

THE NEXT STEP

HOW AMBITIOUS BUSINESSES CAN
ACHIEVE THEIR POTENTIAL



**How to pivot - is it
ability or attitude?**

**Interview with Keith Heron
Associate Professor
Henley Business School**



SPECIALIST ACCOUNTING SOLUTIONS

ADVISORY AND FINANCIAL OUTSOURCING FOR SMEs AND GROWTH BUSINESSES

A report commissioned by SAS Specialist Accounting Solutions considers the biggest challenge for any independently-owned company which has the potential to go further.

The ability of the owners to scale the business.

In their own words, directors talk about the issues they are having to address and how they want to achieve their goals.

The interviews will be brought together as a report to be published by DECISION magazine and then as a digital book.



SPECIALIST ACCOUNTING SOLUTIONS

ADVISORY AND FINANCIAL OUTSOURCING FOR SMEs AND GROWTH BUSINESSES

Is agility the real difference between the owner-managed business and a corporate when it comes to its ability to move forward? Or is it the influence of the shareholders, whoever they are, which determines a company's ability to make and implement decisions quickly?

“A public company will place more emphasis on the requirement for quarterly reporting and minimising risk, with the result that there is no appetite for radical change,” suggests Keith Heron, programme director for the MSc entrepreneurship programmes and an associate professor at Henley Business School.

“If, for example, you take R&D spend as a proxy of their risk appetite, it tends to be a very small percentage of turnover except for the high-tech companies which have taken investment for that purpose. But the willingness of an independent private company to introduce change



*Keith Heron -
... “proxy of
risk appetite”*

proactively is not a given simply because it happens to be an owner-managed business.

“The owner-manager can be reluctant to professionalise, perhaps due to a perceived loss of control as a result. On the other hand, a corporate sees this as an essential priority in order to co-ordinate activities to get to the lowest unit cost of production. The entrepreneur tends to be much more interested in the excitement of the pursuit and the development of new ideas, rather than putting ‘boring’ processes in place.

“However, the opportunity to pivot and the ability to pivot are not always connected. While a small business can go in any direction with shorter, even immediate timelines, if it hasn’t professionally integrated its methods and processes - and now I’m obviously generalising - the financial and time space for the owner-managed business is restricted.

“I once worked for a family-owned engineering firm where the MD wanted to know all the detail about everything so he could fully understand both the product and how to sell it; both exploration and exploitation. As a consequence he also realised the need to integrate processes because the quality standards we had to follow in order to create our reputable, sophisticated product also required effective documentation and record-keeping. The inspirational chef patron or the founder of a creative design studio, and I know I’m on thin ice here, is more likely to be driven by a different rigour, and the lowest cost of production might not be a priority if their margins are high. Growth becomes more dependent on their personal charisma.

“Entrepreneurs love the challenge of new projects. But I would argue they need to experiment rapidly in the earlier years of their business when the adrenalin is still pulsing and they can draw on better margins

being generated by the innovative product they set up in business to create before competitors close in.”

“A lot of this comes down to spotting an opportunity which is not simply a minor deviation from what is out there already,” says Heron. “Initially the customer will gain a benefit from an enhancement to an existing offering, but if it’s an easy adjustment to make, competitors will soon come in and start driving margins down. But then with more radical innovation there can be customer reluctance because they see too big a risk in deviating from their current purchase preference, and don’t want to make what is called ‘an adverse selection’ which they find is not so easy to use or integrate.

“If the owner-manager does decide to keep exploiting their existing innovation, then the growth of their business will increasingly depend on their ability to integrate processes and activities; implementing CRM would be a simple example.

“It can be a big investment in time for an SME to make that necessary change but it’s essential if the owner-manager, because of the size of the business, no longer has both hands on everything on a daily basis to see straightaway, say, the value of customer ‘A’ in Belfast compared to customer ‘G’ in London.

“That brings us back to the question of agility. If the owner-manager has the right information at their fingertips, they can tell a customer immediately that a price can be reduced by a certain amount because they can see straight away they will still have an acceptable margin.

“You could say integrating processes enables an SME to monetise that inherent characteristic of agility. A corporate will also have that



information to hand but will probably still have to go through channels in order to get approval.

“It’s also easier to delegate if integrated processes are in place. The insertion of professionalism will result in better information and an enhanced sense of control for the owner-manager of a growing business. It allows a better understanding of the predictive results of a decision which otherwise would be made more on intuition.

“An additional problem though for a lot of small firms is that even with processes in place, they don’t record information sufficiently well in their haste to get the product out of the door for the customer.”



SPECIALIST ACCOUNTING SOLUTIONS

ADVISORY AND FINANCIAL OUTSOURCING FOR SMEs AND GROWTH BUSINESSES

As it happens, Heron can speak from direct experience. “My background was in industrial goods where processes and information were critical, and I brought that rigour into my own commercial picture framing business which I started up,” he explains. “We employed six people and plateaued because of increased competition. We could see margins continuing to diminish and we had already gained growth because we had integrated our processes. So to continue to move forward there was a need to identify a new opportunity. But that would have meant more risk, and it comes back to the attitude of the shareholders. For us it would have required more equipment, additional people, and bigger premises, so it would have been a big step change, a leap rather than incremental development, and in a flattening, crowded market, we decided not to.

“Ours was a specialist activity and there were no real avenues for diversification, so we decided to stay as we were. The owner-managed business either needs to find incremental growth or have a willingness to bring in capital, but the preference is to take on debt rather than relinquish equity, unless the business is in a high tech/high development costs situation where unless external capital is introduced, the owners will never capitalise on their innovation. And there is something else which has to be factored in. The owner-manager is more likely to be paternal, with a sense of responsibility for their staff, which can result in an unwillingness to do anything which could result in them not being able to provide for their families.”

According to Heron, reliability is becoming the biggest factor in a business relationship. “If a company doesn’t have the mechanisms in place to ensure it is delivered consistently, it isn’t going to be able to sustain its position with the customer as the business grows,” he suggests. “Let’s take a coffee shop as a for instance. If reliability isn’t there to produce the



SPECIALIST ACCOUNTING SOLUTIONS

ADVISORY AND FINANCIAL OUTSOURCING FOR SMEs AND GROWTH BUSINESSES

coffee in time, a long queue forms. That ineffective provisioning of the serving process isn't going to have a positive effect on the customer or the business. The coffee shop chains are much better at it because they have invested time to work out the optimum process. The independent will be attracting the customer with brand charisma and charm but they can't scale a business on that alone.

“Having processes in place doesn't stop the owner-manager from being entrepreneurial; in fact it can distribute entrepreneurial energy by giving staff access to reliable information and enable them to make good decisions themselves. This then allows the leader to allocate more time to explore opportunities for growth.

“It's a question of evolution, at whatever pace, versus revolution. The interconnectivity of activities inside the firm enables growth and provides the owner with the foundation for taking risky growth decisions more confidently.

“The risk is that the owner-manager will only bring in professional help and try to introduce processes when they're confronted by crisis. An analogy would be that it's far better to upgrade to a new car before your existing vehicle begins to stop working.”

www.henley.ac.uk

About Specialist Accounting Solutions

‘We strive to give our clients the most reliable, accurate and insightful financial information’, says founder Sean Hackemann. ‘Our passion is to help businesses fully understand the numbers which in turn helps them create, grow and sustain great businesses’.

Specialising in advisory, virtual FD and financial outsourcing services, Specialist Accounting Solutions Ltd works with ambitious entrepreneurs and management teams, supporting them to achieve their goals.

Financial Outsourcing Services:

- Virtual FD/ part-time FD/ head of finance
- Fully and partially outsourced solutions
- Monthly management accounts with detailed financial analysis
- Bookkeeping
- Dealing with financial compliance

Advisory Services:

- Financial modelling
- Business valuations
- Raising capital
- Acquisitions and disposals
- Finance reviews and reports

Specialist Accounting Solutions Ltd

T: 0118 911 3777

E: info@teamsas.co.uk

W: www.teamsas.co.uk

A: The Blade, Abbey Square, Reading, RG1 3BE

Report researched and published for Specialist Accounting Solutions Ltd
by **DECISION magazine**
www.decisionmagazine.co.uk



SPECIALIST ACCOUNTING SOLUTIONS

ADVISORY AND FINANCIAL OUTSOURCING FOR SMEs AND GROWTH BUSINESSES