An Analysis of Financial Skills of SMEs for the Chambers of Commerce
Dr. Geoffrey Lee and Mudiarasan Kuppusamy, University of Western Sydney

EXECUTIVE SUMMARY

This research was undertaken to assist the Chambers of Commerce in Sydney in managing their members (SMEs in this context) more effectively via provision of relevant financial skills and using the right channels. This is deemed necessary as the Chambers of Commerce is one of the key organizations that help its members run their business efficiently. Lack of knowledge on what type of financial skills the SMEs want to learn and how they prefer to obtain it could hinder the Chambers from being relevant and effective.

A survey questionnaire was developed in consultation with the Chambers of Commerce and was sent to 5,000 SMEs with details given by the Chambers. Although the response rate was quite low of about 8%, nevertheless it was enough to undertake a preliminary analysis and come to a conclusion. The results (in terms of descriptive and relationship analysis) can be summarized as follows:

Descriptive
Majority of the respondents are non-home based business, in addition to most of them being the owners of the business. Large proportion of the responding SMEs is in business for more than 10 years. In terms of the size of the business, the result shows that most of the responding firms are in the micro-organization category, which means that they have less than five employees working for them. The average Internet usage during work is between 5 to 20 hours.

Relationship
- *Benchmarking and analyzing cash flow are the most required financial skills by SMEs.*
- *HB and NHB groups have similar financial skill interest but on a different preferential basis. HB group's priorities are pricing, analyzing cash flow and starting new business. The NHB group's priorities on the other hand are analyzing cash flow, pricing and starting new business.*
- *Employees have different set of financial skills interest than the owners.*
- *'Young' SMEs are keen to learn about the source to get financial assistance as well as how to lease vehicles. In addition to information financial assistance, 'mature' businesses also want to learn more about company tax issues.*
- *Micro and medium sized enterprises seem to have similar financial skills prioritize and interest, that is analyzing cash flow and legal structure in business. Small firms on the other hand have stronger interest on legal structures of business, selling of the business and analyzing cash flow.*
- *Accountants or financial advisors, industry association & events, and the Internet are the optimum channels to obtain financial skills information.*
- *HB and NHB respondents have the same preferred learning channels – which is industry association and events and formal studies at universities.*
- *Owners and employees have greater preference to learn financial skill via books, newspapers and magazines.*
- *SMEs in all business age group have the same learning channel preference – that is from the government department.*
- *SMEs in all size prefer to use government department and distance education as the primary channel to obtain financial skills information.*

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1.   RESEARCH QUESTIONS

This study was undertaken based on the following research questions:

- What type of financial skills is essential to Small & Medium sized Enterprises (SMEs)? *and*
- In what way do the SMEs acquire information about the financial skills that they are interested in?

The results from this study will draw attention to two major measures that the Chambers of Commerce (CoC) needs to embark on:

- Assist CoC in provision of relevant information on financial skills to its members (SMEs in this context), *and*
- Guide CoC in providing the information via the appropriate channels

2.   DESCRIPTION OF THE SURVEY INSTRUMENT

The survey questionnaire was divided into two main sections. The first section sought information about the SMEs demographic profiles. The demographic questions are as follows:

- whether they are conducting home or non-home based business
- the respondent's role in the business -- owner or the employee
- number of years they are in business – below 3 years, 3 to 10 years or more than 10 years
- the size of the business – micro, small or medium
- Internet usage in workplace (number of hours) – below 5, 5 to 20 or more than 20 hours per month.

The second section of the questionnaire probed information on:

- the financial skills that the SMEs would like to learn (37 questions)
- the preferred channel to access such information (12 questions)

3.   FINDINGS

This study was conducted in two stages. In the first stage, a series of interviews was conducted with several financial institutions that have provided business loans to SMEs in Sydney. The insights from the interview were used to establish/identify the major financial skills that SMEs would want to learn. In the second stage of the study, a survey was carried out on 5,000 SMEs operating in Sydney area. The contact details of both the financial institutions and the SMEs were obtained from the Chambers of Commerce.

3.1 Descriptive analysis

Descriptive analysis was undertaken to obtain the statistical patterns for the demographics, financial skills and the preferred channel to obtain the financial skills. A total of 399 usable responses were received representing an approximate response rate of 8% of the 5,000 sample SMEs. Despite the relatively low response rate (at >10% where 20% is generally regarded as a valid sample), a small sample size can generally be accepted for an explanatory based study.[1] Since there were no significant response differences in terms of demographics or psychographics between the groups that supplied the contact lists or industry segments, these groups and segments were combined for analysis. Note that the discussion of the results is on the three best outcomes.

3.1.1 Demographics

The descriptive analysis results for the demographics are summarized as follows. Note that Figure 1 depicts a graphical representation of the mean score for the questions and the relative standard deviation (SD). Figure 2 – 6 shows the graphical representation of each variable's response rate in percentage.

- The mean score for *home based (HB)* or *non-home based (NHB)* question is 2.95 (*SD = 10.84*).[2] In this context, 27% (N = 107)[3] SMEs are in the HB group, while another 72% (N = 287) SMEs are in the NHB category (Figure 2).

- The mean score for the role in business question is 1.77 (*SD = 6.92*). Majority of the respondents, i.e. 72% (N = 284) are *owners*, whereas 28% (N = 113) are *employees* (Figure 3).

- For the question related to the age of business, the mean score is 16.31 (*SD = 20.04*). Of this, 13% (N = 53) of the SMEs are in the business for *less than 3 years*; while 34% (N = 136) have between *3 to 10 years* of business experience. A large majority of the SMEs, that is 49.6% (N = 198), are in the business for *more than 10 years* (Figure 4).

- In terms of the size of the business question, the estimated mean score is 12.72 (*SD = 30.81*). Large proportion of the sample SMEs (43%, N = 170) are in the *micro organization* category, while another 29% (N = 116) are *small* firms. About 14% (N = 55) of the sample SMEs is categorized into *mid-sized organizations* [4] (Figure 5).

- The mean score for the question on Internet usage in workplace is 11.18 (*SD = 28.53*). To this end, about 21.6% (N = 86) of the SMEs are using the Internet for

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[1] Sarachek, B and Aziz, A.H (1983), "A Survey of Malaysian Personnel Practices and Problems", *Jurnal Pengurusan*, 2: 61-79.

[2] SD is an acronym for Standard Deviation

[3] N is an acronym for Number of Respondents

[4] The categorization of micro, small and medium organization is done based on the number of full-time employees in the sample organizations (**Ref?**). Organization with 1 – 4, 5 – 20, and 21 – 200 employees are categorised as micro, small and medium, respectively. The data also showed existence of 13 (or 3.3%) large organizations (with the number of employees being more than 200). However this group is not discussed in this report, as the focus of the study is on SMEs only.

less than 5 hours, while 63.2% (N = 252 SMEs) are using the Internet between *5 to 20 hours*. A small percentage (i.e. 7.3%) of the SMEs (i.e. N = 29) use the Internet for *more than 20 hours* (refer to Figure 6).

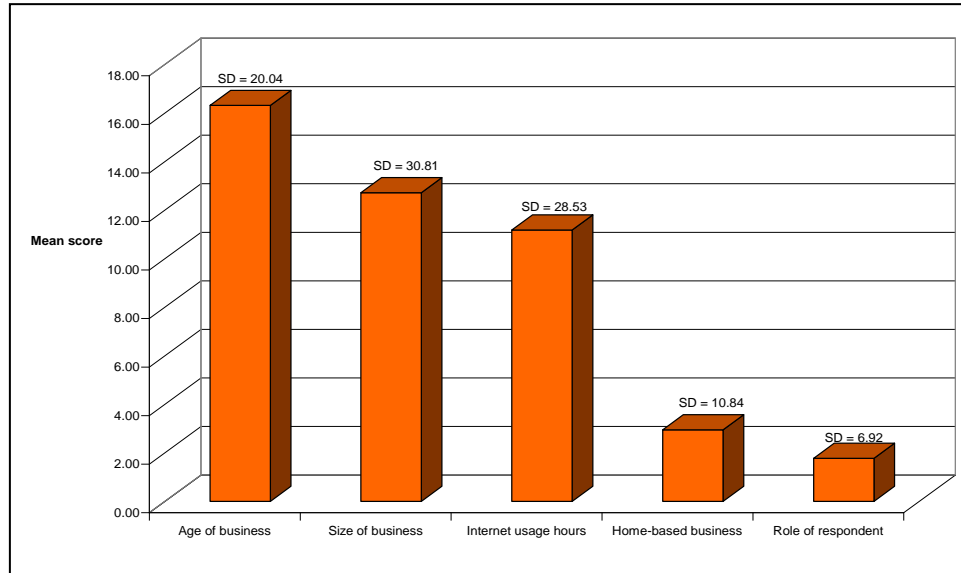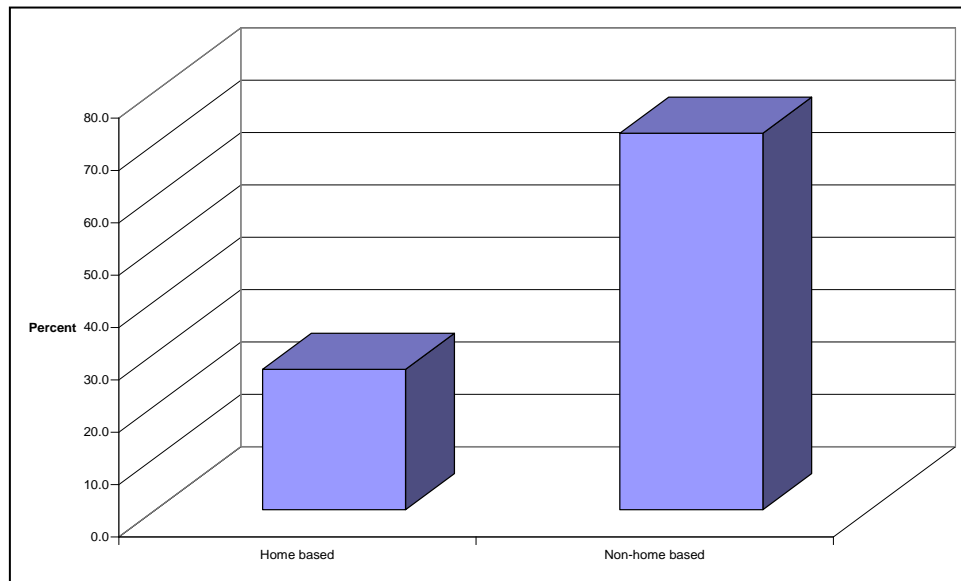**Figure 1: Mean score and SD of the five demographics**

Figure 2: Breakdown of home based and non-home based SMEs (in %)

Figure 3: Breakdown of owner and employee respondents (in %)
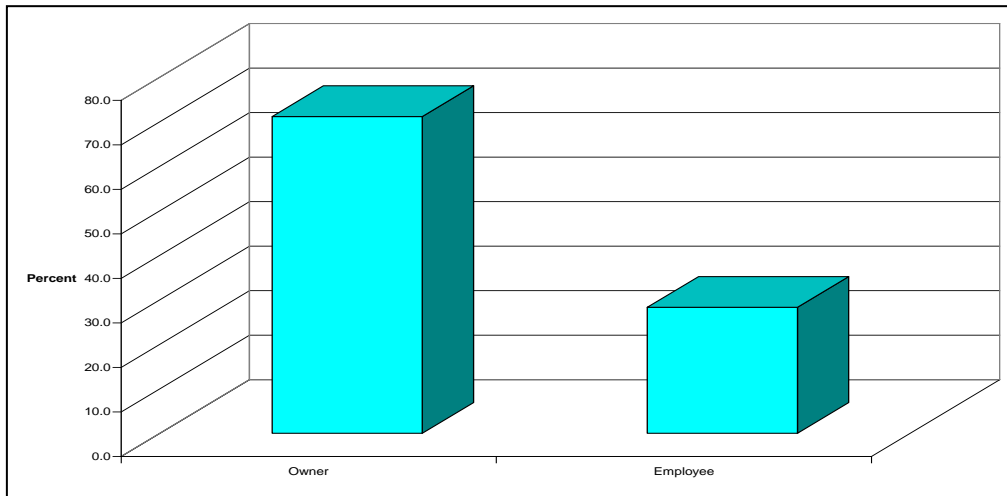
Figure 4: Breakdown of age of business (in %)
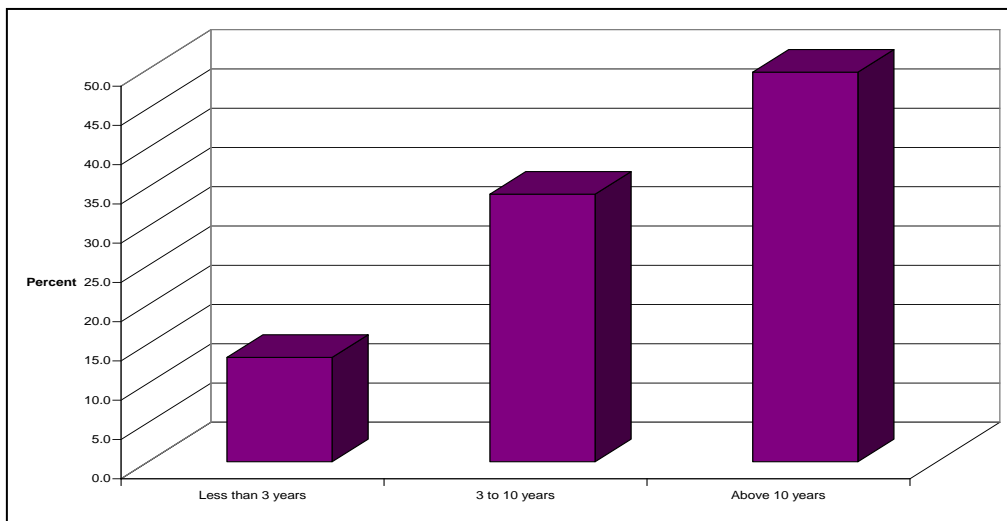
Figure 5: Breakdown based on size of the SMEs (in %)
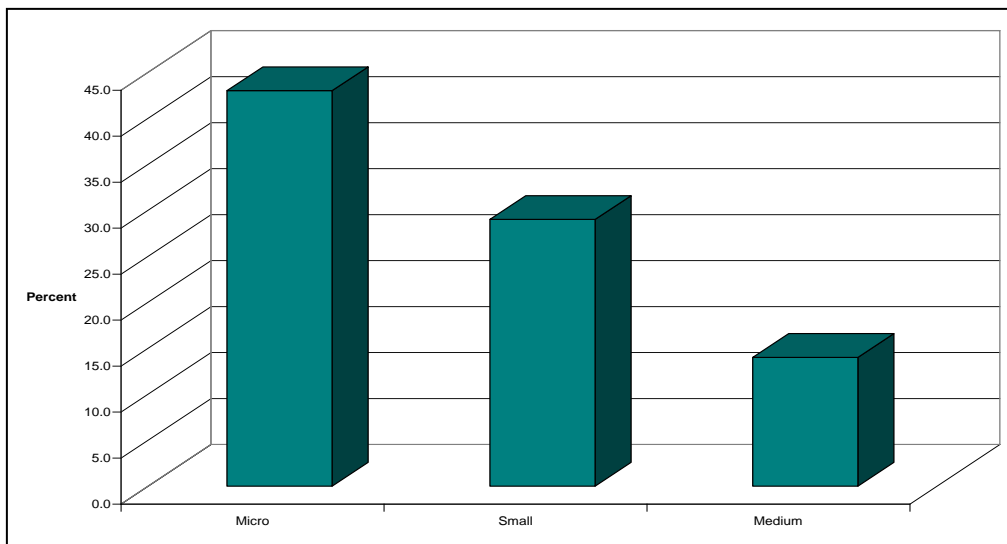
**Figure 6: Breakdown based on Internet usage in hours by the SMEs (in %)**
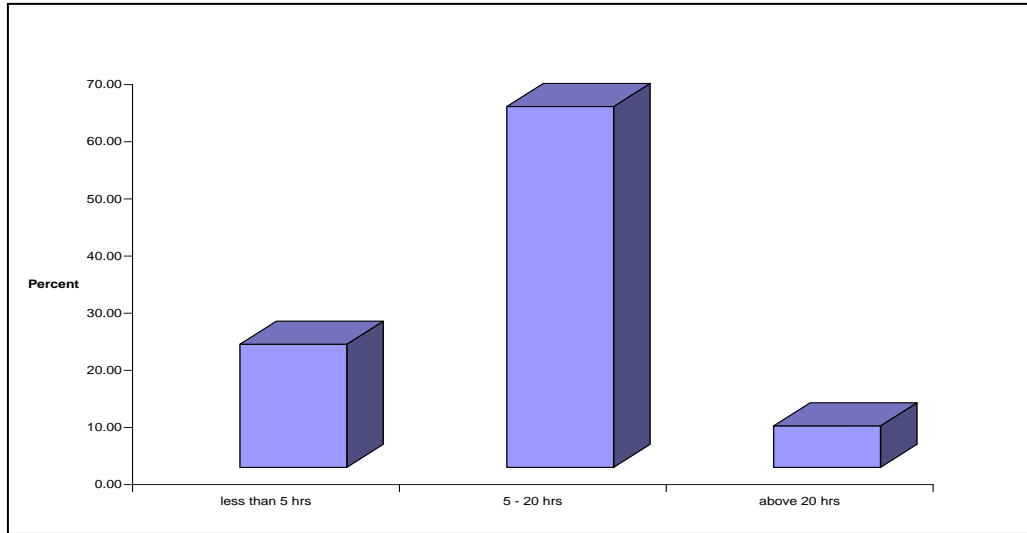
3.1.2 Financial skills

The descriptive analysis for financial skills reveals that from a total of 37 questions, only 18 questions are perceived as the most essential financial skills by the respondents. This can be validated by the mean score of 3.00 and above for each financial skill. Note that it is a common approach in qualitative research to consider only factors with means score of 3.00 and/or for research analysis purpose.[5] Figure 7 highlights the 18 important financial skills.

- *Benchmarking performance* is the most favourite financial skill with N = 378 responses and a mean score of 3.40 (*SD = 1.24*).

- *Analyzing cash flow* skill is the second most favourite skill as N = 379 and a mean score of 3.35 (*SD = 1.32*).

- The response for *collecting money from debtors* (N = 378 responses) and *balance sheet* (N = 377 responses) is moderately high, but the mean score for both variables is only 3.01 (*SD = 1.35 & 1.36*), and it barely crossed the 3.00 mean score benchmark bar.

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[5] Salman, A.S., Kuppusamy, M. and Harvie, C. (2007), "Perceptions of business challenges facing Malaysian SMEs", *the 6th APEF International Conference, Asian Regionalism: Issues, Opportunities, Challenges and Outcomes,* 30 June -1 July, 2007, University of Wollongong, Australia.

Figure 7: 18 most important financial skills
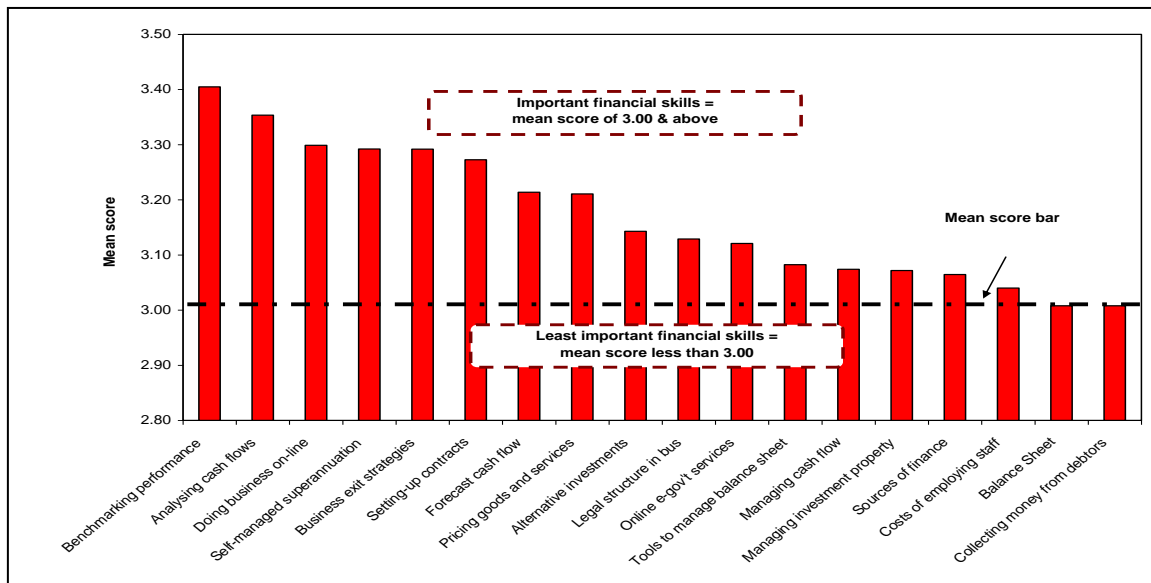

3.1.3 Preferred Learning Channel

Figure 8 displays the mean score for 9 most preferred learning channel questions. Three questions (i.e. formal studies at TAFE, distance education, and friends & relatives) have mean score of less than 3.00. Hence they are not discussed here.

- Majority of the SMEs prefer to obtain financial skills information via *accountants or financial advisors* i.e. N = 378 responses and a relatively high mean score of 4.16 (*SD = 1.00*).

- Seeking information from the *industry association and events* seem to be the second preferred channel, with N = 380 responses and a mean score of 3.61 (*SD = 0.97*).

- Meanwhile the *Internet* seem to be the third preferred channel with N = 376 responses and a mean score of 3.56 (*SD = 0.93*).

Figure 8: 9 most preferred learning channels
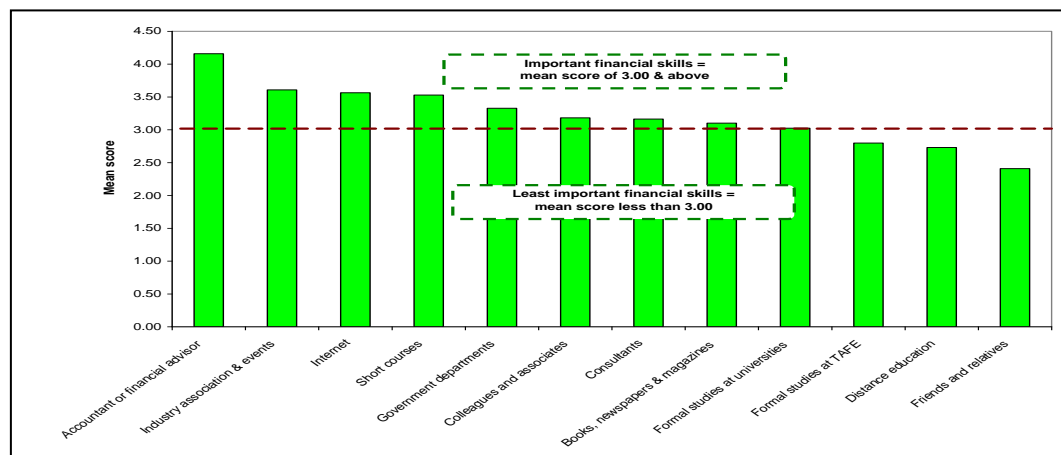
3.2   Relationship analysis

Apart from the descriptive analysis, cross-tabulation test was done to identify the relationship between the demographic profiles of the respondents (i.e. place of business – home based or non-home based; age of business; and role of respondent) and financial skills as well as the preferred learning channels.

Financial skills

3.2.1   *Home and Non-home based vs. financial skills*

The result shows that only three financial skills are significantly associated (as the p-value is lower than 0.05) to HB and NHB group of respondents. Figure 9 & 10 presents the graphical representation of this relationship.

- For home-based business, *pricing of goods and services* is the most sought after financial skill with 66 responses (*p-value = 0.011*), followed by *analyzing of cash flow* (65 responses and *p-value = 0.034*), and *starting a business*, with 30 responses (*p-value of 0.023*).

- For non-home based business, *analyzing of cash flow* is the primary financial skill required by 151 respondents (*p-value = 0.034*). This is followed by *pricing of goods and services* (127 responses and *p-value = 0.011*), whilst *starting a business* is the third important financial skill (with 56 responses and *p-value = 0.023*).

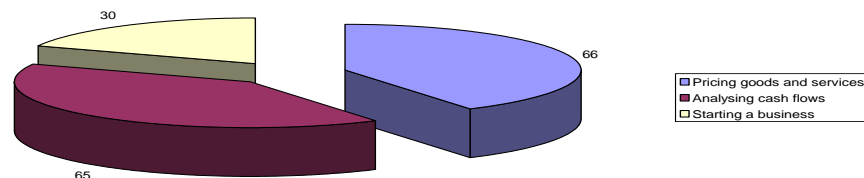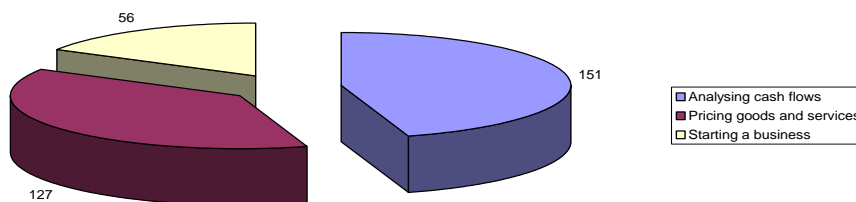**Figure 9: HB vs. 3 most important financial skills**

Figure 10: NHB vs. 3 most important financial skills

3.2.2   Role vs. financial skills

A summary of the relationship analysis results for owner and employee category is given in this section. Note that only the three best outcomes are discussed here (Figure 11 and 12).

- For the owner of business group, *business exit strategies, analyzing cash flow* and *pricing goods & services* are the most sought after financial skills. The *N* and *p-values* (denoted in brackets) for these three skills are: 172 (0.000), 165 (0.030) and 161 (0.000) responses, respectively.

- Meanwhile, employees are keen to learn about how to *analyse cash flow* (N = 52 responses, p-value = 0.030), *setting up contracts* (N = 46 responses, p-value = 0.021) and *managing investment property* (N = 42 responses, p-value = 0.002).

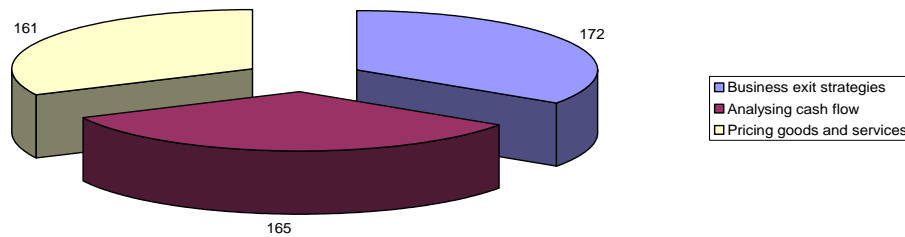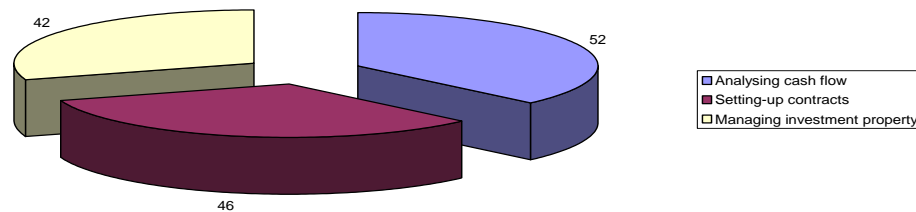**Figure 11: Owner vs. 3 most important financial skills**

Figure 12: Employee vs. 3 most important financial skills
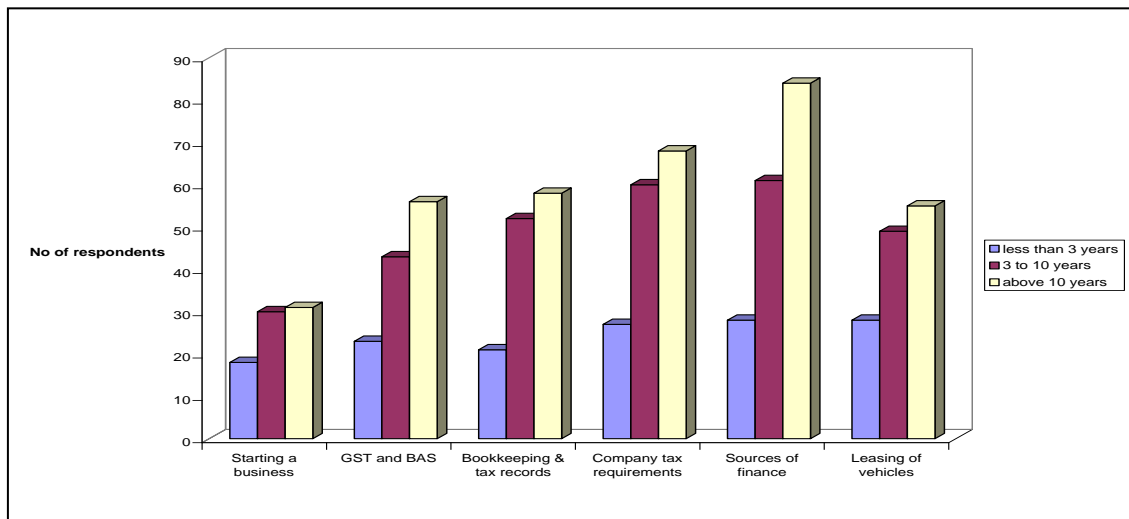

3.2.3   Age of business vs. financial skills

The analysis for age of business vs. financial skills is conducted for SMEs with less than 3 years, 3 to 10 years and above 10 years business experience. The outcome is graphically depicted in Figure 13.

- SMEs with less than 3 years business experience highlighted *financial sources* and *leasing of vehicles* (N = 28 responses for both items) as their most interested skills. The p-values for financial sources and leasing of vehicles are 0.017 and 0.040, respectively.

- SMEs with 3 to 10 years and above 10 years business experience are interested to learn about *financial sources* and *company tax requirements*. In this context, the N for financial resources for both age group is 61 and 84 (with p-value = 0.017), while for company tax requirements is 60 and 68 (with a corresponding p-value = 0.009), respectively.

- Apparently, information related to *starting a business* is the least interested financial skill by all the groups, as the N is substantially low.

Figure 13: Age of business vs. financial skills


3.2.4 Size of business vs. financial skills

The size of business (Figure 14) is categorized into micro (firms with less than 5 workers), small (firms with 5 to 20 workers) and medium (firms with 20 to 200 workers).

- Micro (N = 99) and medium sized (N = 24) firms want to learn more about *analyzing cash flow* and *legal structure of business*. The p-values for both are 0.015 and 0.036, respectively.

- Small firms are more interested to learn about *legal structure of business* (N = 61, p-value is 0.03), *selling of business* and *analyzing cash flow* (N for both items = 57, p-values are 0.02 and 0.01).

- Firms in all size groups have the least preference to learn about *starting a business*.

Figure 14: Size of business vs. financial skills
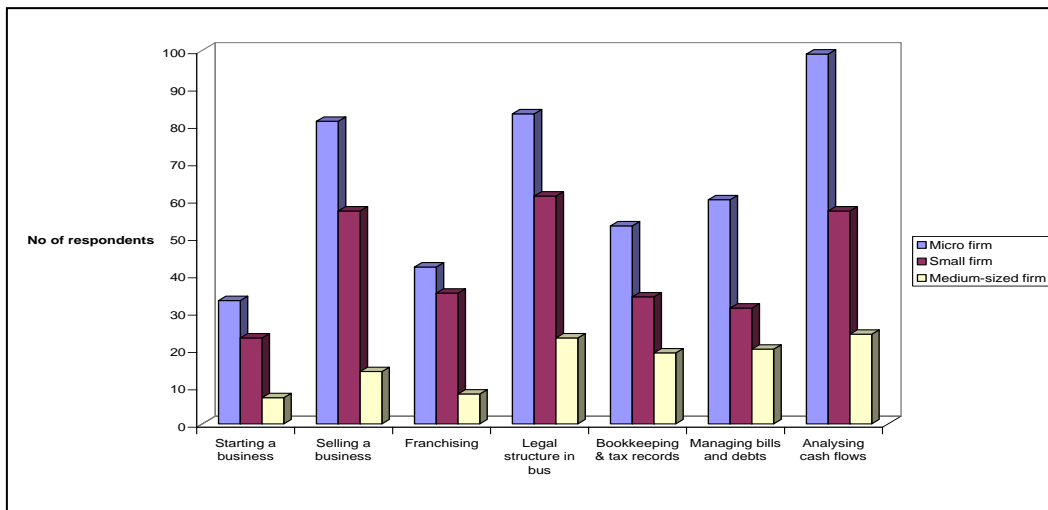
Preferred learning channels

3.2.5   *Home-based and Non-home based vs. preferred learning channels*

Figure 15 and 16 presents the breakdown of preferred learning channels by HB and NHB group of respondents.

- Both HB and NHB group of respondents have the same preferred learning channels – which is *industry association and events* (N = 70 responses for HB and 163 responses for NHB) and *formal studies at universities* (N = 42 responses for HB and N = 114 responses for NHB).

- The p-value for *industry association and events* and *formal studies at universities* is 0.009 and 0.05, respectively.

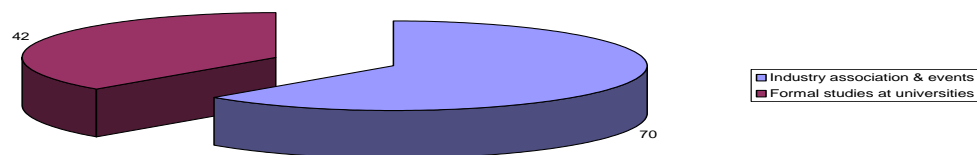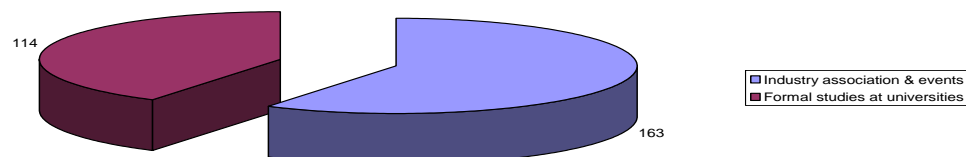Figure 15: HB vs. preferred learning channels

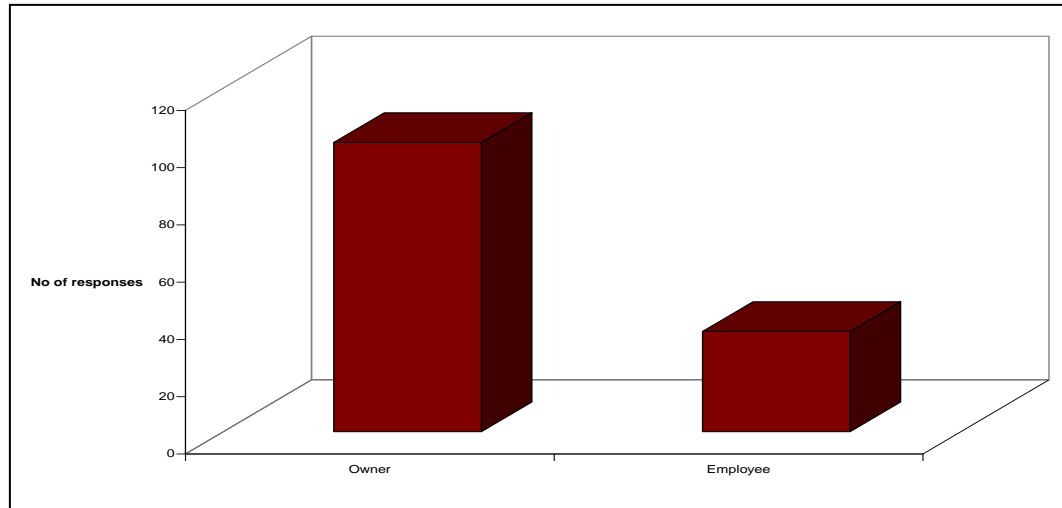Figure 16: NHB vs. preferred learning channels

3.2.6 *Role vs. preferred learning channels*

The cross-tab analysis shows emergence of only one most preferred learning channel out of 12 items (as the p-value is statistically significant at 5%).

- More owners (N = 101 responses) prefers learning financial skill via books, newspapers and magazines, compared to employees in which the N = 35 is comparably low.

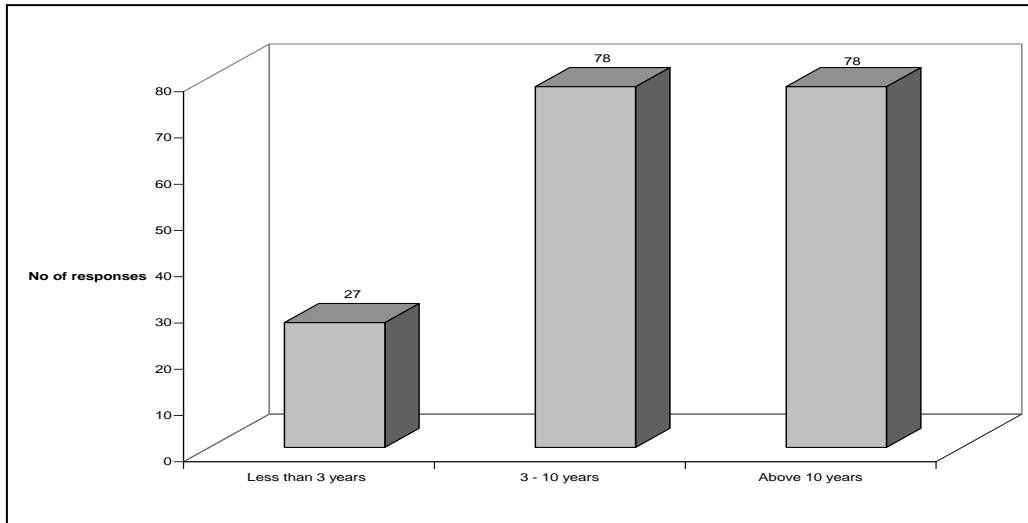**Figure 17: Role vs. preferred learning channel (books, newspaper and magazines)**

3.2.7 *Age of Business vs. preferred learning channels*

The result of the relationship analysis for age of business vs. preferred learning channels is given in Figure 18.

- It is interesting to note that the cross-tabulation test shows that SMEs in all three age group (i.e. less than 3 years, 3 – 10 years, and above 10 years) have the same learning channel preference – that is from the government department.

- Young SMEs (i.e. in business for *less than 3 years*) have N = 27 responses.

- SMEs with *3 – 10 years and above 10 years* of business experience have N = 78 responses.

Figure 18: Age of business vs. Government department learning channel


3.2.8 Size of business vs. preferred learning channels

The result of this analysis is shown in Figure 19.

- Only two preferred channels selected by the sample SMEs.

- Micro, small and medium sized firms prefer to use *government department* (N = 84, 48 and 25 responses, respectively; p-value = 0.02) as the primary source of financial skill information, followed by *distance education* (N = 42 30 and 14 responses; p-value = 0.03).

Figure 19: Size of business vs. preferred learning channel
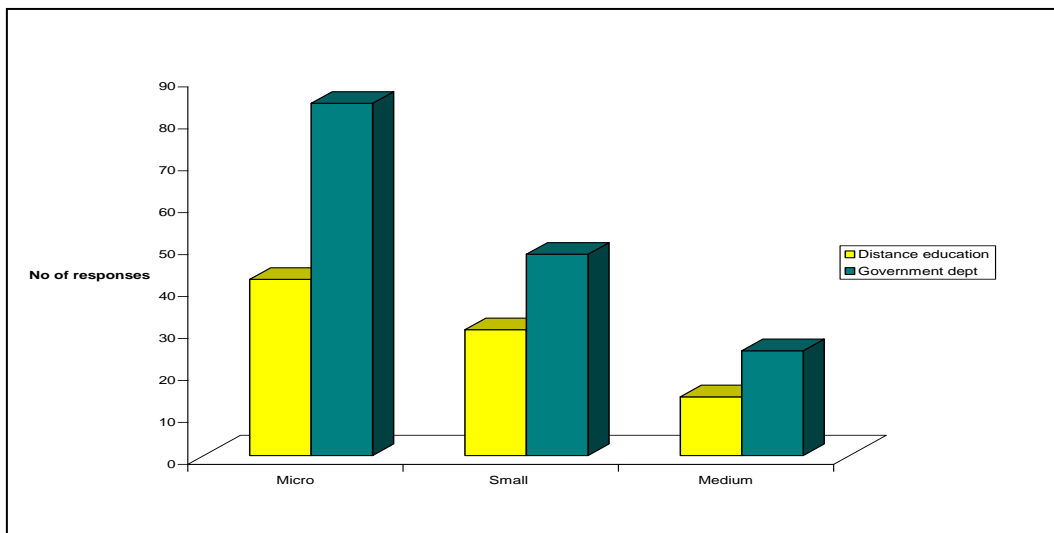
Managerial Implications

Based on the statistical results, the following managerial implications can be put forward:

Strategic action 1 -- Size of business

- Information related to cash flow analysis and legal issues to micro and medium sized enterprises.
- Information related to legal issues, ways to dispose a business and cash flow analysis should be targeted to small enterprises.
- Use government department and distance education as one of the key avenues to disseminate the above-mentioned information.

Strategic action 2 -- Age of business

- Chambers of Commerce should provide information related to financial assistance and leasing of vehicles to SMEs which has been in business for less than 3 years.
- Although mature or experienced SMEs expect financial updates from the Chambers, provision of company tax information is also a priority.
- Again usage of government department to share such information is vital.

Strategic action 3 – Place of business

- The Chambers should provide information on goods and services, cash flow analysis and how to start a business to both home and non-home based SMEs.
- And provision of this information would be more effective if it originates from the industry association and events and the universities.

Strategic action 4 – Role in SMEs

- The Chambers should concentrate on providing different type of financial information to different type of people – that is *business exit strategies, analyzing cash flow* analysis and *pricing goods & services* to owners of the business, and cash flow analysis, setting of contracts and effective management of investment property to employees.
- The Chambers can provide such information via books, newspapers and magazines.