

ACCA

Developing key skills through financial literacy.

The global body for professional accountants

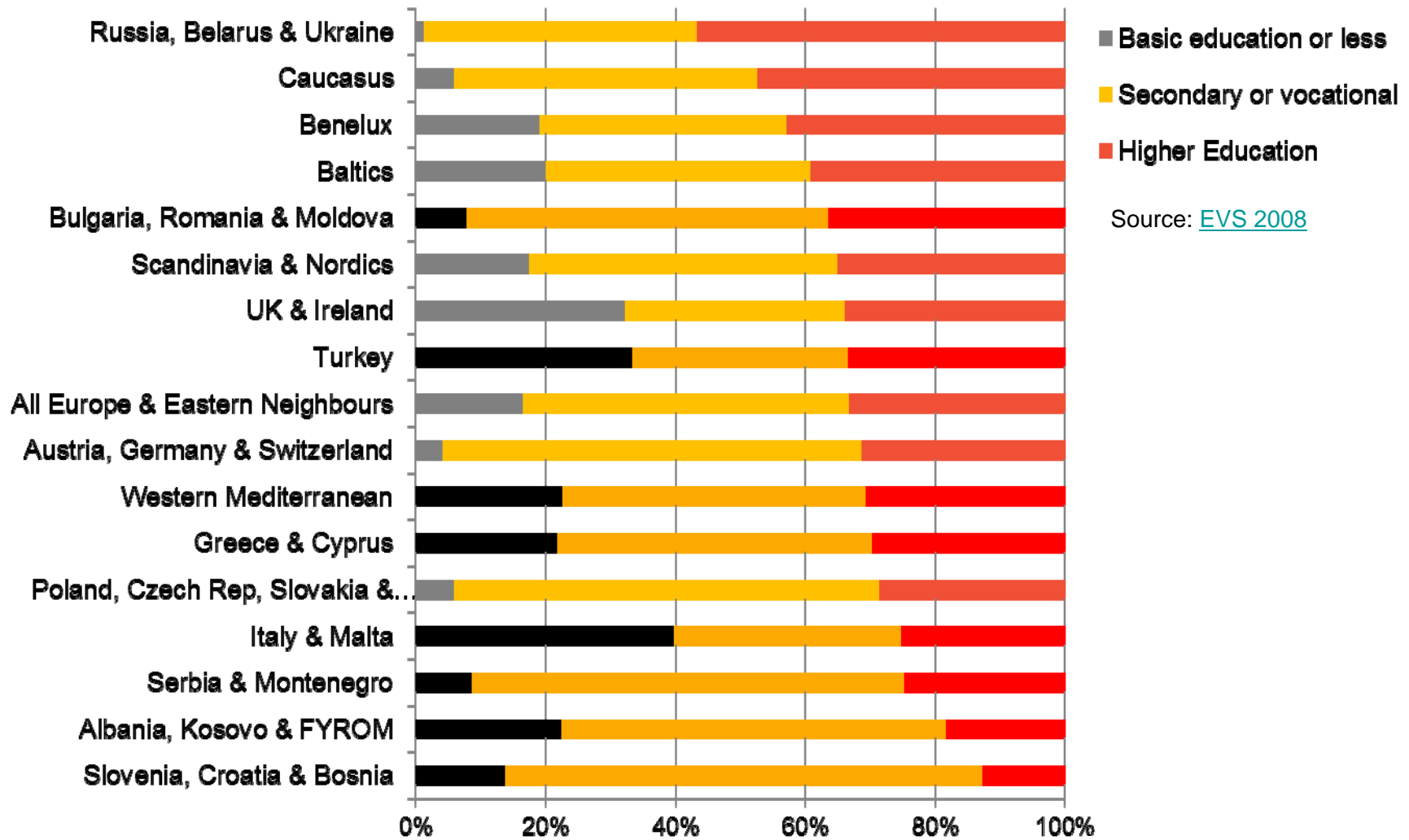


What do they know?

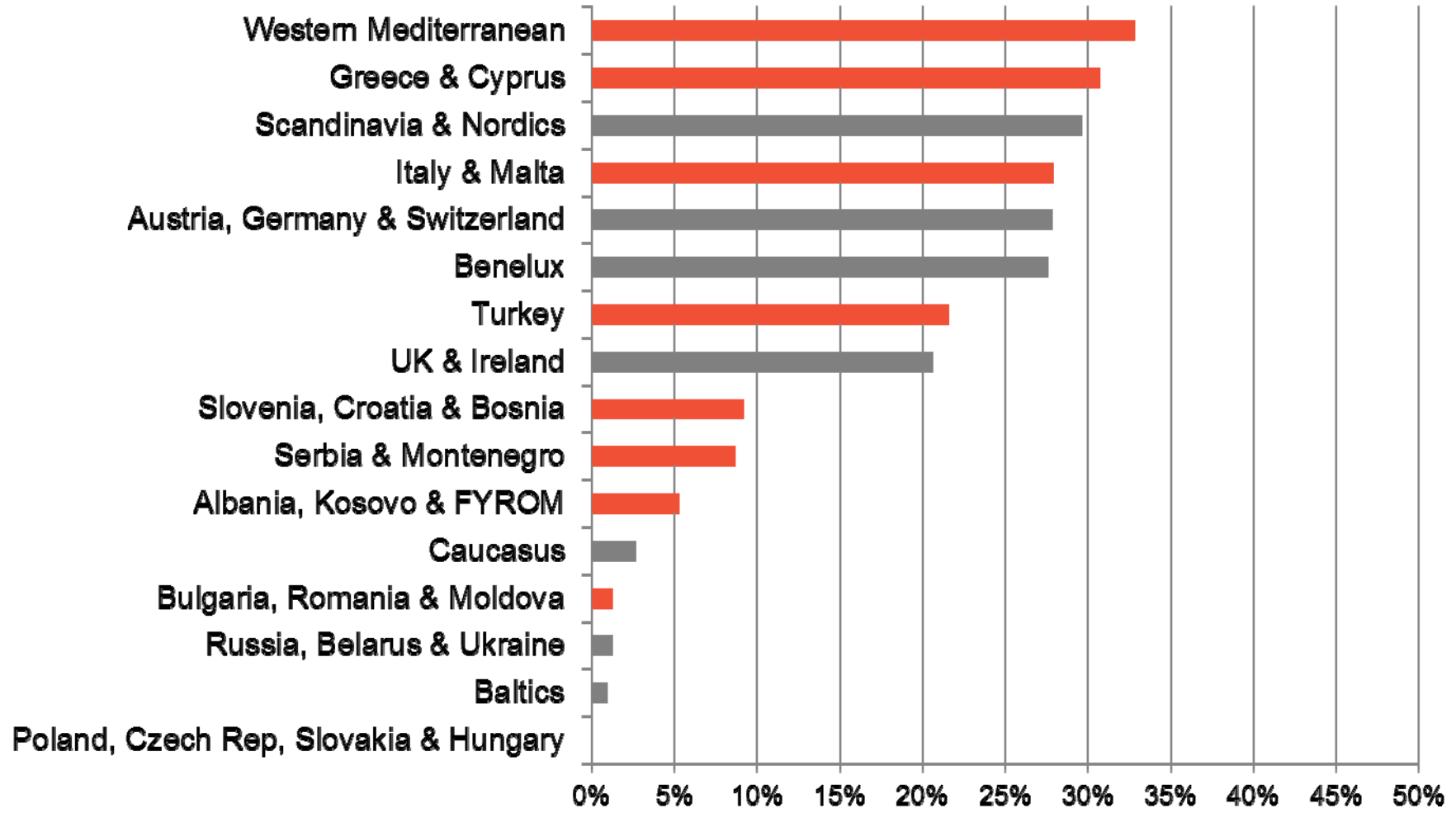
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The background of entrepreneurs: education



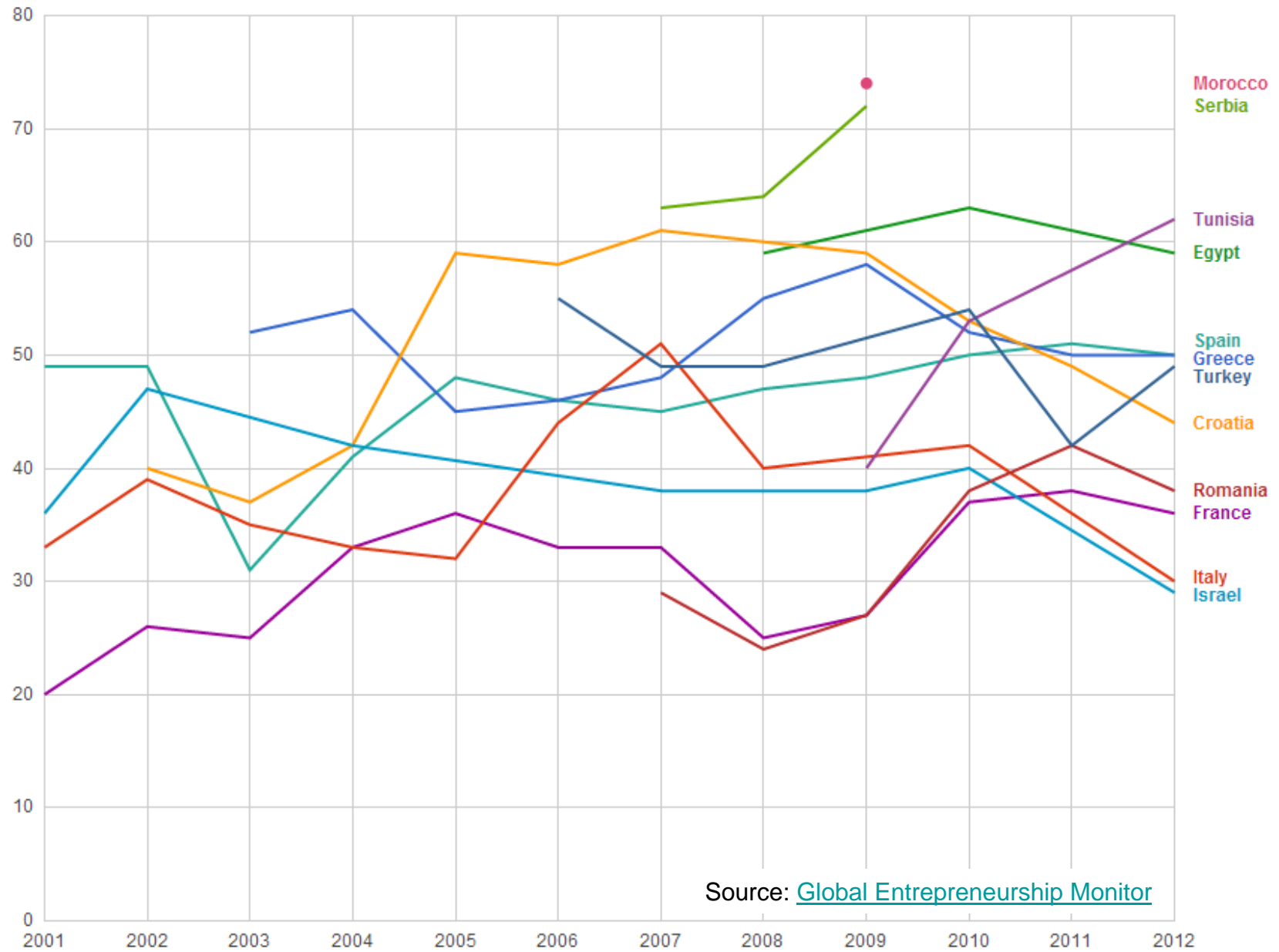
The background of entrepreneurs: 2nd generation



Source: [EVS 2008](#)



The background of entrepreneurs: confidence



Source: [Global Entrepreneurship Monitor](#)

Sample curricula?

'Money smart for small business' – US FDIC/SBA	SME Toolkit – IFC/IBM	EFS / BDS model – USAID
Organisation types	Legal basics / incorporation	
Financial management	Financial management	Statements & Forecasts
Record keeping	Book-keeping & cashflow	Cashflow & fin systems
Banking services for SMEs	Finding financing	Funding options, reqs
Credit reporting	Credit & collections	
Selling a Small Business	Buying a business	
Insurance	Insurance	
Tax planning and reporting	Regulations and policies	
Risk management		
Succession Planning		
Time management		

ACCA Guide to Building the SME Finance Function

Simple

Managing payments

Simple book-keeping

Cashflow forecasting

Credit control

Finance relationship management

Compliance & Tax

Payroll & remuneration

Financing overheads

Advanced

Financial systems

Outsourcing services

Managing external accountants

Hiring and training in-house accountants

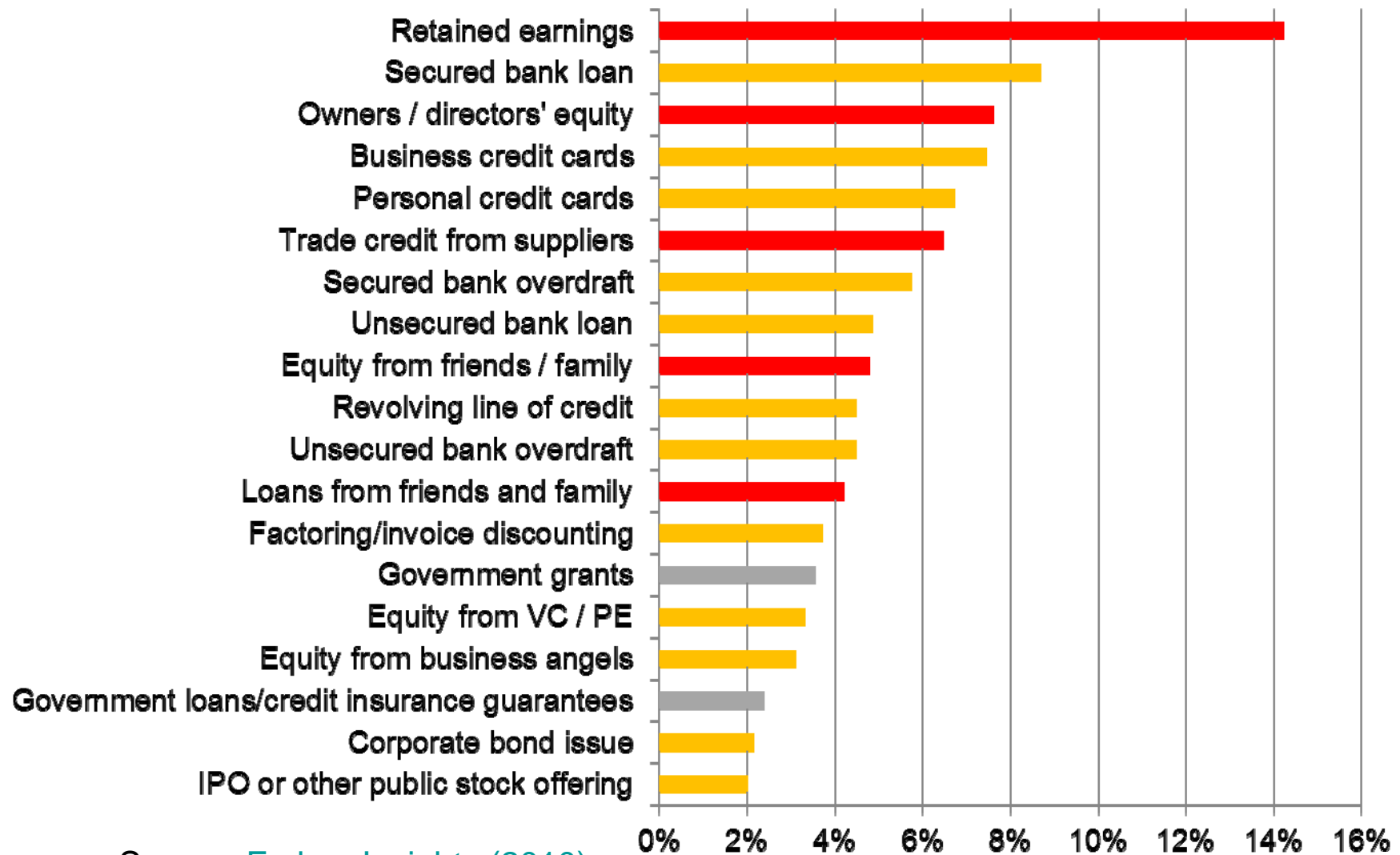


Why financial management?

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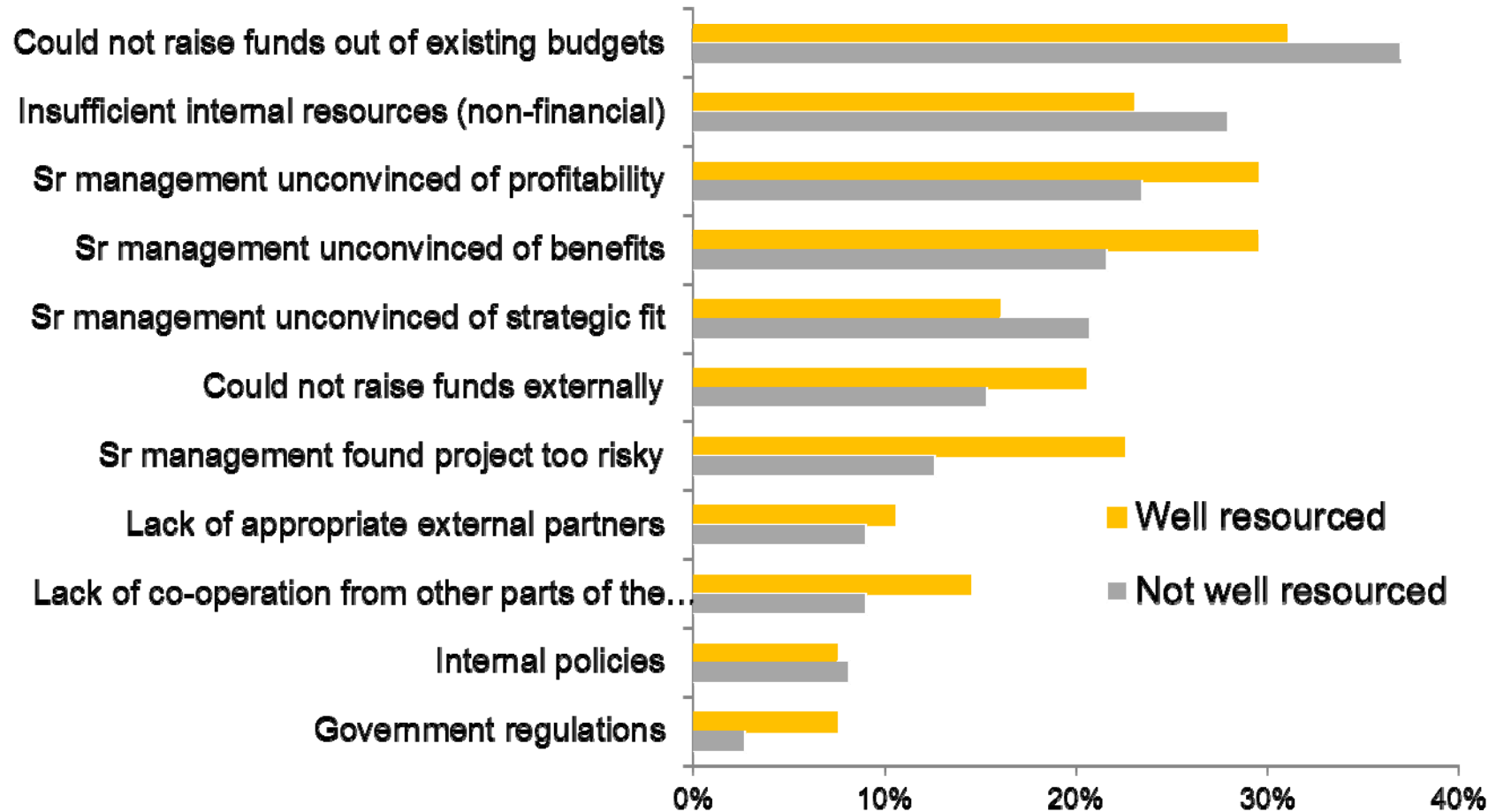


How do SMEs finance themselves?



Source: [Forbes Insights \(2010\)](#)

Why product / service innovations fail, by perceived level of finance function resources



Source: [Forbes Insights \(2012\)](#)

What works?

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How do we know what works?

- Assess over medium term ([Bakhshi et al 2013](#))
- Don't focus on biz survival ([Bruhn & Zia 2011](#))
- Recruitment matters ([McKenzie & Weber, 2009](#))
- Producing managers? ([van der Sluis et al 2005](#))
- Or good borrowers? ([Karlan & Valdivia 2006](#))

The verdict: Keep it simple!

- Just-in-time v global ([Fernandes et al 2013](#))
- Repeat v one-off ([Fernandes et al 2013](#))
- Business v finance ([EY 2010](#); [Cho & Honorati 2013](#))
- Rule-of-thumb v principle ([Drexler et al 2013](#))

Class 4	Account Separation <ul style="list-style-type: none"> - Why separate money for the household from money for the business - Separating house and business money - Setting ourselves a salary - How to keep records of flows between business and household 	Basic Accounting 1 <ul style="list-style-type: none"> - Relevance of Accounting - Estimating profits using itemized records or cash accumulation
Class 5	Estimation Methods <ul style="list-style-type: none"> - Estimate total monthly flow of money between household and business - Estimate increase/decrease of money in the business between beginning and end of the month - Estimating profits 	Basic Accounting 2 <ul style="list-style-type: none"> - Including personal income and expenses into the business daily records - Using daily records to estimate daily profit - Review estimating profits using itemized records or cash accumulation - How to include fixed costs into the profit calculations
Class 6	<i>None</i>	Basic Accounting 3 <ul style="list-style-type: none"> - Aggregating daily records into monthly records - Estimating monthly profit - Accounts payable record keeping - Accounts receivable record keeping

A 'Plan-First' approach?

Figure 4.2: Percentage of UK SMEs preparing management accounts, by level of turnover

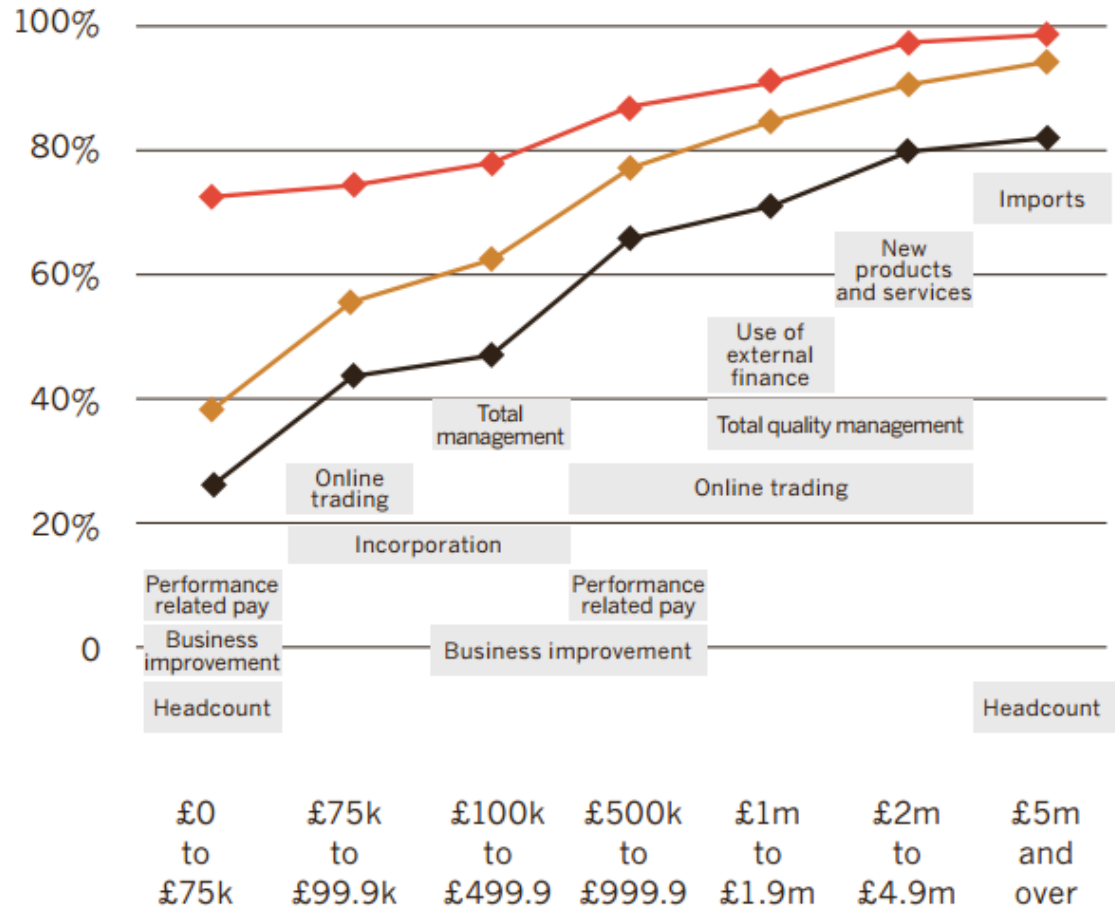
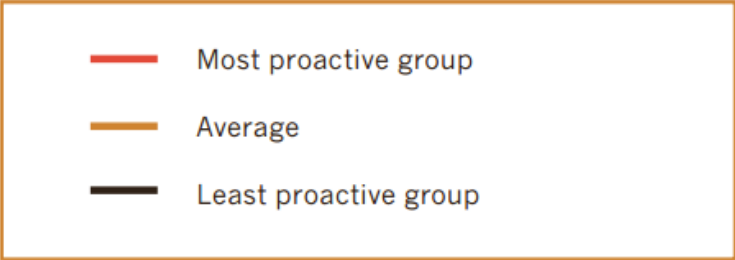


Figure 4.3: Percentage of UK SMEs preparing written business plans by level of employment

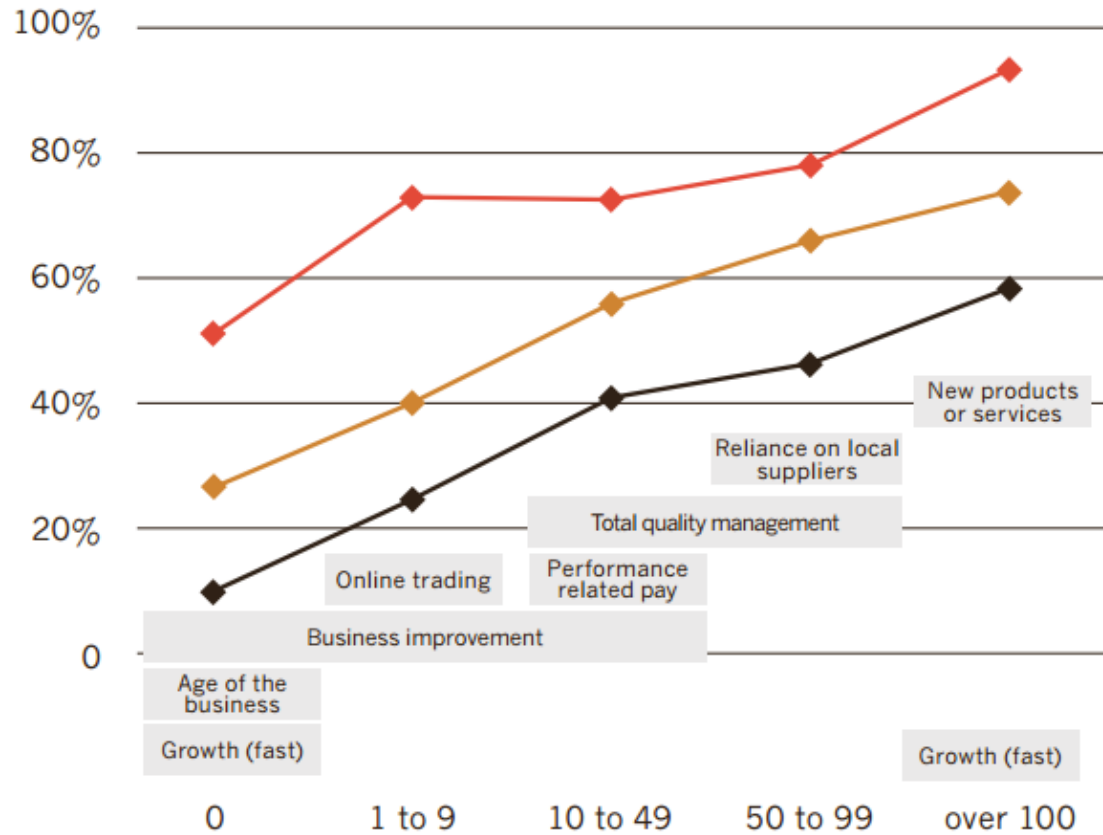
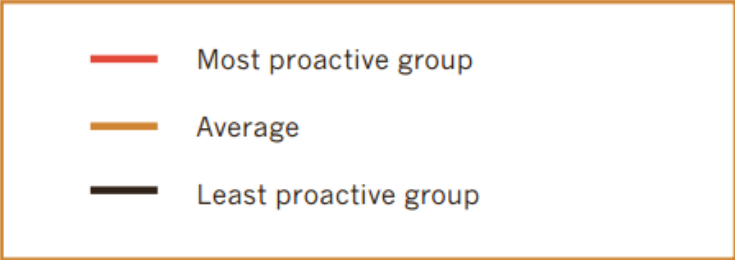
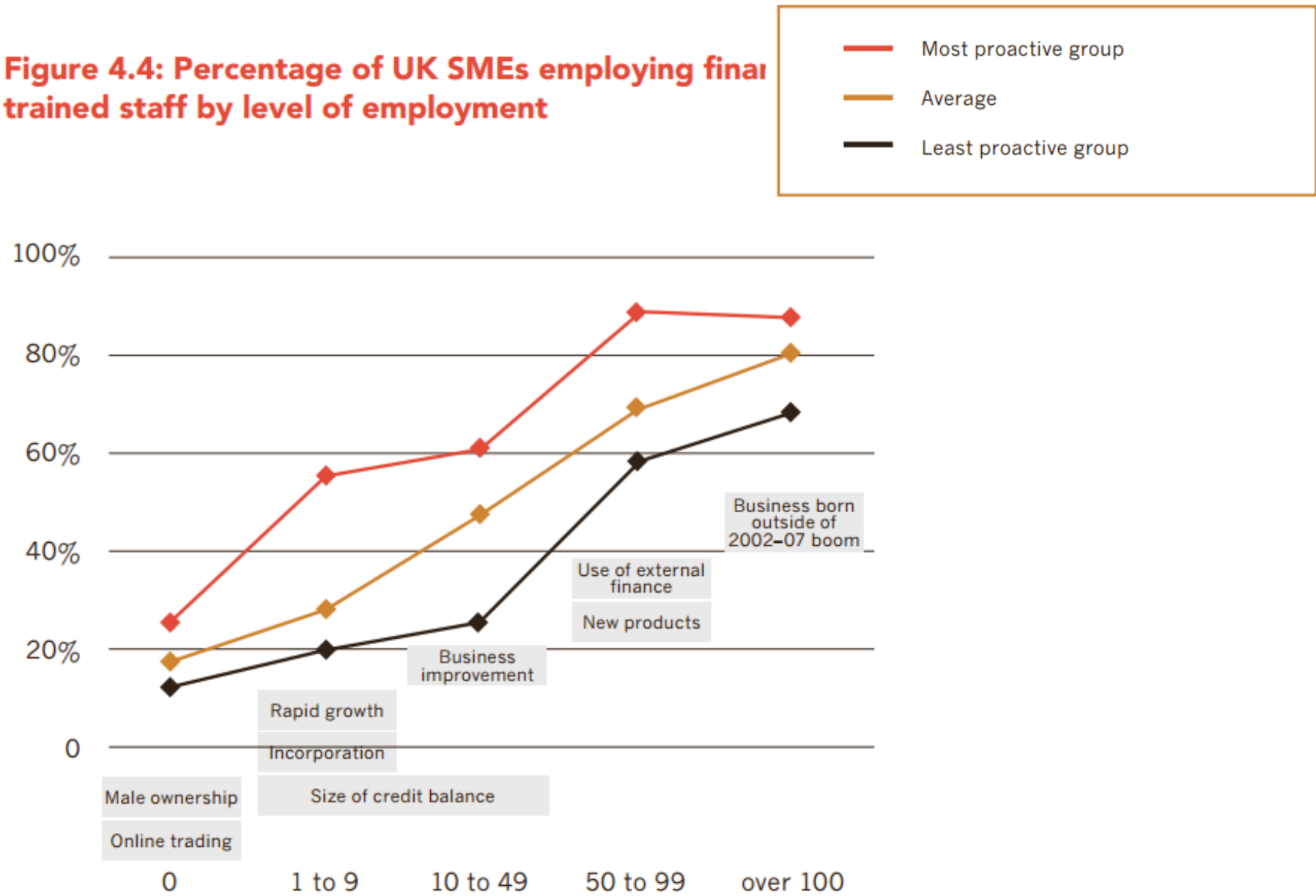


Figure 4.4: Percentage of UK SMEs employing final trained staff by level of employment



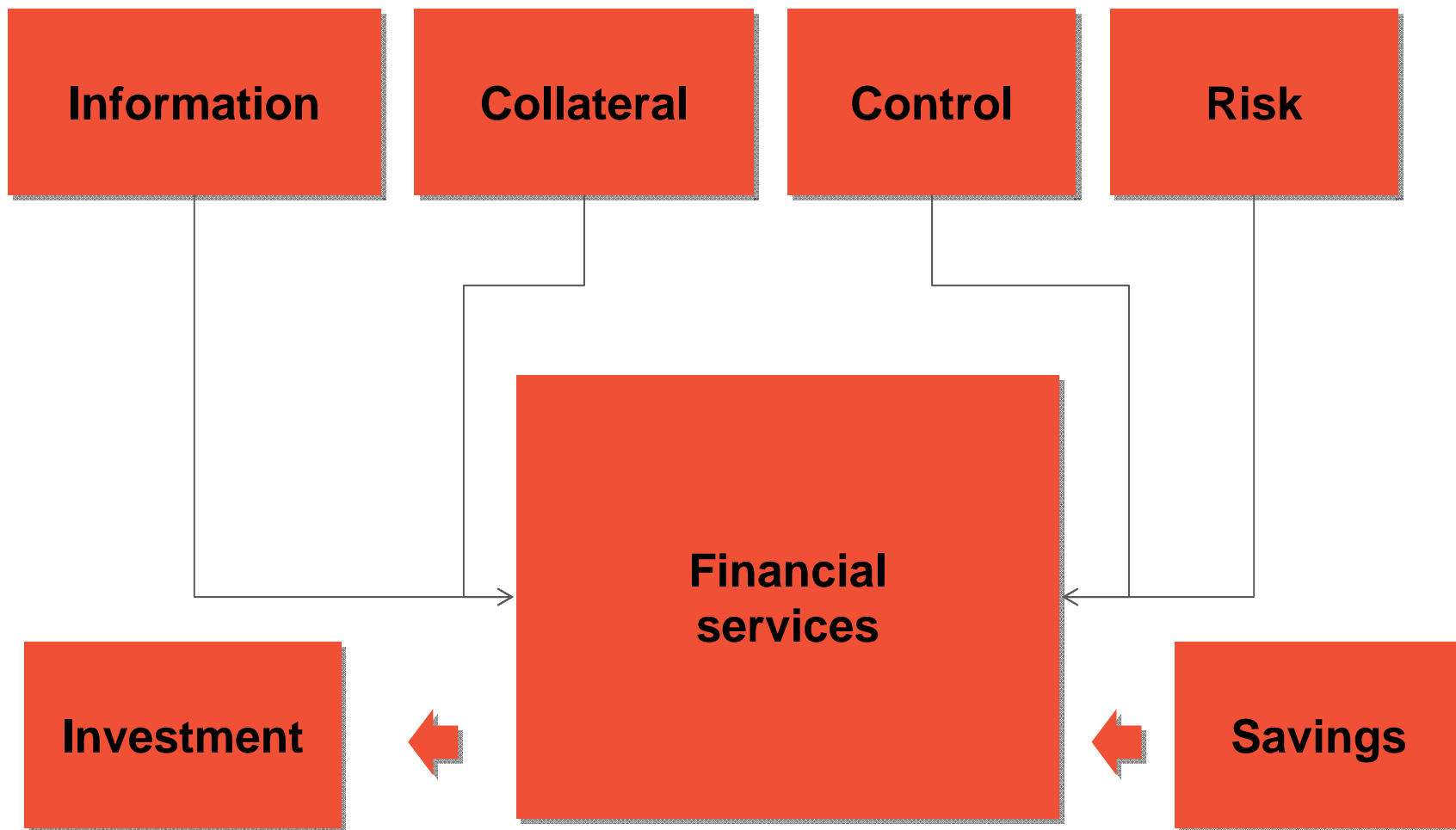
Evolution of the SME finance function

Pre-startup planning

Compliance and control

- Most business plans are perfunctory
- Allowing control of the growing business, external accountability
- The most important contribution and revenue value; and that is a finance function.
- Finance focused on aligning staff resources
- Business resources are now diversified
- Financial controls and staff introduced
- Focus on optimising processes: credit and cashflow, quality management, e-commerce
- Accounting is aligned to growth
- Accessing finance, making the business case for products / services, monitoring the supply chain, managing headcount

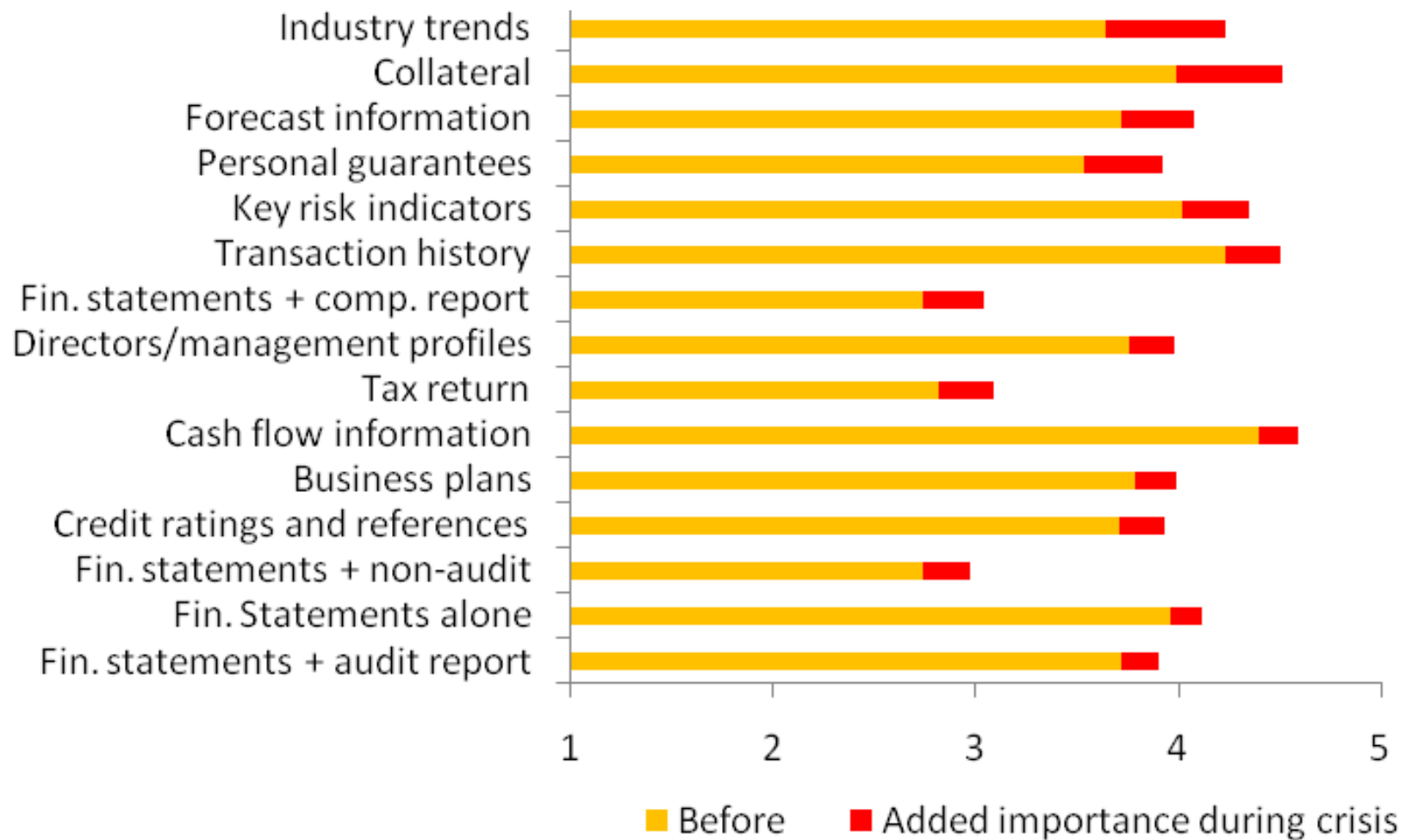
Explaining the black box of finance supply.



A simple funding cheat sheet

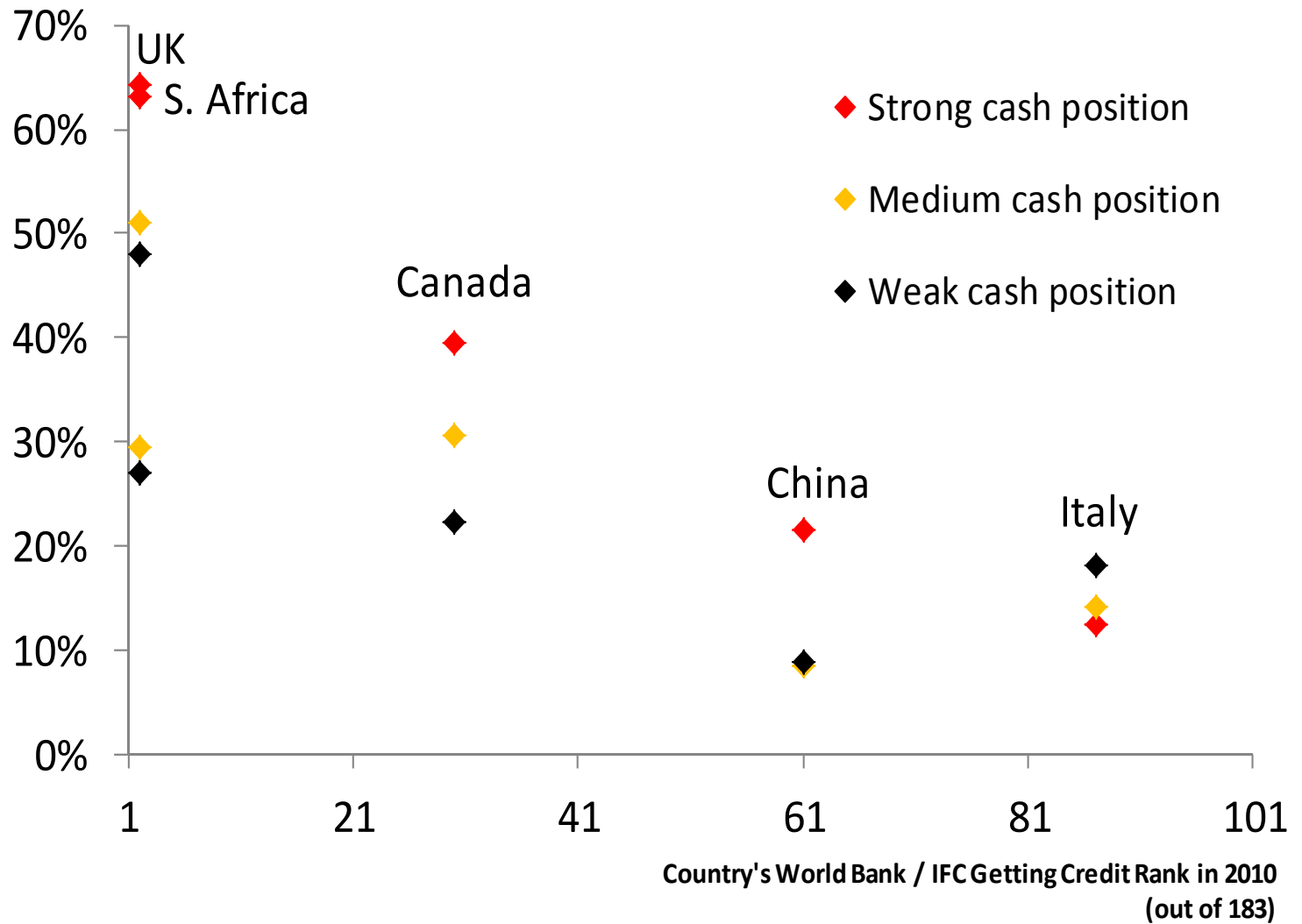
	Lenders	Factors	Investors	State	Friends & Family
Focus	Downside	Downside	Upside	Social upside	Upside
Risk/return function	Don't lose	Don't lose	Lose often but small, win rarely but big	Lose rarely, target RoI	Capped losses, target RoI
Raw materials	Collateral, Information (some Control)	Collateral, Information	Control, information, risk appetite	Information, risk appetite	Information, control
Invest in	Cash-positive, predictable returns	Receivables	Cash-negative, contingent returns	Positive externalities	Proof of concept, working capital

Key factors in SME lenders' decisions pre- and post-crisis



Source: [IFAC & The Banker \(2009\)](#)

% of SMEs applying for finance in 2009-10 that obtained all the finance needed
(Source: Forbes Insights 2010)



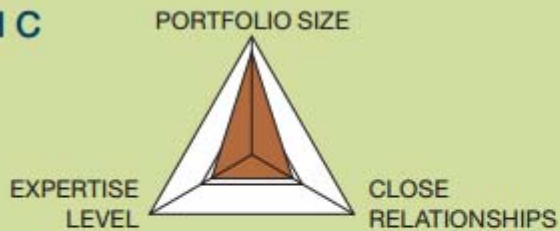
Source: [Forbes Insights \(2010\)](#)

Model A



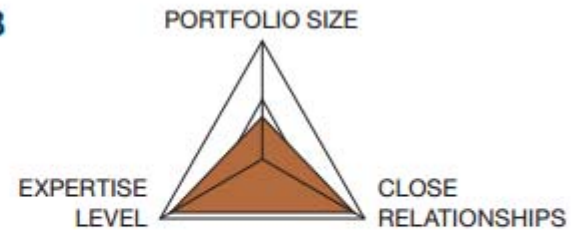
RM's manage a medium number of clients with whom they are fairly close. They have an average expertise on the majority of products and services.

Model C



RM's manage a large number of clients and do not have time to build close relationships with them. They have a more limited level of expertise on products and services.

Model B



RM's build strong and close relationships with clients and are fully available and aware of the clients' needs. They manage a more limited number of clients and are experts in most products and services.

Model D



RM's build close and strong relationships with clients and manage a large number of clients. As a consequence, they can sell only a few products and services without expert support.

Small-sized clients

25%

9%

46%

20%

Micro-sized clients

22%

40%

16%

22%

- Model A
- Model C
- Model B
- Model D

It helps to remember:

- Cash is king
- Not all funding is interchangeable
 - Lenders won't finance your customers
 - Equity investors won't refinance debt
- Self-funded entrepreneurs do better
- By the time you decide to apply for funds, your chances are locked in!

Behavioural elements

- Timing of applications and advice
- Owning one's credit score & application
- Navigating government support
- Presentation and pitching
- Overcoming discouragement
- Overcoming product stigma (e.g. invoice discounting)

Thanks!

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Get in touch!

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[@acca_sme](#)

Or Google:

[“Accountants for small business”](#)

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