lenders tend to have a good understanding of operational aspects (that is, operational management) of manufacturing businesses, is based on responses to part of Question 53 in the survey instrument. These beliefs in the study sample are revealed in Figure 6.25 on the next page. The modal and median response category is 'neither agree, nor disagree'. Although responses are very slightly skewed towards disagreement with the question, they reflect an essentially neutral

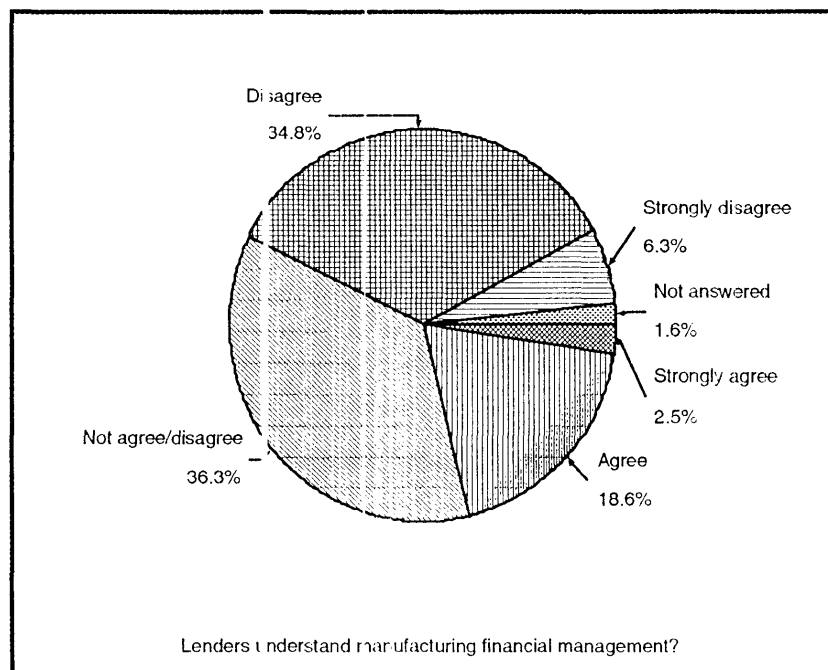
opinion amongst businesses in the study sample on financier understanding of manufacturing operations.

Figure 6.25: Financier Understanding of Manufacturing Operations



The ordinal study variable *UNDSTFIN*, reflecting beliefs amongst respondents to the *Best Financial Practice* survey about whether lenders tend to have a good understanding of financial aspects (that is, financial management) of manufacturing businesses, is based on responses to part of Question 53 in the survey instrument. These beliefs in the study sample are revealed in the figure below:

Figure 6.26: Financier Understanding of Financial Management



The modal and median response category is 'neither agree, nor disagree'. However, responses are noticeably skewed towards a negative opinion on financier understanding of financial management. There appears to be a strong, statistically significant association between beliefs on lenders' understanding of operational aspects of manufacturing businesses and beliefs on their understanding of financial aspects of such concerns ($n=1,032$, Kendall's tau $b=0.763$, $p<0.000$). Overall, the view on these matters amongst respondent SMEs seems to be somewhat unfavourable towards lenders – perhaps not an unexpected result.

Mann-Whitney tests indicate no statistically significant relationship in the study sample between the incidence of financier visits and beliefs about lenders' understanding of operational aspects of their clients' businesses ($n=728$, $U=26,142.500$, $p=0.402$) or lenders' understanding of financial aspects of their clients' businesses ($n=728$, $U=25,052.500$, $p=0.147$). Similarly, Mann-Whitney tests reveal no statistically significant relationship in the study sample between informing financiers on significant issues and beliefs about lenders' understanding of operational aspects of their clients' businesses ($n=711$, $U=36,832.000$, $p=0.227$) or lenders' understanding of financial aspects of their clients' businesses ($n=710$, $U=36,760.000$, $p=0.222$).

Kruskal-Wallis one-way analyses of variance suggest no statistically significant relationship between enterprise size in employment terms and beliefs about lenders' understanding of operational aspects of their clients' businesses ($n=1,035$, $H=2.159$, $df=4$, $p=0.706$) or lenders' understanding of financial aspects of their clients' businesses ($n=1,033$, $H=1.343$, $df=4$, $p=0.854$). Furthermore, Mann-Whitney tests indicate no statistically significant differences between small enterprises and medium-sized enterprises in terms of beliefs about lenders' understanding of operational aspects of their clients' businesses ($n=1,035$, $U=37,351.000$, $p=0.866$) or lenders' understanding of financial aspects of their clients' businesses ($n=1,033$, $U=37,384.000$, $p=0.901$).

Notwithstanding the previous evidence, amongst businesses in the study sample there appears to be no substantial dissatisfaction with the banks they use, leading to their dismissal and replacement. Only 95 respondents to the *Best Financial Practice* survey report having changed their bankers within the preceding two years (data for a nominal study variable CHGBANK based on responses to Question 33(a) in the survey instrument). This amounts to just 10.2 per cent of those who answered the question. Chi-Square tests reveal that no statistically significant difference exists between the likelihood of changing bankers and the incidence of financier visits ($n=656$, $\chi^2=1.301$, $df=1$, $p=0.254$) or informing financiers on significant issues ($n=637$, $\chi^2=0.787$, $df=1$, $p=0.375$). Furthermore, Mann-Whitney tests suggest no statistically significant relationship in the study sample between the likelihood of changing bankers and beliefs about lenders' understanding of operational aspects of their clients' businesses ($n=917$, $U=37,892.000$, $p=0.620$) or lenders' understanding of financial aspects of their clients' businesses ($n=915$, $U=38,244.000$, $p=0.760$).

A Mann-Whitney test indicates that median enterprise size in the study sample does not vary with statistical significance between businesses that have changed bankers and those which have not ($n=930$, $U=39,156.000$, $p=0.832$). A Chi-Square test comparing the proportions of businesses that have and have not changed bankers amongst small enterprises and medium-sized enterprises in the study sample reveals that the proportions are not dissimilar ($n=930$, $\chi^2=1.368$, $df=1$, $p=0.242$).

6.3.6 Internal Financial Advice

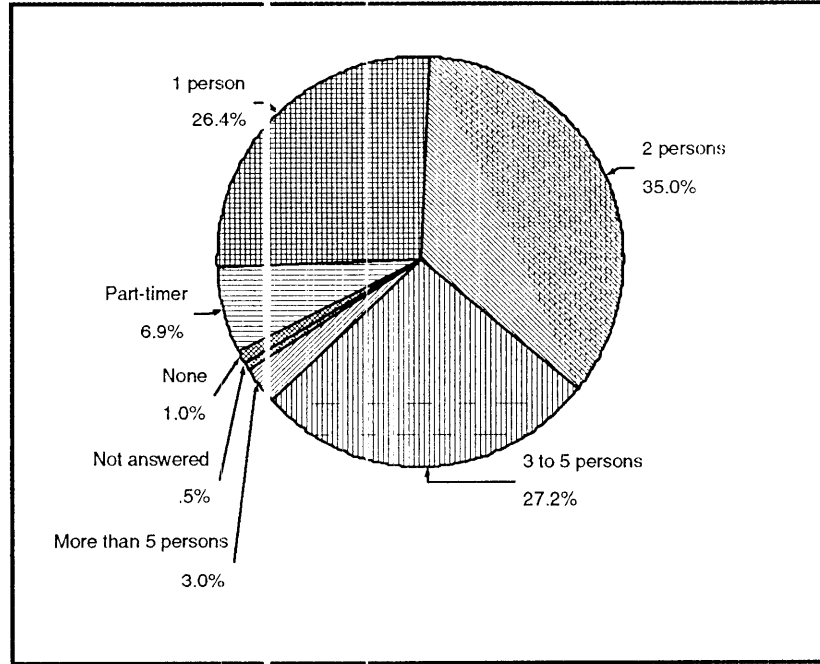
In this sub-section of the chapter and the next, the focus is upon those professionals and para-professionals who provide financial advice to owner-managers from within and outside the smaller business. Employees in the finance function and external financial advisers or consultants are likely to be further important influences on financial reporting practices undertaken within SMEs. Immediately following start-up, financial advice typically comes mainly from outside the concern; but, because of rapidly escalating technical and time demands of mandatory financial record keeping and management of trade credit given and taken, a bookkeeper or possibly an accountant is generally amongst one of the first non-production employees taken on. Because of their training/education and experience, internal and external financial advisers are well accustomed to preparing and using conventional financial reports; and therefore, at least by example, they may encourage owner-managers to regularly obtain and read such reports.

The ordinal study variable FINSTAFF, reflecting the number of staff involved in the finance function (covering bookkeeping, accounting, credit management, etc.) of businesses in the research sample, is based on responses to Question 17 in the survey instrument. These staff numbers are revealed in Figure 6.27 on the next page. The modal and median response category is two finance staff members employed in the businesses responding to the *Best Financial Practice* survey. While this number may appear fairly modest, it would certainly represent a substantial non-production labour cost for most SMEs.

A Kruskal-Wallis one-way analysis of variance suggests that the number of finance function staff varies with statistical significance between enterprise size groupings, with larger enterprises generally appearing to have more finance staff ($n=1,045$, $H=218.565$, $df=4$, $p<0.000$). Furthermore, a Mann-Whitney test indicates that the number of finance function staff varies with statistical significance between small enterprises and medium-sized enterprises in the study sample, with medium-sized enterprises evidently having more finance staff ($n=1,045$, $U=16,626.000$, $p<0.000$).

In a technical function like finance, it is clearly important that staff be suitably qualified and experienced for their roles, which includes undertaking appropriate training as necessitated by change. In the present context, it might be the case that, the more

Figure 6.27: Staff Number in Finance Function



highly skilled finance employees are in matters pertaining to financial reporting, the more comprehensive will be practices followed in this area. The table below indicates relevant types of skills development or training undertaken by staff in the finance function of collaborating businesses in the preceding two years (based on responses to parts of Question 20 in the survey instrument, names for the relevant nominal study variables are indicated in the table):

Table 6 6: Recent Finance Staff Training

Financial Training Undertaken (VARIABLE NAME)	Yes		No		Total	
	No.	Per cent	No.	Per cent	No.	Per cent
Accounting software (TRNACCSW)	590	62.4	356	37.6	946	100.0
Financial accounting (TRNFINAC)	289	32.1	611	67.9	900	100.0
Management accounting (TRNMANAC)	281	31.3	616	68.7	897	100.0

Note in particular the relatively high proportion of finance function staff (around two-thirds) that have received recent training in use of accounting software. This probably reflects rapid expansion in use of computers and computer-based accounting software in Australian SMEs. Recall from earlier in this chapter that 85.7 per cent of respondents to the *Best Financial Practice* survey indicate having their own computer-based general ledger accounting system, and that 64.6 per cent claim to have their own budgeting

system that it is computer-based. The predominant form of both types of software is apparently 'off-the-shelf' for which training is more than likely to be necessary.

Associations between the various forms of financial training for finance function staff identified in the previous paragraph are shown in the table below:

Table 6.7: Associated Financial Training for Finance Staff

		TRNACCSW	TRNFINAC	TRNMANAC
Phi coefficient	TRNACCSW	1.000		
	TRNFINAC	.409	1.000	
	TRNMANAC	.426	.594	1.000
Statistical significance (p)	TRNACCSW			
	TRNFINAC	.000		
	TRNMANAC	.000	.000	
Number of enterprises	TRNACCSW	946		
	TRNFINAC	887	900	
	TRNMANAC	884	879	897

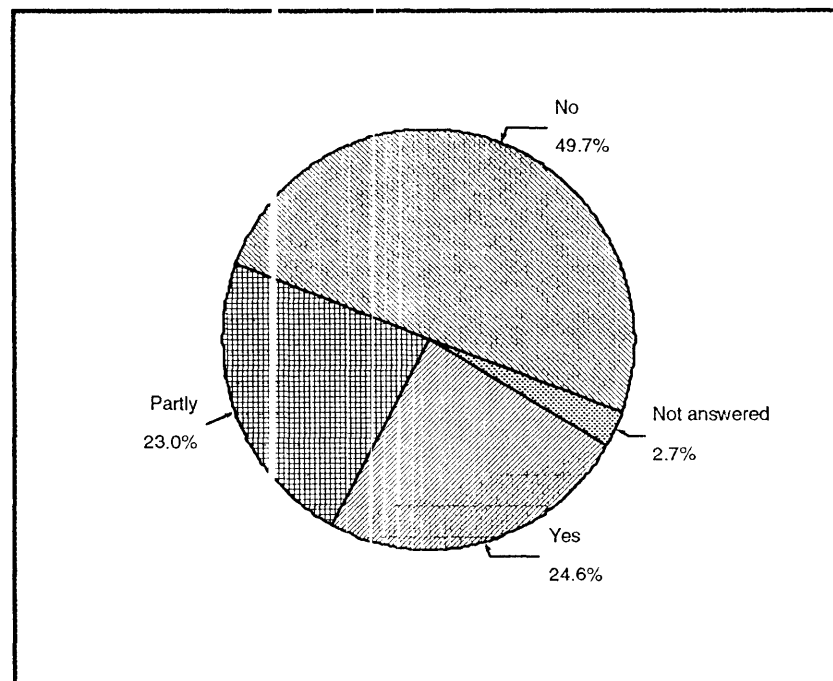
The essentially moderate, statistically significant associations in the table may reflect a recent concerted effort to improve financial reporting capabilities in at least some respondent SMEs. A series of Mann-Whitney tests reveals a statistically significant relationship in the study sample between the number of finance function staff and the likelihood of having recently undertaken training on accounting software ($n=946$, $U=81,020.000$, $p<0.000$) or financial accounting ($n=896$, $U=62,382.500$, $p<0.000$) or management accounting ($n=893$, $U=62,327.000$, $p<0.000$). Evidently such financial training is more likely to occur in larger finance sections/departments in terms of the number of staff employed.

A series of Mann-Whitney tests suggests that a statistically significant relationship exists in the study sample between enterprise size in employment terms and incidence of accounting software training ($n=946$, $U=84,952.500$, $p<0.000$) or financial accounting training ($n=900$, $U=68,729.500$, $p<0.000$) or management accounting training ($n=897$, $U=71,631.500$, $p<0.000$). In each case, finance function staff in larger enterprises are more likely to have recently had the identified financial training. A series of Chi-Square tests indicate that a statistically significant difference exists between small enterprises and medium-sized enterprises in terms of incidence of accounting software training ($n=946$, $\chi^2=5.737$, $df=1$, $p=0.017$) or financial accounting training ($n=900$, $\chi^2=11.877$, $df=1$, $p=0.001$) or management accounting training ($n=897$, $\chi^2=5.131$, $df=1$, $p=0.024$). In each case, finance function staff in medium-sized enterprises are more likely to have recently had the identified financial training.

In closing this sub-sector of the chapter, it is interesting to give some consideration to the apparent level of financial awareness and participation in financial matters amongst employees outside of the finance function of enterprises responding to the *Best Financial Practice* survey. This level which, if high, could well be associated with more extensive financial reporting in such concerns, is reflected in two study variables detailed as follows:

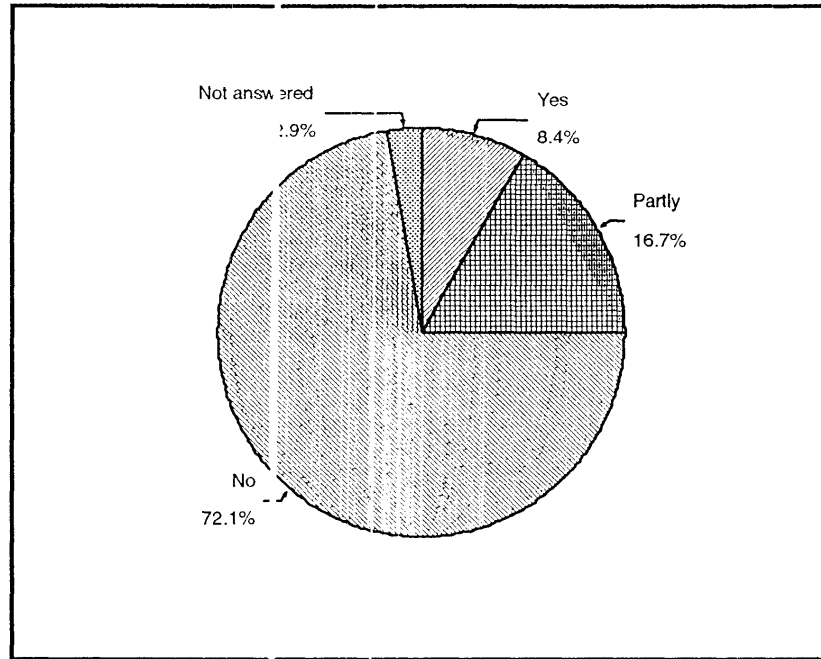
- Whether or not employees are kept informed about the financial status of collaborating SMEs is indicated by an ordinal variable EMPLFINS based on responses to part of Question 27 in the survey instrument. The situation within business concerns in the study sample is shown in the figure below:

Figure 6.28: Financial Awareness Amongst Employees



The modal and median response category is 'no', signifying limited financial awareness amongst employees generally. Thus it is likely that access to historical financial reports is largely confined to owners, owner-managers and managerial employees.

- Whether or not employees are involved in budgeting for collaborating SMEs is indicated by an ordinal variable EMPLBUDG based on responses to part of Question 27 in the survey instrument. The situation within business concerns in the study sample is shown in Figure 6.29 on the next page. The modal and median response category is 'no', signifying very little participation in budgeting by employees generally. Thus it is likely that input to preparation of future-oriented financial reports is largely confined to owners, owner-managers and managerial employees.

Figure 6.29: Employee Participation in Budgeting

There appears to be a very weak, statistically significant association between keeping employees informed about the financial status of the business and allowing them to participate in budgeting ($n=1,012$, Kendall's tau $b=0.194$, $p<0.000$). Together, these findings suggest that financial awareness and participation in financial planning tends to be restricted mainly to managerial and finance function employees of respondent SMEs in the *Best Financial Practices Survey*.

A Kruskal-Wallis one-way analysis of variance reveals that the likelihood that employees are kept informed about financial status of the business is statistically unrelated to the number of finance function staff employed ($n=1,017$, $H=1.641$, $df=2$, $p=0.440$). However, a further Kruskal-Wallis one-way analysis of variance suggests that employee participation in budgeting is statistically more likely in enterprises with more finance function staff ($n=1,015$, $H=14.869$, $df=2$, $p=0.001$). A series of Mann-Whitney tests indicates that the likelihood of employees being kept informed about financial status of the business is statistically unrelated to whether finance function staff have had recent accounting software training ($n=931$, $U=95,043.000$, $p=0.064$); but is statistically greater where finance function staff have had recent training in financial accounting ($n=890$, $U=78,186.500$, $p=0.013$) or management accounting ($n=888$, $U=77,731.000$, $p=0.023$). A further series of Mann-Whitney tests reveals that the likelihood of employees participating in budgeting is statistically greater where finance function staff have had recent training in accounting software ($n=929$, $U=94,696.500$, $p=0.035$) or financial accounting ($n=888$, $U=79,343.500$, $p=0.014$); but is statistically unrelated to whether finance function staff have had recent management accounting training ($n=885$, $U=79,378.000$, $p=0.057$).

Kruskal-Wallis one-way analyses of variance suggest a statistically significant relationship between enterprise size in employment terms and incidence of employees being kept informed about financial status of the business ($n=1,022$, $H=11.361$, $df=4$, $p=0.023$) or incidence of employee participation in budgeting ($n=1,020$, $H=32.539$, $df=4$, $p<0.000$). In both cases, the incidence seems to be higher amongst the smallest and the largest enterprises. A Mann-Whitney test indicates that the likelihood of employees being kept informed about financial status of the business does not vary with statistical significance between small enterprises and medium-sized enterprises in the study sample ($n=1,022$, $U=37,282.00$), $p=0.864$). However, a further Mann-Whitney test reveals that the likelihood of employees participating in budgeting varies with statistical significance between small enterprises and medium-sized enterprises, with the incidence of employee participation in budgeting being higher in medium-sized enterprises ($n=1,020$, $U=30,029.000$, $p<0.000$).

6.3.7 External Financial Advice

Attention now turns to external financial advisers to SMEs included in the research. Because of their limited financial and technical capabilities, such concerns typically make substantial use of outside professionals for financial advice – especially public accountants and particularly in relation to taxation and corporations matters. Of all advisers to owner-managers, public accountants are arguably in the strongest position, technically and access-wise, to influence the financial reporting practices followed within small and medium-sized enterprises.

Table 6.8 on the next page indicates the types of services from external financial advisers or consultants used by enterprises in the study sample (based on responses to parts of Question 19 in the survey instrument, names for the relevant nominal study variables are indicated in the table). As anticipated, taxation and corporations matters appear to be the dominant services from external financial advisers employed by respondents to the *Best Financial Practice* survey. These are closely followed by accounting advice, which could probably be more appropriately described as financial management advice.

It is interesting to see the relatively high proportion of businesses for which an external financial adviser is still involved in accounts (or financial report) preparation. This service probably involves turning trial balance data provided by the businesses concerned into end-of-period (or year-end) financial statements. In recent years, public accountants in Australia have been strongly promoting their capabilities beyond so-called 'compliance work' – most especially in business advisory services. It seems from the table above that this effort has been reasonably successful with SMEs in the study sample. Note that the number of respondents indicating use of external financial advisers for audit purposes (431 businesses) exceeds the number reported earlier claiming that their enterprises are subject to financial audit (359 businesses). This

disparity might be explained by *ad hoc* use of external financial advisers for audit purposes by some concerns that do not have regular (say annual) audits. Alternatively, a positive response may indicate that an external financial adviser would be used if an audit should ever become necessary.

Table 6.8: External Financial Adviser Services

External Financial Adviser Service (VARIABLE NAME)	Yes		No		Total	
	No.	Per Cent	No.	Per Cent	No.	Per Cent
Accounting advice (XADVACCA)	858	86.1	138	13.9	996	100.0
Accounts preparation (XADVACCP)	639	63.6	366	36.4	1005	100.0
Implementing new accounting system (XADVACCS)	404	45.3	487	54.7	891	100.0
Audit (XADVAUDT)	431	49.7	437	50.3	868	100.0
Business planning & advice (XADVBUSP)	466	50.9	449	49.1	915	100.0
Loan application assistance (XADVLOAN)	340	37.7	561	62.3	901	100.0
Tax consulting (XADV TAX)	954	94.1	60	5.9	1014	100.0
Year-end tax & accounting matters (XADVYEND)	959	94.2	59	5.8	1018	100.0

Because of its size, a table showing associations between the various services from external financial advisers identified above is presented in Appendix C to the thesis (see *C4 Associations Amongst External Financial Adviser Services*). The most notable associations evident in the table are as follows:

- Weak to moderate, statistically significant associations between obtaining accounting (or financial management) advice and all other services except audit – perhaps suggestive of SMEs broadly accessing external financial advice.
- A moderate, statistically significant association between tax consulting and dealing with year-end tax and accounting matters – suggesting a compliance work grouping covering taxat on and corporations services.
- Weak to moderate, statistically significant associations between advice on implementing a new accounting system, business planning and advice, and assistance with loan applications – suggesting a business services grouping covering such matters.

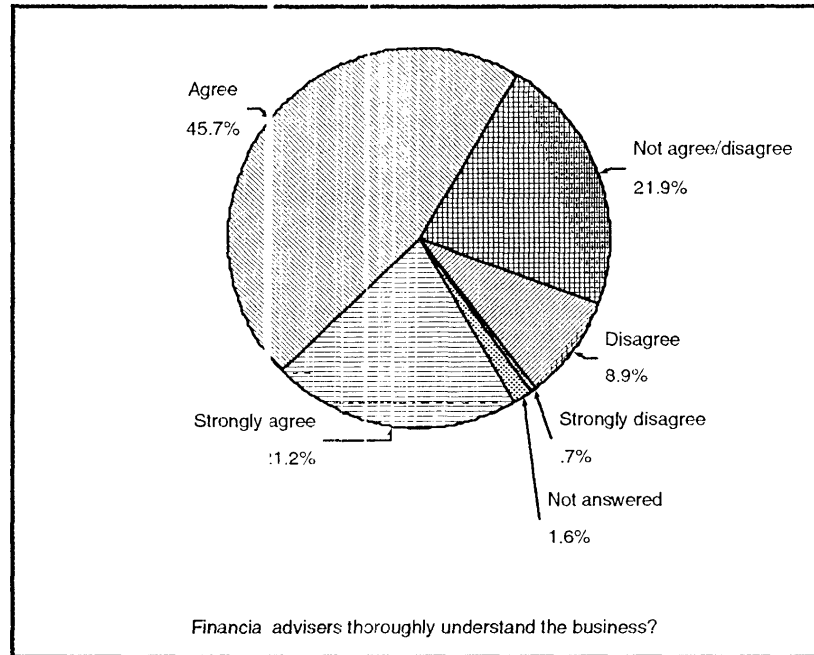
The absence of anything but, at most, very weak associations between audit and the other financial services is perhaps suggestive of separation and possibly independence in audit activities.

A series of Mann-Whitney tests suggests that a statistically significant relationship exists in the study sample between enterprise size in employment terms and incidence of use of external financial advisers for accounting advice ($n=996$, $U=48,320.500$, $p<0.000$) or accounts preparation ($n=1,005$, $U=95,197.000$, $p<0.000$) or advice on implementing a new accounting system ($n=891$, $U=90,122.500$, $p=0.025$) or audit ($n=868$, $U=76,673.000$, $p<0.000$) or assistance with loan applications ($n=901$, $U=81,778.500$, $p<0.000$) or dealing with year-end taxation and accounting matters ($n=1,018$, $U=20,673.500$, $p<0.000$). Larger enterprises appear more likely to use an external financial adviser for an audit, but seem less likely to use an external financial adviser for the other services just identified. Mann-Whitney tests indicate no statistically significant relationship between enterprise size in employment terms and incidence of use of external financial advisers for business planning and advice ($n=915$, $U=100,813.000$, $p=0.322$) or taxation consultation ($n=1,014$, $U=26,695.000$, $p=0.363$).

A series of Chi-Square tests reveals that a statistically significant difference exists between small enterprises and medium-sized enterprises in terms of the incidence of use of external financial advisers for accounting advice ($n=996$, $\chi^2=6.029$, $df=1$, $p=0.014$) or accounts preparation ($n=1,005$, $\chi^2=11.834$, $df=1$, $p=0.001$) or advice on implementing a new accounting system ($n=891$, $\chi^2=8.074$, $df=1$, $p=0.004$) or audit ($n=868$, $\chi^2=14.846$, $df=1$, $p<0.000$) or assistance with loan applications ($n=901$, $\chi^2=8.590$, $df=1$, $p=0.003$) or dealing with year-end taxation and accounting matters ($n=1,018$, $\chi^2=8.154$, $df=1$, $p=0.004$). Medium-sized enterprises appear more likely to use an external financial adviser for an audit, but seem less likely to use an external financial adviser for the other services just identified. Chi-Square tests suggest no statistically significant difference between small enterprises and medium-sized enterprises in terms of the incidence of use of external financial advisers for business planning and advice ($n=915$, $\chi^2=0.082$, $df=1$, $p=0.774$) or taxation consultation ($n=1,014$, $\chi^2=1.822$, $df=1$, $p=0.177$).

To complete consideration of the potential influence of both internal and external financial advisers upon the financial reporting practices of SMEs in the *Best Financial Practice* survey, some gauge is sought of satisfaction or otherwise with the financial advisers being used. The ordinal study variable FINADVUN, reflecting beliefs amongst respondents about whether their financial advisers appear to understand their businesses thoroughly, is based on responses to part of Question 53 in the survey instrument. Note that no distinction is made in the question between internal and external financial advisers. Beliefs on financial adviser understanding of businesses in the research sample are revealed in Figure 6.30 on the next page. The modal and median response category is 'agree'. Responses are noticeably skewed towards a

Figure 6.30: Financial Adviser Understanding of Business



positive opinion on financial adviser understanding of their clients' businesses. This may not be a surprising finding since negative responses would beg the obvious question as to why the financial advisers are used, and most probably paid, if they do not appear to understand the businesses concerned. The finding does contrast with those presented earlier on lender understanding of operational and financial aspects of the respondent businesses which, on balance, seem somewhat unfavourable towards lenders.

A Kruskal-Wallis one-way analysis of variance indicates that no statistically significant relationship exists between enterprise size in employment terms and beliefs about financial advisers' understanding of their clients' businesses ($n=1,033$, $H=4.657$, $df=4$, $p=0.324$). Furthermore, a Mann-Whitney test reveals no statistically significant difference between small enterprises and medium-sized enterprises in terms of beliefs about financial advisers' understanding of their clients' businesses ($n=1,033$, $U=35,779.000$, $p=0.330$).

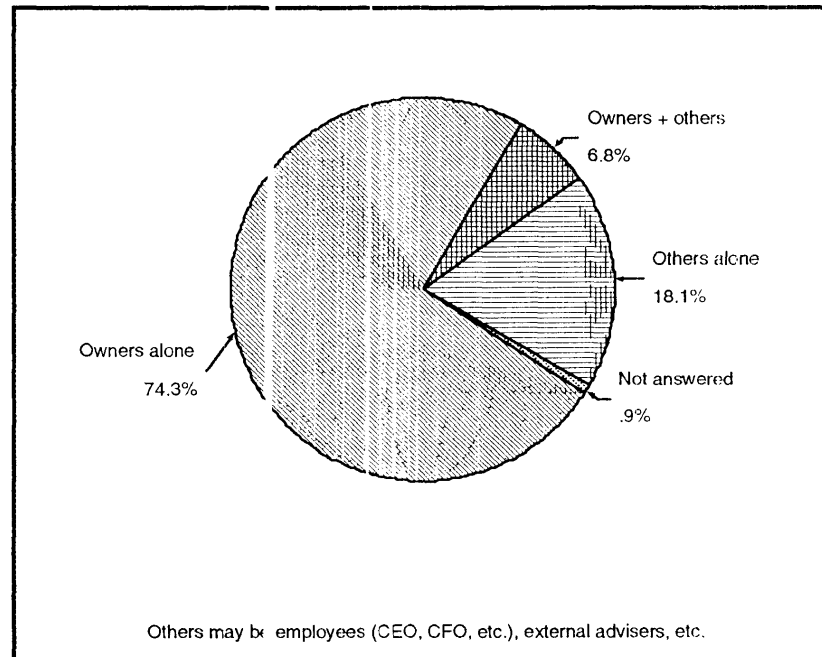
6.3.8 Financial Decision-Making

Earlier in the chapter, the extent of participation of owners in management of enterprises in the study sample is examined. It is revealed that owners of just over 88 per cent of businesses are reported to be involved in day-to-day operations; and owners of nearly 98 per cent of businesses are apparently involved in at least key decisions. This subsection of the chapter considers whether owner participation in management extends specifically to financial decision-making.

The ordinal study variable FMDECID, reflecting amongst respondents to the *Best Financial Practice* survey the extent to which owners themselves make key financial decisions, is based on responses to Question 13 in the survey instrument. Whether

owners in the study sample take full, partial or no responsibility for financial decision-making in their enterprises is revealed in the figure below:

Figure 6.31: Financial Decision-Making in Study Sample



The modal and median response category is overwhelmingly 'owners alone'. This strongly reinforces the impression gained earlier in this chapter that the *Best Financial Practice* survey has been successful in targeting owner-managed concerns – now also from a financial viewpoint. Not surprisingly, a Kruskal-Wallis one-way analysis of variance suggests that participation of others besides owners in making key financial decisions becomes statistically more likely as owner participation in management diminishes ($n=1,041$, $H=86.06$, $df=2$, $p<0.000$).

A breakdown of the study sample by owner responsibility for key financial decisions and enterprise size groupings is presented in Appendix C to the thesis (see *C68 Financial Decision-Making and Enterprise Size*). A Kruskal-Wallis one-way analysis of variance indicates that participation of others besides owners in making key financial decisions becomes statistically more likely as enterprise size in employment terms increases ($n=1,041$, $H=50.969$, $df=4$, $p<0.000$). A Mann-Whitney test reveals a statistically significant difference in owner responsibility for key financial decisions between small enterprises and medium-sized enterprises in the study sample ($n=1,041$, $U=28,780.500$, $p<0.000$). Owners are less likely to be sole financial decision-makers in medium-sized concerns.

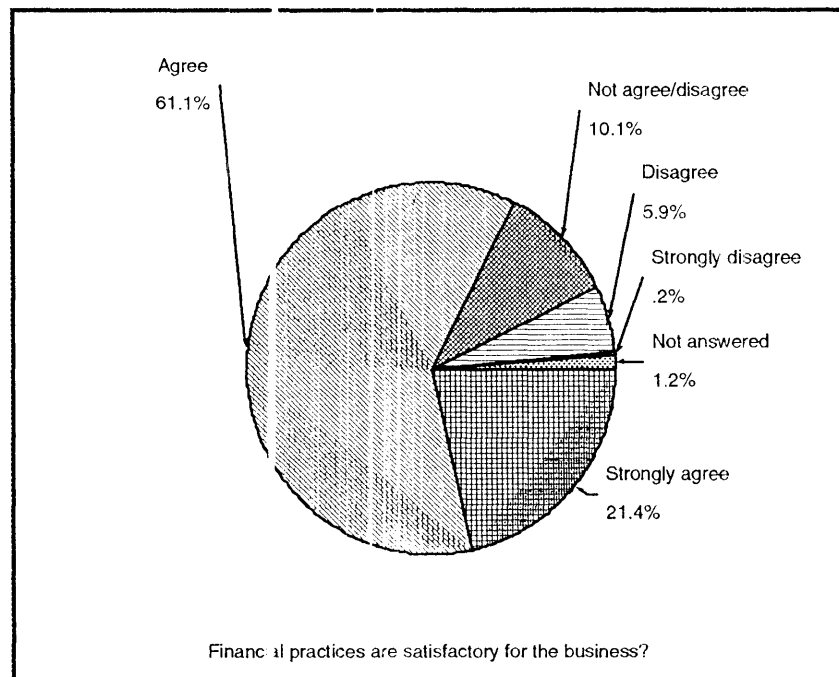
6.3.9 Financial Systems Review

Professional employees, external advisers, financiers, researchers, etc. may have informed views on the adequacy or otherwise of financial systems and practices in place

in small or medium-sized enterprises, and may convey these to owner-managers. Indeed, in the case of financiers, financial systems and practices considered to be sound may be a pre-condition for support. However, in examining key influences on financial practices actually undertaken in SMEs, it is also important to be aware of owner-managers' views since, when a plan is said and done, it is their prerogative to decide what the systems/practices will be, and then to live with the consequences of their decisions. This sub-section of the chapter gives consideration to owner-managers' satisfaction with their financial systems and practices, and also examines how assiduously they keep these under review over time.

The ordinal study variable FMSATISF, reflecting degree of satisfaction amongst respondents to the *Best Financial Practice* survey with their financial practices, is based on responses to part of Question 53 in the survey instrument. The level of satisfaction with how financial management is conducted in the study sample is revealed in the figure below:

Figure 6.32: Satisfaction With Financial Practices in Study Sample

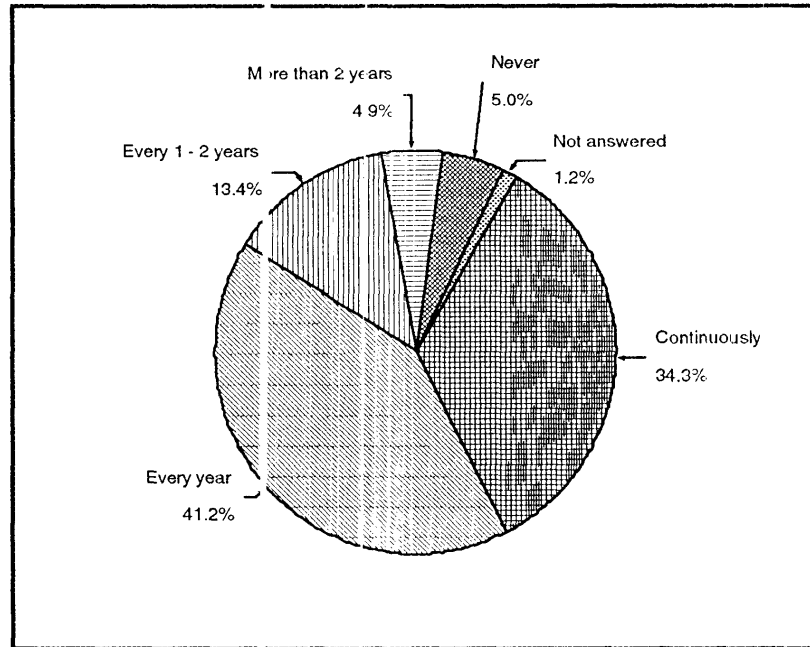


The modal and median response category is 'agree'. Overall, these findings reflect a high degree of satisfaction with their financial practices amongst those responding on behalf of enterprises in the study sample.

A Kruskal-Wallis one-way analysis of variance suggests there is no statistically significant relationship between satisfaction with financial practices and enterprise size in employment terms ($n=1,037$, $H=5.285$, $df=4$, $p=0.259$). A Mann-Whitney test indicates no statistically significant difference in satisfaction with financial practices between small enterprises and medium-sized enterprises in the study sample ($n=1,037$, $U=36,851.000$, $p=0.522$).

The ordinal study variable FMREVIEW, reflecting the frequency with which respondents to the *Best Financial Practice* survey review their financial systems and practices, is based on responses to Question 36 in the survey instrument. The review pattern in the study sample is revealed in the figure below:

Figure 6.33: Financial Practices Review in Study Sample



The modal and median response category is 'every year'. Overall, these findings reflect commendable diligence in review of financial systems and practices amongst enterprises in the study sample. A Kruskal-Wallis one-way analysis of variance reveals that enterprises most satisfied with their financial practices generally tend to be those that review their financial systems and practices more frequently ($n=1,024$, $H=11.649$, $df=4$, $p=0.020$).

A Kruskal-Wallis one-way analysis of variance suggests that frequency of review of financial systems and practices is much the same regardless of enterprise size ($n=1,037$, $H=5.703$, $df=4$, $p=0.222$). A Mann-Whitney test indicates no statistically significant difference in frequency of review of financial systems and practices between small enterprises and medium sized enterprises in the study sample ($n=1,037$, $U=35,903.000$, $p=0.656$).

6.3.10 Financial Management Characteristics Summary

The findings presented in this section of the chapter suggest that the study sample obtained from the *Best Financial Practice* survey is, from the viewpoint of the present research, conveniently diverse in terms of financial management characteristics. The sample includes small and medium-sized manufacturing enterprises across the spectrum of sophistication in their financial management practices. Broadly speaking, the financial management characteristics examined give reason to believe that the

sample contains business concerns for which the extent and frequency of historical and future-oriented financial reporting could be an important prevailing issue, and in which financial reporting practices may have impact on achieved growth and performance outcomes. Again, in these respects, the sample and data obtained can be judged to be very suitable given the stated purposes of the research described in the thesis.

Examination of financial management characteristics of SMEs in the study sample supports the earlier perception that enterprise size in employment terms has some explanatory potential for relevant phenomena in the small and medium-sized enterprises investigated. Additional variables now considered relate to financial systems, financial audit, business financing, financial reporting to financiers, financier relationships, internal and external financial advice, financial decision-making and financial systems review. Statistically significant associations with enterprise size in employment terms are evident in data reported for:

- Type of general ledger accounting system in use.
- Type of budgeting system in use.
- Incidence of financial audit.
- Recency of seeking external financing.
- Success in financing business start-ups, permanent working capital needs and research and development activities.
- Debt to equity ratios.
- Provision of business plans, future-oriented financial statements, annual historical financial statements and periodic historical financial statements to financiers.
- Incidence of factory visits by financiers.
- Incidence of keeping financiers informed on key issues.
- Number of staff employed in the finance function.
- Incidence of recent training for finance function staff in use of accounting software, financial accounting and management accounting.
- Incidence of keeping employees informed about financial status of the business.
- Incidence of employee participation in budgeting.
- Incidence of use of external financial advisers for accounting advice, accounts preparation, advice on implementing a new accounting system, audit, assistance with loan applications, and dealing with year-end taxation and accounting matters.
- Extent of responsibility of owners for key financial decisions.

Further consideration of associations between these variables and enterprise size forms part of the analysis presented in the following chapter of the thesis.

6.4 Financial Reporting Practices

6.4.1 Historical Financial Reporting Practices

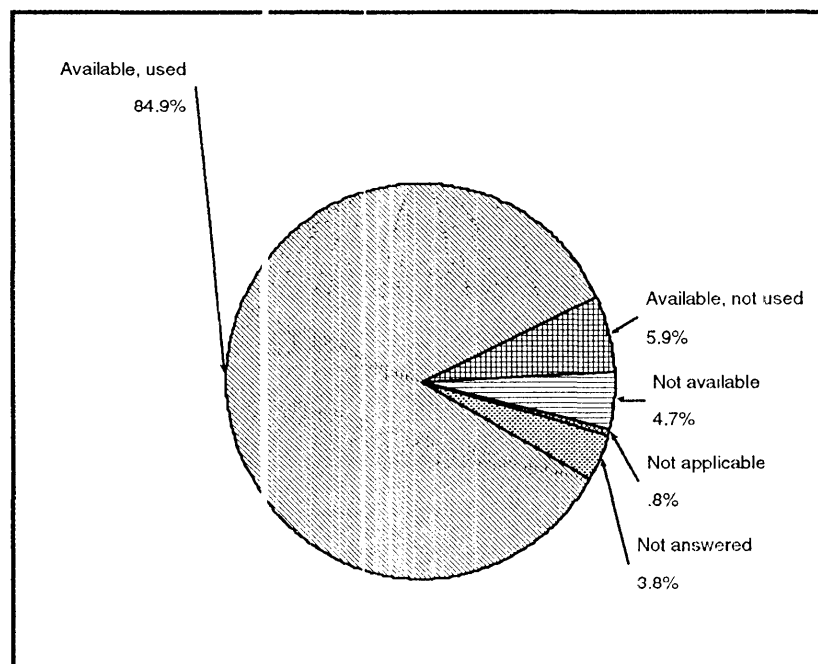
The proximate dependent variables in this research are the financial reporting practices followed by small and medium-sized manufacturing enterprises in the study sample.

Earlier in the thesis, financial reporting practices have been specified to include historical and future-oriented financial reporting using the balance sheet, the profit and loss statement and the cash-flow statement; and also analysis and interpretation of historical financial statements. These practices are described, in the indicated order, in this and the following two sub-sections of the chapter.

Historical financial reporting practices amongst respondents to the *Best Financial Practice* survey are primarily captured in three study variables detailed as follows:

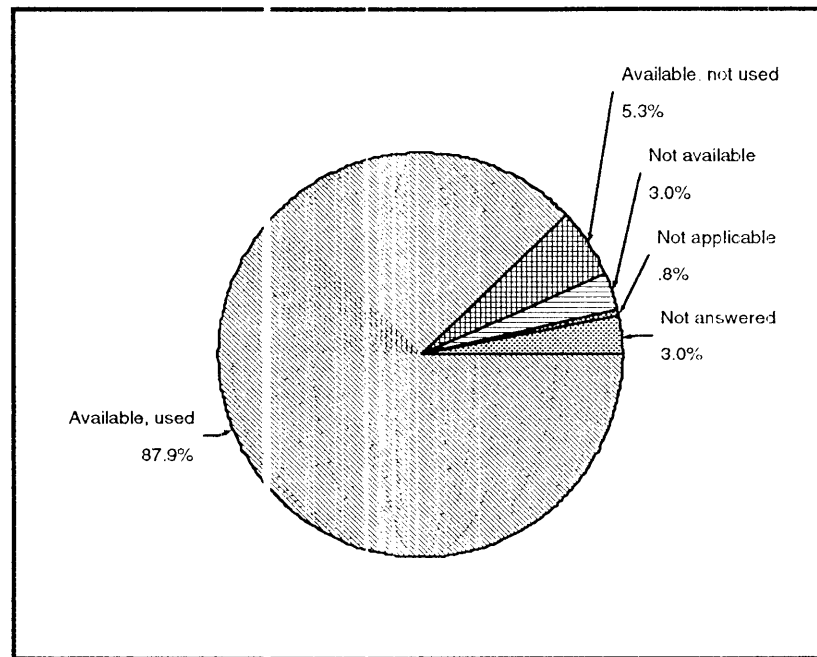
- Whether or not an historical balance sheet is employed within collaborating SMEs is indicated by a nominal variable HISTBS based on responses to part of Question 38 in the survey instrument. The situation in business concerns in the study sample is shown in the figure below:

Figure 6.34: Use of Historical Balance Sheet



The modal response category is 'available and used', and there is evidently a very high level of usage of historical balance sheets amongst businesses in the research sample.

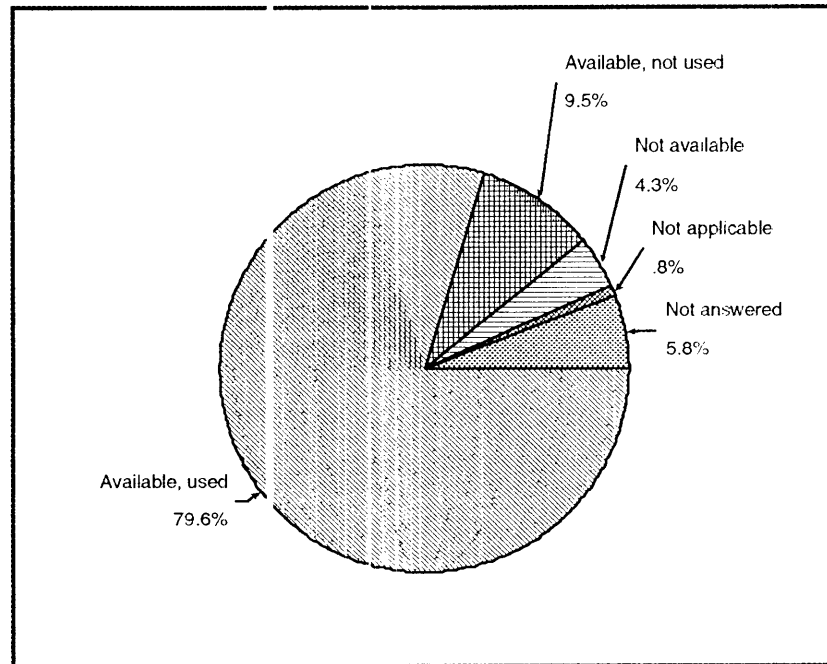
- Whether or not an historical profit and loss statement is employed within collaborating SMEs is indicated by a nominal variable HISTPL based on responses to part of Question 38 in the survey instrument. The situation in business concerns in the study sample is shown in Figure 6.35 on the next page. The modal response category is 'available and used', and there is clearly a very

Figure 6.35: Use of Historical Profit and Loss Statement

high level of usage of historical profit and loss statements amongst businesses in the research sample.

- Whether or not an historical cash-flow statement is employed within collaborating SMEs is indicated by a nominal variable HISTCF based on responses to parts of Question 38 in the survey instrument. The situation in business concerns in the study sample is shown in Figure 6.36 on the next page. The modal response category is 'available and used', and there is apparently a high level of usage of historical cash-flow statements amongst businesses in the research sample – although seemingly not quite as high as the traditional balance sheet and profit and loss statement.

Associations between the various forms of historical financial reporting identified in the previous paragraph are shown in Table 6.9 on the next page. There is evidently a strong, statistically significant association between use of historical balance sheets and historical profit and loss statements – perhaps reflecting their status as traditional financial statements, and also the fact that general ledger systems are typically directed towards producing both these statements. While statistically significant, associations between use of historical cash-flow statements and the other two historical financial statements are only very weak. This may reflect the newer and less familiar standing of cash-flow statements, and also the fact that older general ledger systems may not be geared to routinely producing cash-flow statements.

Figure 6.36: Use of Historical Cash-Flow Statement**Table 6.9: Associated Historical Financial Reporting**

	HISTBS	HISTPL	HISTCF
Cramér's V	HISTBS	1.000	
	HISTPL	.708	1.000
	HISTCF	.127	.151
Statistical significance (p)	HISTBS	.	
	HISTPL	.000	.
	HISTCF	.000	.000
Number of enterprises	HISTBS	1002	
	HISTPL	999	1011
	HISTCF	963	974

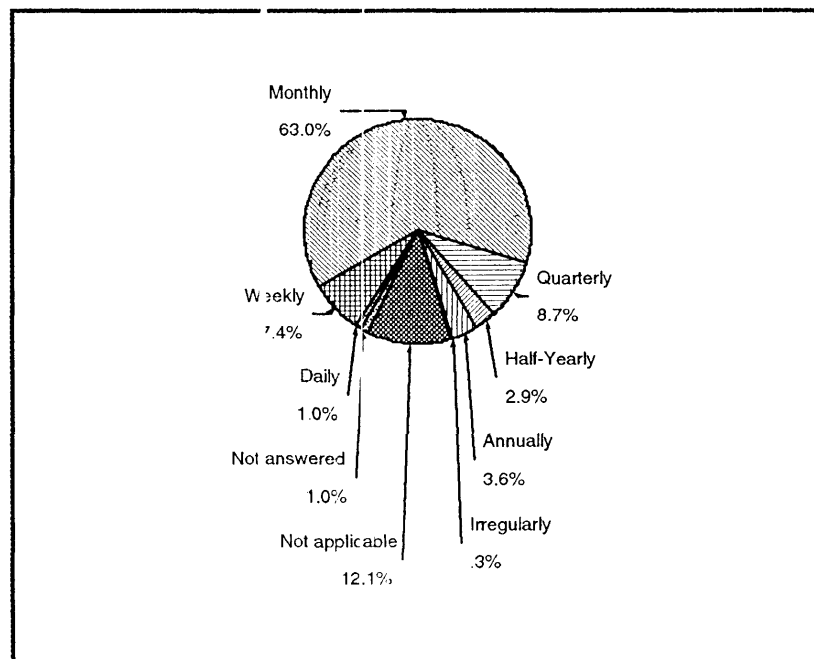
Kruskal-Wallis one-way analyses of variance reveal no statistically significant relationship between enterprise size in employment terms and use of historical balance sheets ($n=1,002$, $H=5.690$, $df=2$, $p=0.058$) or use of historical cash-flow statements ($n=981$, $H=1.140$, $df=2$, $p=0.565$). However, a further Kruskal-Wallis one-way analysis of variance suggests that a statistically significant relationship does exist between enterprise size in employment terms and use of historical profit and loss statements ($n=1,011$, $H=6.072$, $df=2$, $p=0.048$). Larger enterprises appear more likely to use historical profit and loss statements.

In the main, sparse cells prohibit statistical evaluation using Chi-Square tests of any possible differences in use of the historical financial statements identified above

between small enterprises and medium-sized enterprises. There do not seem to be statistically significant associations between classification as either a small or a medium-sized enterprise and use of historical balance sheets ($n=1,002$, Cramér's $V=0.020$, $p=0.825$) or use of historical profit and loss statements ($n=1,011$, Cramér's $V=0.032$, $p=0.600$) or use of historical cash-flow statements ($n=961$, Cramér's $V=0.061$, $p=0.157$).

Findings of the *Best Financial Practice* survey provide further insight into practice of respondent SMEs in relation to historical profit and loss statements. The frequency of their use within collaborating SMEs is indicated by a nominal study variable FQREVPL based on responses to part of Question 39 in the survey instrument. The situation in business concerns in the research sample is shown in the figure below:

Figure 6.37: Usage Frequency for Historical Profit and Loss Statement



The modal response category is 'monthly'; and, with almost two-thirds of respondents nominating it, this frequency of obtaining and reviewing historical profit and loss statements clearly dominates all others. The proportion rises to 72.8 per cent of those respondents that obtain historical profit and loss statements on a regular basis. Undoubtedly, this strongly reflects the conventional monthly accounting cycle on which general ledger systems are usually based. Nevertheless, in comparison to many empirical findings for Australia considered in Chapter 4 of the thesis, the small proportion of respondents obtaining historical profit and loss statements no more frequently than annually is very encouraging from a financial management viewpoint.

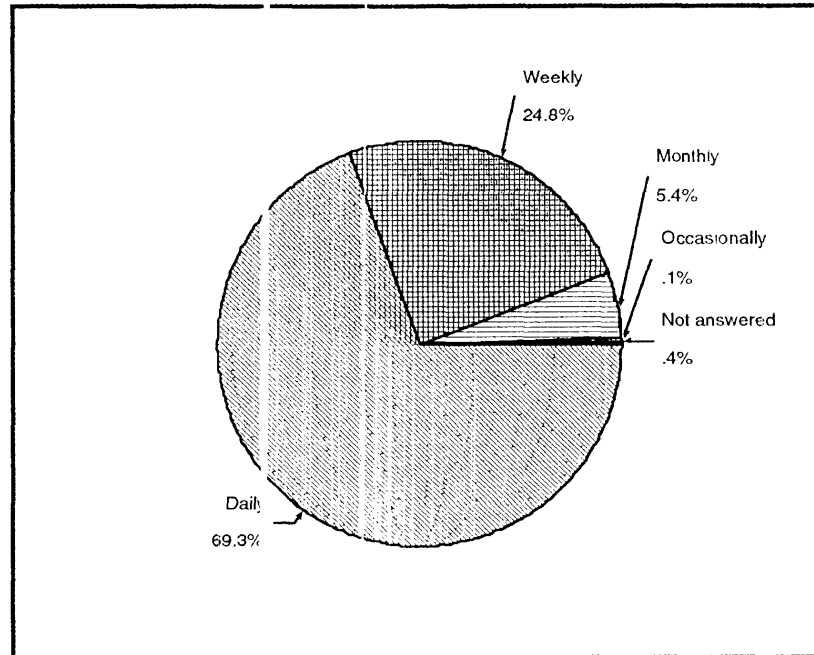
Hereafter, the study variable FQREVPL is slightly modified by focusing only on those respondents that obtain and review historical profit and loss statements on a regular basis – thus permitting the variable to be treated as ordinal in nature. A Kruskal-Wallis one-way analysis of variance indicates that frequency of obtaining and reviewing

historical profit and loss statements is not statistically associated with whether or not use is made of historical balance sheets ($n=898$, $H=0.938$, $df=2$, $p=0.626$). In view of the strong, statistically significant association between the study variables HISTBS and HISTPL noted earlier, and because they are traditionally companion outputs from general ledger accounting systems, it is reasonable to venture that the frequency of obtaining and reviewing historical balance sheets, when they are used, is likely to match that for historical profit and loss statements. A further Kruskal-Wallis one-way analysis of variance reveals that frequency of obtaining and reviewing historical profit and loss statements is statistically associated with whether or not use is made of historical cash-flow statements ($n=876$, $H=10.572$, $df=2$, $p=0.005$). Businesses that use historical cash-flow statements are likely to obtain historical profit and loss statements more frequently.

A Kruskal-Wallis one-way analysis of variance suggests that frequency of obtaining and reviewing historical profit and loss statements varies in a statistically significant manner with enterprise size in employment terms ($n=909$, $H=10.695$, $df=4$, $p=0.030$). Larger enterprises apparently use historical profit and loss statements more frequently. A Mann-Whitney test indicates a statistically significant difference in frequency of obtaining and reviewing historical profit and loss statements between small enterprises and medium-sized enterprises, with the frequency being higher for medium-sized concerns ($n=909$, $U=26,798.000$, $p=0.027$).

Particularly amongst SMEs, it is not uncommon to discover businesses that are successful in sales and possibly profitability terms but may be experiencing persistent, and frequently terminal, cash-flow or liquidity difficulties. This is most obviously due to the impact of unsustainably high rates of sales growth upon working capital and fixed asset requirements (that is, due to overtrading). Poor financial management allows such circumstances to develop unremedied as warning signs go unnoticed or are misunderstood. For this reason particular attention needs to be paid in this research to financial reporting that might reveal or anticipate cash-flow problems. So far, the relatively widespread use of historical cash-flow statements amongst respondents to the *Best Financial Practice* survey has been noted.

It is now interesting to examine how frequently owner-managers themselves assess, or have others assess for them, the cash position of their businesses – at least approximately and possibly outside of conventional historical financial statements. This is indicated by a nominal study variable CASHPOSN based on responses to Question 40 in the survey instrument. The situation in business concerns in the research sample is shown in Figure 6.38 on the next page. The modal response category is 'daily'; and, with almost 70 per cent of respondents nominating it, this frequency of assessing the business's approximate cash position clearly dominates all others. Noting also the very high response rate for this question, these data clearly suggest great vigilance on the part of collaborating SMEs in tracking their approximate cash position without necessarily accessing the historical financial statements identified earlier (particularly

Figure 6.38: Frequency of Cash Position Assessment

the cash-flow statement and possibly the balance sheet). Again, this is very encouraging from a financial management viewpoint. It also cautions against presuming such financial vigilance is not present when conventional historical financial statements are not obtained.

Hereafter, the study variable CASHPOSN is slightly modified by focusing only on of those respondents that assess their business's approximate cash position on a regular basis – thus permitting the variable to be treated as ordinal in nature. A series of Kruskal-Wallis one-way analyses of variance reveals that frequency of assessing a business's approximate cash position is statistically unrelated to use of historical balance sheets ($n=998$, $H=0.614$, $df=2$, $p=0.736$) or use of historical profit and loss statements ($n=1,007$, $H=0.827$, $df=2$, $p=0.361$) or use of historical cash-flow statements ($n=977$, $H=0.573$, $df=2$, $p=0.751$). These findings reinforce the belief that rough assessments of cash position are often done without the aid of conventional historical financial statements. There is a very weak, statistically significant association between frequency of obtaining and reviewing historical profit and loss statements (study variable FQREVPL) and frequency of assessing a business's approximate cash position (study variable CASHPOSN) ($n=907$, Kendall's tau $b=0.151$, $p<0.000$).

A Kruskal-Wallis one-way analysis of variance suggests that frequency of assessing a business's approximate cash position varies in a statistically significant manner with enterprise size in employment terms ($n=1,045$, $H=55.453$, $df=4$, $p<0.000$). Larger enterprises apparently assess their approximate cash position more frequently. A Mann-Whitney test indicates a statistically significant difference in frequency of assessing a business's approximate cash position between small enterprises and

medium-sized enterprises, with the frequency being higher for medium-sized concerns (n=1,045, U=29,872.000, p<0.000).

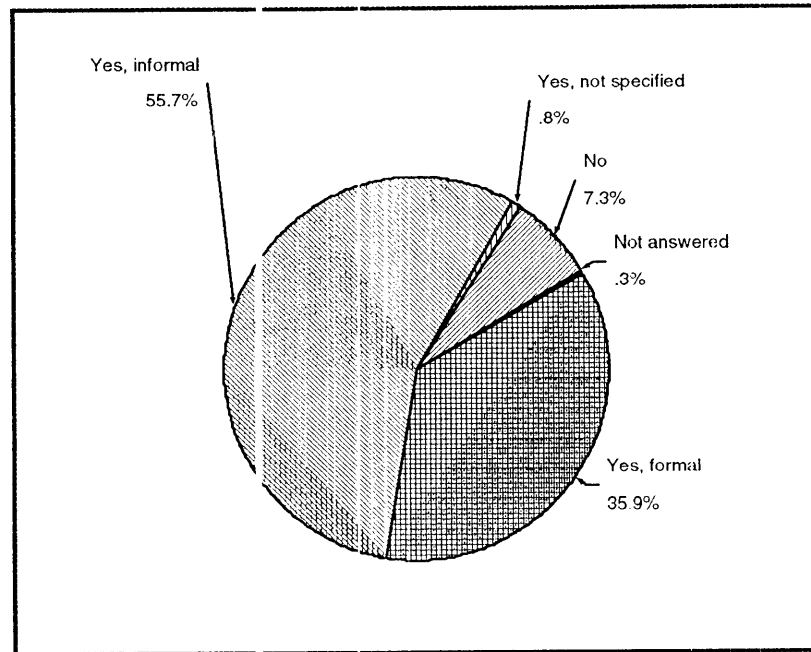
6.4.2 Future-Oriented Financial Reporting Practices

Because specific questions are not included in the research instrument, responses to the *Best Financial Practice* survey do not permit separate determination of whether or not future-oriented (or forecasted or *pro forma*) balance sheets, profit and loss statements and cash-flow statements are obtained by collaborating SMEs. However, it is possible to establish whether budgeting is part of financial management in these concerns. To the extent that budgets usually find written expression in future-oriented financial statements, it is then possible to infer that some, if not all, such reports are obtained. Furthermore, the research instrument does include a question inquiring whether estimates of future cash requirements are prepared, and how far into the future these typically extend. Responses to this question enable continued focus on cash-related matters, as justified in the last sub-section of the chapter. They also permit some inference to be made on the incidence of use of future-oriented cash-flow statements, because cash-flow forecasts usually find written expression in this form.

Whether or not budgeting is undertaken by businesses in the research sample, and therefore whether it is likely that at least some future-oriented financial statements are obtained, is indicated by a nominal study variable FORPRTS based on responses to part of Question 37 in the survey instrument, with corroboration from responses to parts of Questions 38, 39 and 42. It appears that, of just over 900 concerns that responded to the relevant questions, 88.8 per cent employ budgeting in some form. As will be seen in the next sub-section of the chapter, for a substantial number this extends to regular budget versus actual comparisons which typically require bringing together historical and future-oriented financial statements. Compared to Australian research findings reviewed in Chapter 4 of the thesis, this is a high incidence of budgetary planning and control for SMEs and must be seen as very encouraging from a financial management viewpoint.

A Mann-Whitney test reveals that incidence of budgeting in the study sample is associated in a statistically significant manner with enterprise size in employment terms (n=902, U=34,865.500, p=0.013). Budgeting appears more prevalent in larger businesses. However, a Chi-Square test suggests no statistically significant difference between small enterprises and medium-sized enterprises as far as incidence of budgeting is concerned (n=915, $\chi^2=0.082$, df=1, p=0.774).

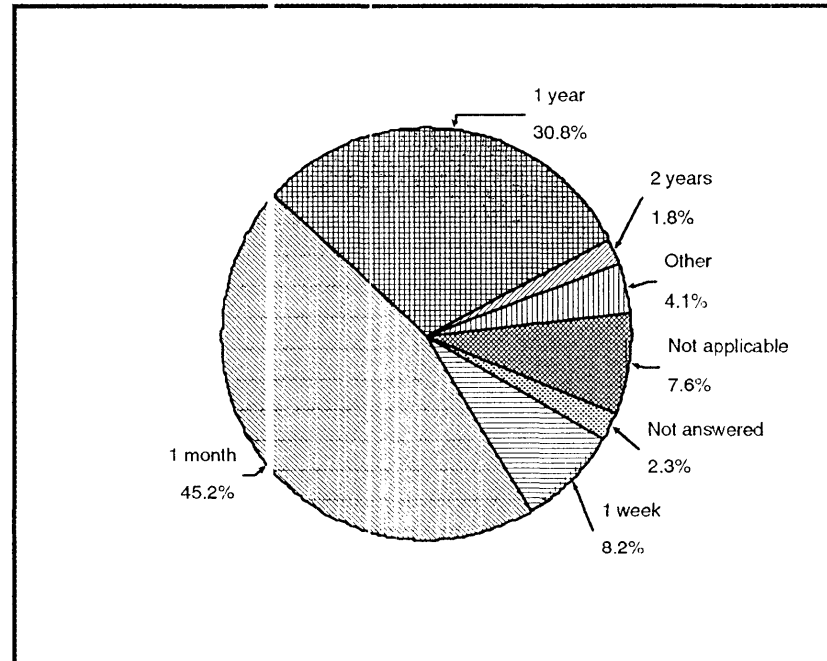
Whether or not estimates of future cash requirements are prepared by respondents to the *Best Financial Practice* survey, and whether they are formal (that is, documented possibly as a cash-flow statement) or informal, is indicated by a nominal study variable CASHREQ based on responses to parts of Question 41 in the survey instrument. The situation in business concerns in the research sample is shown in Figure 6.39 on the next page. The modal response category is 'yes, informal'. However, there is

Figure 6.39: Estimation of Future Cash Requirements

still a substantial proportion of respondents (around one-third) that claim to produce formal estimates of cash requirements that could find expression in future-oriented cash-flow statements. Overall, nearly 93 per cent of those answering the question report undertaking some form of cash planning – once again impressive compared to other research findings and certainly very encouraging from a financial management viewpoint. A Chi-Square test indicates there is a statistically significant association between incidence of budgeting and incidence of estimating future cash requirements ($n=901$, $\chi^2=66.045$, $df=3$, $p<0.000$). Formal cash requirement estimates are more prevalent in enterprises that undertake budgeting.

A Kruskal-Wallis one-way analysis of variance reveals that incidence of estimating future cash requirements is associated in a statistically significant manner with enterprise size in employment terms ($n=1,047$, $H=91.098$, $df=3$, $p<0.000$). Larger enterprises are apparently more likely to produce formal estimates. A Chi-Square test suggests there is a statistically significant difference between small enterprises and medium-sized enterprises as far as incidence of estimating future cash requirements is concerned ($n=1,047$, $\chi^2=40.462$, $df=3$, $p<0.000$). Formal estimates are more prevalent in medium-sized enterprises.

How far into the future estimates of cash requirements for collaborating SMEs typically extend is indicated by a nominal study variable CSHRQHOR based on responses to part of Question 41 in the survey instrument. The situation in business concerns in the research sample is shown in Figure 6.40 on the next page. The modal and median response category is one month – a rather short horizon, perhaps paralleling monthly bank statements and reconciliations and/or monthly receipts and payments patterns in the normal course of business.

Figure 6.40: Horizon for Estimating Future Cash Requirements

A Chi-Square test indicates there is a statistically significant association between incidence of budgeting and horizon for estimation of future cash requirements ($n=825$, $\chi^2=13.937$, $df=4$, $p=0.007$). Longer horizons for cash requirement estimates are more prevalent in enterprises that undertake budgeting. Sparse cells prohibit statistical evaluation using a Chi-Square test of any association between incidence of estimation of future cash requirements and horizon for estimation of future cash requirements. However, there does seem to be a very weak, statistically significant association between incidence of estimation of future cash requirements and horizon for estimation of future cash requirements ($n=946$, Cramér's $V=0.178$, $p<0.000$). Longer horizons for cash requirement estimates are more prevalent in enterprises that produce formal estimates of future cash requirements.

A Kruskal-Wallis one-way analysis of variance reveals that horizon for estimation of future cash requirements is associated in a statistically significant manner with enterprise size in employment terms ($n=946$, $H=23.597$, $df=4$, $p<0.000$). Larger enterprises are apparently more likely to have longer horizons for their future cash requirement estimates. A Chi-Square test suggests there is a statistically significant difference between small enterprises and medium-sized enterprises as far as horizon for estimation of future cash requirements is concerned ($n=946$, $\chi^2=27.618$, $df=4$, $p<0.000$). Longer horizons for future cash requirement estimates are more prevalent in medium-sized enterprises.

6.4.3 Historical Financial Statement Analysis Practices

Attention now turns to practices followed by respondents to the *Best Financial Practice* survey when analysing and interpreting historical financial statements. In Chapters 1 and

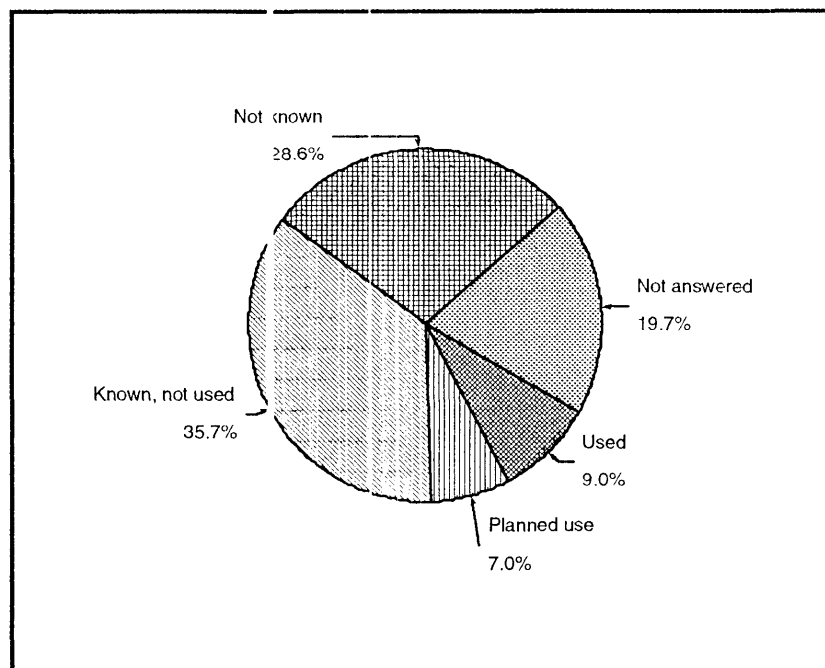
3 of the thesis, it is indicated that specific techniques for this purpose include comparisons of key figures with those in financial statements of previous periods, or with target figures in forecasted financial statements. The calculation of financial ratios, and their comparison with available benchmarks for such measures, might also be undertaken. Responses to the research instrument reveal the extent of knowledge and use of 'benchmarking' – a management tool through which (*inter alia*) a business's financial ratios calculated from its most recent historical financial reports are compared with those of other concerns with similar characteristics (size, geographical location, product range, etc.) in the same industry. Benchmarking has recently been strongly promoted by the Australian federal government as a technique for improving efficiency in the SME sector across industries. Other responses show the incidence of regular budget versus actual comparisons which typically require bringing together historical and future-oriented financial statements. Finally, the incidence of regular forecast versus actual comparisons for cash-flows can be ascertained.

Whether or not benchmarking is known about and employed as part of historical financial statement analysis in collaborating SMEs is indicated by a nominal study variable BENCHMRK based on responses to part of Question 45 in the survey instrument. The situation in business concerns in the research sample is shown in Figure 6.41 on the next page. The modal response category is 'known, not used'. In all, approximately two-thirds of over 800 enterprises responding to the relevant question apparently know about benchmarking as a management tool. And yet, only 20 per cent use or intend to use benchmarking as an aid to analysis and interpretation of historical financial statements. This penetration might be seen as disappointing in view of the federal government's recent efforts to promote benchmarking, but it is certainly comparable with other research findings for SMEs reviewed in Chapter 4 of the thesis.

A Kruskal-Wallis one-way analysis of variance indicates that knowledge and use of benchmarking is associated in a statistically significant manner with enterprise size in employment terms ($n=843$, $H=15.058$, $df=3$, $p<0.000$). Larger enterprises are apparently more likely to know about and use benchmarking. A Chi-Square test reveals there is a statistically significant difference between small enterprises and medium-sized enterprises as far as knowledge and use of benchmarking is concerned ($n=843$, $\chi^2=40.250$, $df=3$, $p<0.000$). Benchmarking seems to be better known and more widely used amongst medium-sized enterprises.

The frequency with which budget comparisons of forecast versus actual results are carried out within collaborating SMEs, typically requiring historical and future-oriented financial statements being brought together, is indicated by a nominal study variable FQBUDCOM based on responses to part of Question 39 in the survey instrument. The situation in business concerns in the research sample is shown

Figure 6.41: Benchmarking in Study Sample

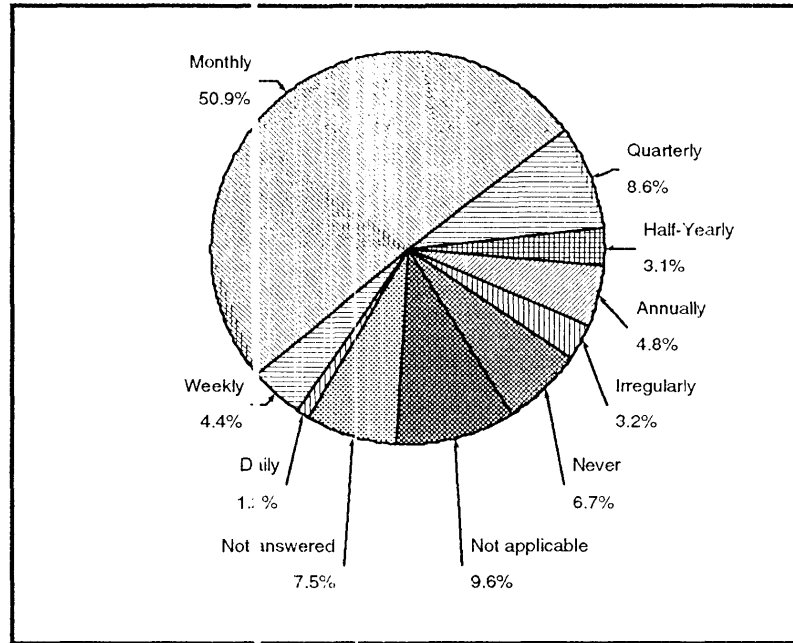


in Figure 6.42 on the next page. The modal response category is overwhelmingly 'monthly' – no doubt strongly reflecting the conventional monthly accounting cycle on which general ledger systems are usually based and also typical monthly business patterns. Overall, of 800 concerns that considered the question relevant to their circumstances and answered it 88.0 per cent report carrying out budget versus actual comparisons at some regular interval – once again quite impressive and encouraging.

Sparse cells prohibit statistical evaluation using a Chi-Square test of any association between knowledge and use of benchmarking and frequency with which budget comparisons are undertaken. However, there does seem to be a very weak, statistically significant association between knowledge and use of benchmarking and frequency with which budget comparisons are undertaken ($n=710$, Cramér's $V=0.135$, $p=0.011$). More frequent budget comparisons are evidently carried out by respondents with greater knowledge and use of benchmarking as a management tool.

A Kruskal-Wallis one-way analysis of variance suggests that frequency with which budget comparisons are undertaken is associated in a statistically significant manner with enterprise size in employment terms ($n=870$, $H=57.130$, $df=7$, $p<0.000$). Larger enterprises apparently carry out budget comparisons more frequently. Sparse cells prohibit statistical evaluation using a Chi-Square test of any association between classification as either a small or a medium-sized enterprise and frequency with which budget comparisons are undertaken. However, there does seem to be a very weak, statistically significant association between classification as either a small or a medium-sized enterprise and frequency with which budget comparisons are undertaken ($n=870$, Cramér's $V=0.143$, $p=0.013$). More frequent budget comparisons seem to be carried out in medium-sized enterprises.

Figure 6.42 Frequency of Budget Comparisons



Whether or not regular forecast versus actual comparisons for cash-flows are undertaken by business enterprises in the research sample is indicated by a nominal study variable CFBUDCOM based on responses to part of Question 42 in the survey instrument. It appears that, of just over 800 concerns that considered the question relevant to their circumstances and answered it, 74.4 per cent carry out regular forecast versus actual comparisons for cash-flows. In view of the already highlighted importance of sound cash-flow management to businesses of the type investigated, this should preferably be higher. Chi-Square tests indicate there is a statistically significant association between incidence of regular forecast versus actual comparisons for cash-flows and knowledge and use of benchmarking ($n=650$, $\chi^2=18.582$, $df=3$, $p<0.000$) or frequency with which budget comparisons are undertaken ($n=700$, $\chi^2=100.250$, $df=7$, $p<0.000$). Incidence of regular forecast versus actual comparisons for cash-flows is evidently higher amongst SMEs that know about and use benchmarking, and also amongst those that carry out more frequent budget comparisons.

A Mann-Whitney test reveals that incidence of regular forecast versus actual comparisons for cash-flows in the study sample is associated in a statistically significant manner with enterprise size in employment terms ($n=805$, $U=55,438.000$, $p=0.024$). Cash-flow forecast versus actual comparisons appear more prevalent in larger businesses. Furthermore, a Chi Square test suggests a statistically significant difference between small enterprises and medium-sized enterprises as far as incidence of regular forecast versus actual comparisons for cash-flows is concerned ($n=805$, $\chi^2=12.013$, $df=1$, $p=0.001$). Evidently, medium-sized enterprises are more likely to carry out cash-flow forecast versus actual comparisons.

6.4.4 Financial Reporting Practices Summary

The findings presented in this section of the chapter suggest that the study sample obtained from the *Best Financial Practice* survey is, from the viewpoint of the present research, conveniently diverse in terms of financial reporting practices. The sample includes small and medium-sized manufacturing enterprises across the spectrum of sophistication in their financial reporting practices. Overall though, the point has been made repeatedly in this section of the chapter that, compared to Australian research findings reviewed in Chapter 4 of the thesis, financial reporting practices amongst the collaborating businesses are evidently of a high standard, and must be seen as very encouraging from a financial management viewpoint. Perhaps this reflects the possibility, mooted earlier in this chapter, that the sample best approximates the larger end of the manufacturing SME spectrum. From the perspective of this thesis, it is unfortunate that the instrument used in the *Best Financial Practice* survey does not include more questions of greater specificity on financial reporting practices. However, it must be recognised that that survey had broader objectives covering most financial management practices. Notwithstanding the foregoing point, the sample and data obtained can be still be judged as more than acceptable given the stated purposes of the research described in the thesis.

Examination of financial reporting practices amongst SMEs in the study sample further supports the earlier perception that enterprise size in employment terms has some explanatory potential for phenomena relevant to this research. Additional variables now considered relate to historical financial reporting, future-oriented financial reporting and historical financial statement analysis. Statistically significant associations with enterprise size in employment terms are evident in data reported for:

- Whether or not use is made of historical profit and loss statements.
- Frequency of use of historical profit and loss statements.
- Frequency of assessing a business's approximate cash position.
- Incidence of employing budgeting in financial management.
- Incidence of making estimates of future cash requirements.
- Horizon for estimation of future cash requirements.
- Knowledge and use of benchmarking as a management tool.
- Frequency with which budget comparisons are undertaken.
- Incidence of regular forecast versus actual comparisons for cash-flows.

Further consideration of associations between these variables and enterprise size forms part of the analysis presented in the following chapter of the thesis.

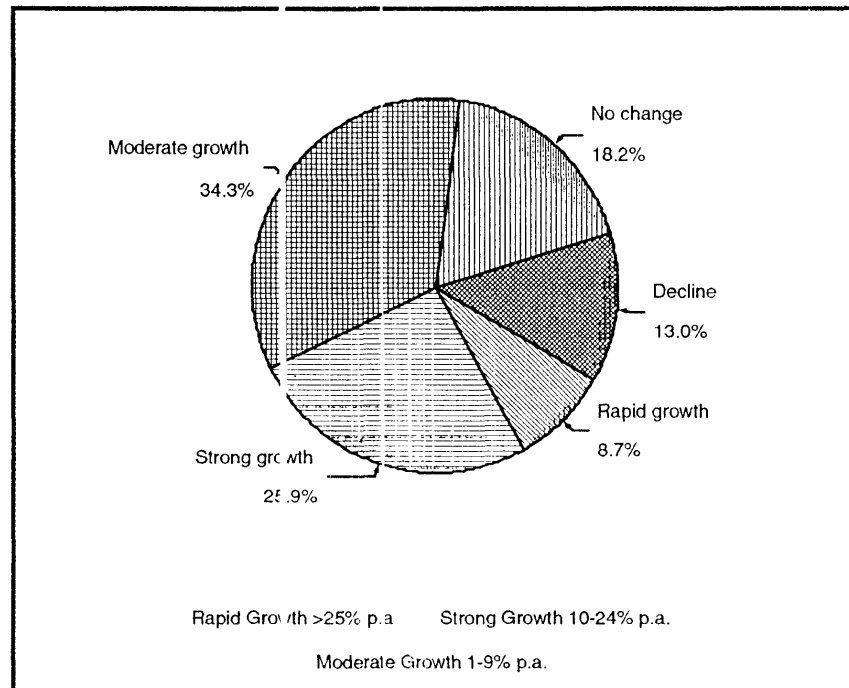
6.5 Business Growth and Performance

6.5.1 Growth

The ultimate dependent variables in this research are business growth and performance outcomes achieved by small and medium-sized manufacturing enterprises in the study sample. As indicated earlier in the thesis, the study relies heavily upon subjective assessments of business growth and performance. The measures of enterprise growth available are subjective assessments of sales growth for the immediate past and the immediate future. These are detailed in this sub-section of the chapter. Various performance measures for respondents to the *Best Financial Practice* survey are considered in the next sub-section.

Estimated sales trends over the last 12 months for enterprises in the study sample are shown in the figure below (data for an ordinal study variable SLSGROWP based on responses to part of Question 6 in the survey instrument):

Figure 6.43 Past Sales Growth in Study Sample

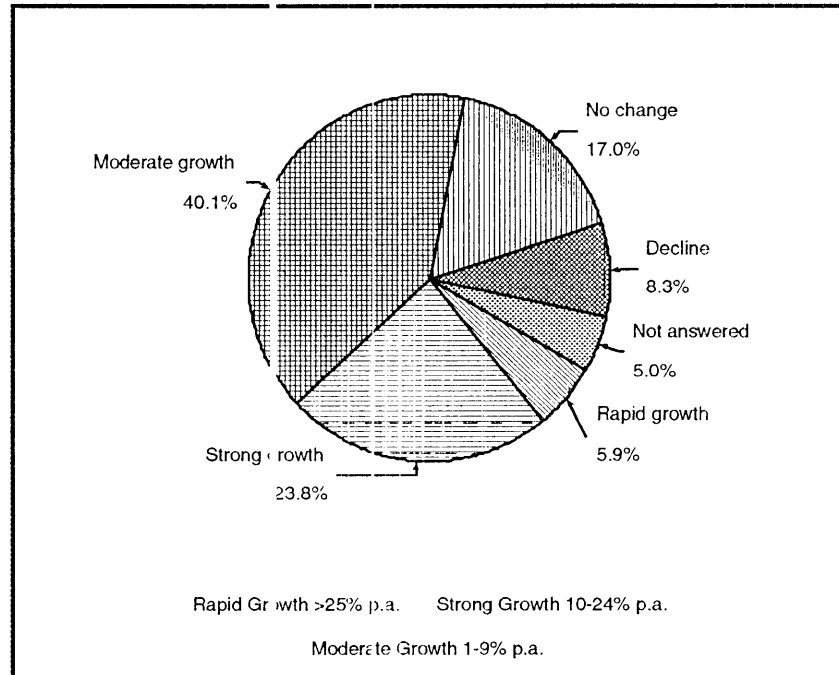


The modal and median response category for past sales growth is 'moderate growth' considered to be 1 to 9 per cent per annum.

Anticipated sales trends for the ensuing 12 months for enterprises in the study sample are shown in Figure 6.44 on the next page (data for an ordinal study variable SLSGROWF based on responses to part of Question 6 in the survey instrument). The modal and median response category for future sales growth is also 'moderate growth' corresponding to 1 to 9 per cent per annum. Not surprisingly, there is a moderate, statistically significant association between sales growth over the last 12 months and

anticipated sales growth for the ensuing 12 months ($n=998$, Kendall's tau $b=0.487$, $p<0.000$).

Figure 6.44 Future Sales Growth in Study Sample

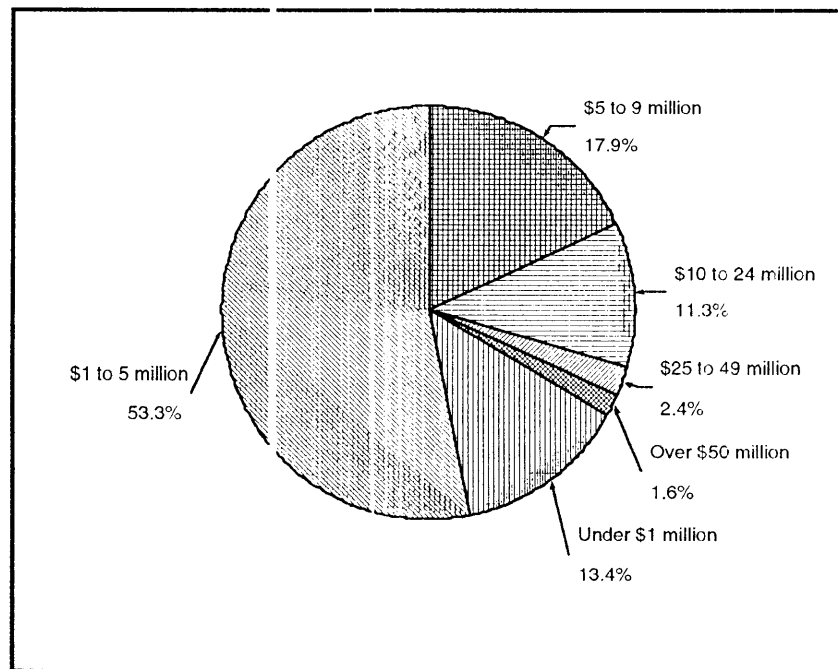


A Kruskal-Wallis one-way analysis of variance indicates that larger enterprises responding to the survey are statistically more likely to have experienced higher rates of sales growth in the immediate past ($n=1,050$, $H=16.865$, $df=4$, $p=0.002$). However, a further Kruskal-Wallis one-way analysis of variance reveals no statistically significant association between enterprise size and anticipated future sales growth ($n=998$, $H=3.627$, $df=4$, $p=0.459$). Mann-Whitney tests suggests no statistically significant differences between small enterprises and medium-sized enterprises in terms of past sales growth ($n=1,050$, $U=37,701.500$, $p=0.663$) or anticipated future sales growth ($n=998$, $U=34,860.500$, $p=0.933$).

6.5.2 Performance

This sub-section of the chapter presents data for various performance measures for respondents to the *Best Financial Practice* survey. These measures are categorical and/or subjective in nature. It was indicated earlier that, since it is essentially a reflection of output, sales turnover is treated in this research as an indicator of enterprise performance, rather than as an enterprise size measure. Current annual sales turnover categories for enterprises in the study sample are shown in Figure 6.45 on the next page (data for an ordinal study variable SALES based on responses to Question 4 in the survey instrument). The modal and median response category for annual sales turnover is \$1 to 5 million per annum, but there is an extended upper tail to over \$50 million per annum.

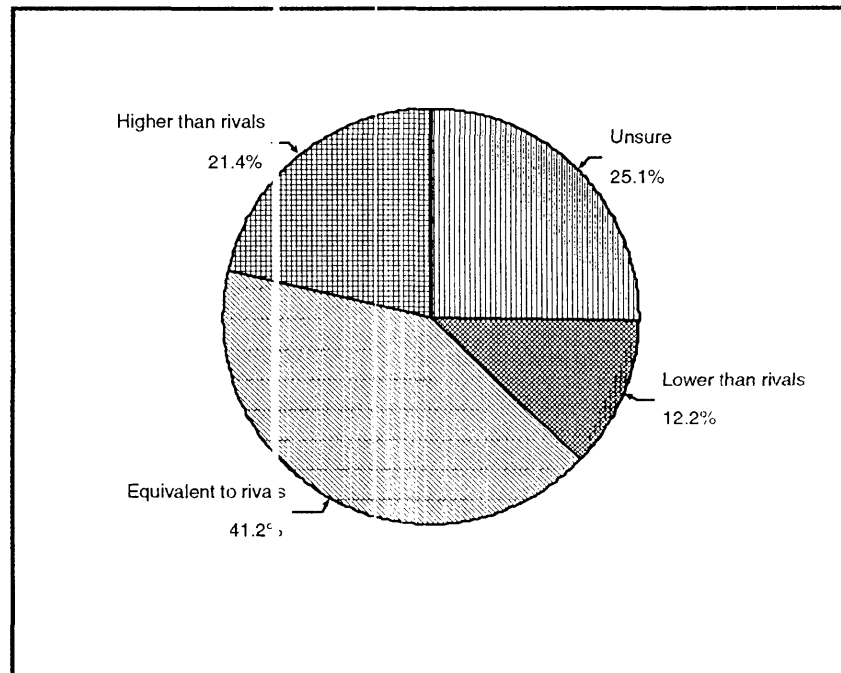
Figure 6.45 Annual Sales Turnover in Study Sample



Not unexpectedly, there is a strong, statistically significant association between annual sales turnover and enterprise size in employment terms ($n=1,050$, Kendall's tau $b=0.702$, $p<0.000$). A Mann-Whitney test indicates a statistically significant difference between small enterprises and medium-sized enterprises in terms of annual sales turnover, with the latter naturally having greater sales revenues ($n=1,050$, $U=3,226.500$, $p<0.000$).

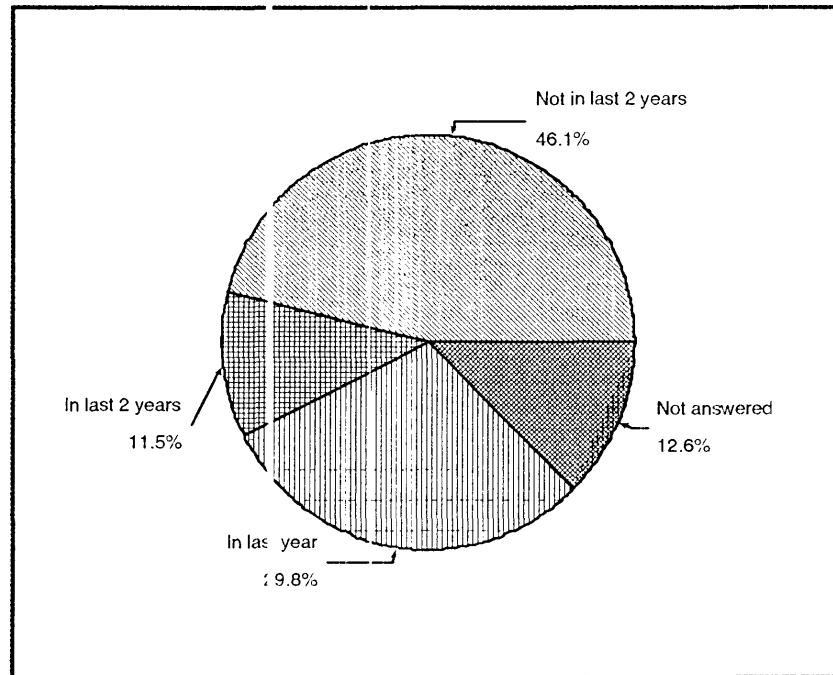
A subjective self-appraisal of the profitability of respondents to the *Best Financial Practice* survey relative to that of their competitors is provided by the nominal study variable PROFITAB based on responses to Question 8 in the survey instrument. These profitability assessments are revealed in Figure 6.46 on the next page. The modal response category for profitability assessments in the study sample is 'equivalent to rivals'. However, there is an unfortunately high proportion of respondents (approximately one-quarter) unsure about their profitability relative to that of competitors. This diminishes the value to the research of this enterprise performance measure. For example, requiring the variable to be treated as nominal, rather than ordinal, clearly results in a loss of information (this treatment is altered in Chapter 7 of the thesis). Referring back to Chapter 2 of the thesis, the poor substantive response rate for Question 8 in the survey instrument is not surprising given findings on the limited formal or informal comparisons of performance with that of competitors apparently undertaken by respondents to the Australian federal government's 1995 Business Longitudinal Survey (Industry Commission & Department of Industry, Science and Tourism, 1997).

Figure 6.46: Enterprise Profitability in Study Sample



A Kruskal-Wallis one-way analysis of variance reveals that median enterprise size varies with statistical significance between profitability categories ($n=1,050$, $H=11.262$, $df=3$, $p=0.010$). Respondents believing themselves to be more profitable than rivals have the highest mean rank in employment terms; and they are followed by those equivalent to rivals, those less profitable than rivals, and those unsure of their profitability relative to rivals in this order. That those enterprises unsure of their performance *vis-à-vis* their competitors are amongst the smallest in the study sample is again not surprising in light of findings of the 1995 Business Longitudinal Survey (Industry Commission & Department of Industry, Science and Tourism, 1997). Notwithstanding the foregoing, a Chi-Square test suggests no statistically significant difference in profitability relative to competitors between small enterprises and medium-sized enterprises in the study sample ($n=1,050$, $\chi^2=6.846$, $df=3$, $p=0.077$).

Earlier in this chapter it is indicated that, particularly amongst SMEs, it is not uncommon to discover businesses that are successful in sales and possibly profitability terms but may be experiencing persistent, and frequently terminal, cash-flow or liquidity difficulties. This is attributed to the combination of overtrading and poor financial management so frequently encountered together in smaller concerns. An ordinal study variable LIQCRIS based on responses to Question 31 in the survey instrument captures the recency of an unexpected liquidity crisis for enterprises in the study sample, as shown in Figure 6.47 on the next page. The modal and median response category is 'not in last 2 years', but note the relatively high proportion of non-responses.

Figure 6.47: Liquidity Crises in Study Sample

A Kruskal-Wallis one-way analysis of variance indicates no statistically significant association between recency of an unexpected liquidity crisis and enterprise size in employment terms ($n=918$, $H=2.674$, $df=2$, $p=0.263$). Furthermore, a Mann-Whitney test reveals no statistically significant difference between small enterprises and medium-sized enterprises in terms of recency of an unexpected liquidity crisis ($n=918$, $U=26,303$, $p=0.171$). Associations in the study sample between variables reflecting enterprise performance can be summarized as follows:

- A Kruskal-Wallis one-way analysis of variance reveals that respondents with higher annual sales turnover have a statistically greater likelihood of believing they are more profitable than their competitors ($n=1,050$, $H=19.542$, $df=3$, $p<0.000$).
- Kruskal-Wallis one-way analyses of variance suggests no statistically significant associations between annual sales turnover and recency of an unexpected liquidity crisis ($n=918$, $H=4.999$, $df=2$, $p=0.082$).
- A Kruskal-Wallis one-way analysis of variance indicates that respondents believing they are more profitable than their competitors have a statistically lower likelihood of having experienced an unexpected liquidity crisis in the last two years ($n=918$, $H=43.902$, $df=3$, $p<0.000$).

Overall, greater annual sales turnover, higher perceived profitability and diminished likelihood of an unexpected liquidity crisis seem to be associated amongst the more successful respondents to the *Best Financial Practice* survey.

6.5.3 Business Growth and Performance Summary

The findings presented in this section of the chapter suggest that the study sample obtained from the *Best Financial Practice* survey is, from the viewpoint of the present research, conveniently diverse in terms of growth and performance outcomes. The sample includes small and medium-sized manufacturing enterprises across the spectrum of success as measured by various growth and performance benchmarks. Again, in this respect, the sample and data obtained can be judged to be very suitable given the stated purposes of the research described in the thesis.

Examination of business growth and performance amongst SMEs in the study sample again supports the earlier perception that enterprise size in employment terms has some explanatory potential for phenomena relevant to this research. Statistically significant associations with enterprise size in employment terms are evident in data reported for:

- Sales turnover growth in the immediate past.
- Current annual sales turnover.
- Subjective self-appraisal of profitability relative to that of competitors.

Further consideration of associations between these variables and enterprise size forms part of the analysis presented in the following chapter of the thesis.

6.6 Chapter Review

This chapter of the thesis has sought to provide statistical descriptions of the various study variables. Evidence has also been presented on bivariate associations between these variables and enterprise size in employment terms, including classification as either a small or a medium-sized enterprise. In all, descriptive and associative findings have been detailed for a total of 85 study variables grouped as follows:

- Enterprise characteristics – 25 explanatory variables reflecting enterprise size, manufacturing sub-sector, geographical location, manufacturing complexity, export commitment, owner-management, strategic planning, strategic management, growth commitment and growth constraints.
- Financial management characteristics – 44 explanatory variables reflecting financial systems, financial audit, business financing, financial reporting to financiers, financier relationships, internal and external financial advice, financial decision-making and financial systems review.
- Financial reporting practices – 5 variables for historical financial reporting, 3 variables for future-oriented financial reporting and 3 variables for historical financial statement analysis. These are outcome variables when examining how enterprise and financial management characteristics may influence them, and are explanatory variables when examining their possible impact on business growth and performance outcomes.

- Business growth and performance – 2 outcome variables for business growth and 3 outcome variables for enterprise performance.

From the viewpoint of this research, values obtained for all these variables through the *Best Financial Practice* survey are conveniently diverse.

In terms of enterprise size, manufacturing sub-sector and geographical location in particular, the study sample is not strictly representative of the population of smaller manufacturing enterprises legally organised as proprietary companies in Australia. However, it cannot be considered poor and/or unusable by contemporary business research standards in this country. In fact, the sample and data obtained appear very suitable given the stated purposes of the present research. The sample approximates the larger end of the manufacturing SME spectrum and seems to include business concerns for which the extent and frequency of historical and future-oriented financial reporting could be an important prevailing issue, and in which financial reporting practices may have impact on achieved growth and performance outcomes. Compared to other Australian research findings, financial reporting practices amongst the collaborating businesses are evidently of a high standard and are very encouraging from a financial management viewpoint.

The point has been made at several stages in the chapter that enterprise size in employment terms has some explanatory potential for relevant phenomena in the small and medium-sized enterprises investigated. Of course, this is not to suggest that enterprise size, so measured, will necessarily match or exceed the influence of other key explanatory variables for the financial reporting practices and growth and performance outcomes at the focus of the research. The joint and several statistical significance of the independent variables described in this chapter are revealed through analysis of the study findings presented in the next chapter.