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The University of Montana

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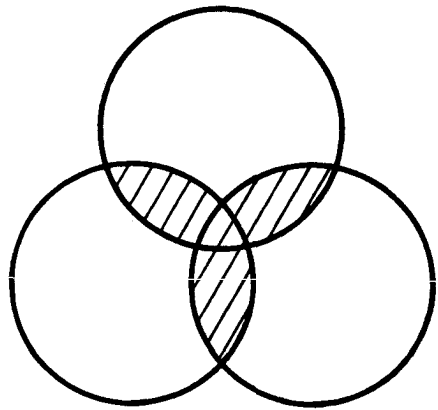
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MONTANA
Lender/CPA/Small-Business
Interrelationship Analysis



SMALL-BUSINESS SURVEY

Kay Lutz-Ritzheimer

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DATE: 1983

AN ANALYSIS OF THE INTERRELATIONSHIP
BETWEEN THE LENDER, THE CPA, AND
THE SMALL-BUSINESS CLIENT AS
OBSERVED IN MONTANA

by

Kay Lutz-Ritzheimer
Project Director
Graduate School of Business

Presented in partial fulfillment of the requirements for the degree of
Master of Business Administration

UNIVERSITY OF MONTANA

1983

Approved by:


Chairman, Board of Examiners


Dean, Graduate School

11-29-83
Date

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Sincere thanks to . . .

Dr. Larry Gianchetta
Chairman, Department of Management
University of Montana

Robert Bragg, CPA
Liason with the Financial Community Committee
Bragg, Ingold, and Co., P.C.

Kevin Winter, Past President
Robert Morris & Associates
First National Montana Bank of Missoula

James W. Royan
Registered Representative
Murphey Favre, Inc.

. . . This study was sponsored by:

- the Montana Bankers Association
- the Montana Society of CPAs, and
- Robert Morris and Associates;

and was conducted through the Graduate School of Business Administration, University of Montana, under the direction of Kay Lutz-Ritzheimer.

. . . The survey of small-business owners conducted in conjunction with this study is submitted as primary research and provides the foundation for the analysis presented in this paper.

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SECTION I
INTRODUCTION, PURPOSE, AND METHODOLOGY
(Summarized)

INTRODUCTION, PURPOSE, AND METHODOLOGY
(Summarized)

Introduction and Purpose

A business loan usually creates a working relationship involving three essential parties: the business requesting the loan, the lending institution, and an accountant. Analyzing the perceptions of each of the three parties in this working relationship provides valuable insight to the functions, the needs, and the difficulties encountered in this complex relationship.

In a study completed in summer 1982, researchers Gianchetta, Bragg, and Jackson surveyed both lenders and CPAs to ascertain the perceptions each profession had of the other while working simultaneously with business clients.¹ The recently-completed state-wide survey of 311 small-business owners/managers analyzes the perceptions of the small-business client in working with both the accountant and the banker. It should be emphasized that this survey measures client perceptions, and that these perceptions should be critical to both the lender and the accountant in servicing the small-business client.

¹Larry Gianchetta, Robert Bragg, Timothy Jackson, "Lenders, CPAs, and Business Loans," *Montana Business Quarterly*, Summer 1982, pp. 28-30.

Methodology (Summarized)²

To study the perceptions of the small-business client, a representative random sample of small businesses was drawn from a state-wide listing of Montana small-business establishments.³ A personalized letter was then sent to the owner/president of each of the selected firms, explaining the nature and importance of the study and asking for the owner's cooperation in completing a telephone interview. (See Appendix A [p. 41] for a copy of this letter.)

Response to the telephone survey was overwhelming as evidenced by a 97 percent response rate. Most firms contacted actually seemed eager to participate in the study. Of the 311 respondents completing the survey: 80 percent were owners of the firm, 10 percent were general managers, and the remaining 10 percent were screened as qualified to discuss the financial status and dealings of the firm. A copy of the questionnaire used is found in Appendix B (p. 43). The response rate of 97 percent provides a statistically sound sample-base for analysis.

²For a complete discussion of the methodology employed see SECTION IV: COMPLETE METHODOLOGY.

³The listing of small business establishments throughout Montana was provided by the Small Business Administration, Helena, Montana.

SECTION II
SUMMARY OF FINDINGS

SUMMARY OF FINDINGS

Overall, small-business owners were very positive about their relationship with both lenders and CPAs, and very positive about the interaction they had observed between their accountant and their banker. Most significantly, these owners saw the accountant rather than the banker as their primary financial advisor, concurring with similar observations of the lender and CPA surveys completed earlier.¹

Summary of Sample Characteristics

Approximately 80 percent of the small-businesses surveyed were retail or service-related firms; closely correlated with state-wide business patterns as measured by state and county census statistics.² Almost half of these firms were between 3 and 10 years old, and had either 1 or 2 full-time employees. These businesses also relied heavily on part-time personnel, the majority (80 percent) employing 1 or 2 part-time persons. Nearly one-fourth of the firms surveyed reported total sales of \$100,000 to \$250,000 for 1982. Table 1 (p. 6) provides a complete breakdown of the sample characteristics, while Exhibits I, II, III, and IV (pp. 7, 8, 9, and 10 respectively) graphically illustrate:

¹See Larry Gianchetta and Timothy Jackson, "A Study: Montana CPA/Lender Attitudes (printed by Montana CPAs and Montana Bankers Association), Summer 1982.

²See SECTION IV, Part 5, "Sample Validation," for a comparison of state and sample characteristics.

TABLE 1

SUMMARY OF SAMPLE CHARACTERISTICS
(Based on 311 respondents)

I. Type of Business

| | |
|--------------------------------|-----|
| <i>Retail</i> | 40% |
| <i>Service</i> | 36% |
| <i>Construction</i> | 8% |
| <i>Wholesale</i> | 7% |
| <i>Other</i> | 7% |
| <i>Manufacturing</i> | 2% |

II. Years Existed Under Current Manager

| | |
|-------------------------------------|-----|
| <i>Less than 3 years</i> | 10% |
| <i>3 to 5 years</i> | 21% |
| <i>6 to 10 years</i> | 27% |
| <i>11 to 15 years</i> | 12% |
| <i>16 to 25 years</i> | 14% |
| <i>More than 25 years</i> | 16% |

III. Number of EmployeesFull-time

| | |
|-------------------------------|-----|
| <i>1 person</i> | 32% |
| <i>2</i> | 18% |
| <i>3</i> | 11% |
| <i>4 to 5</i> | 14% |
| <i>6 to 10</i> | 11% |
| <i>11 to 15</i> | 3% |
| <i>16 to 20</i> | 5% |
| <i>More than 20</i> | 6% |

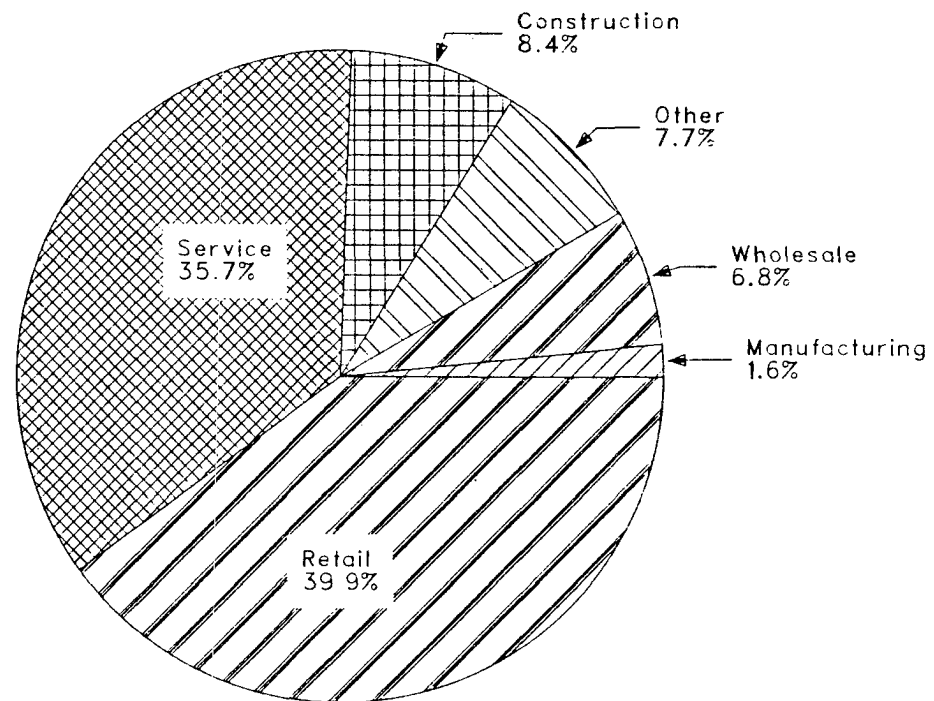
Part-time

| | |
|-------------------------------|-----|
| <i>1 person</i> | 66% |
| <i>2</i> | 14% |
| <i>3</i> | 7% |
| <i>4 to 5</i> | 9% |
| <i>6 to 10</i> | 3% |
| <i>11 to 15</i> | 2% |
| <i>16 to 20</i> | 0% |
| <i>More than 20</i> | 1% |

IV. Total Dollar Sales in 1982

| | |
|---|-----|
| <i>Less than \$25,000</i> | 3% |
| <i>\$25,000 to \$50,000</i> | 6% |
| <i>\$50,000 to \$100,000</i> | 15% |
| <i>\$100,000 to \$250,000</i> | 24% |
| <i>\$250,000 to \$500,000</i> | 13% |
| <i>\$500,000 to \$1 million</i> | 12% |
| <i>More than \$1 million</i> | 12% |
| <i>Declined to answer</i> | 9% |

Exhibit I Type of Firm



Sample size 311

Exhibit II Age of Firm

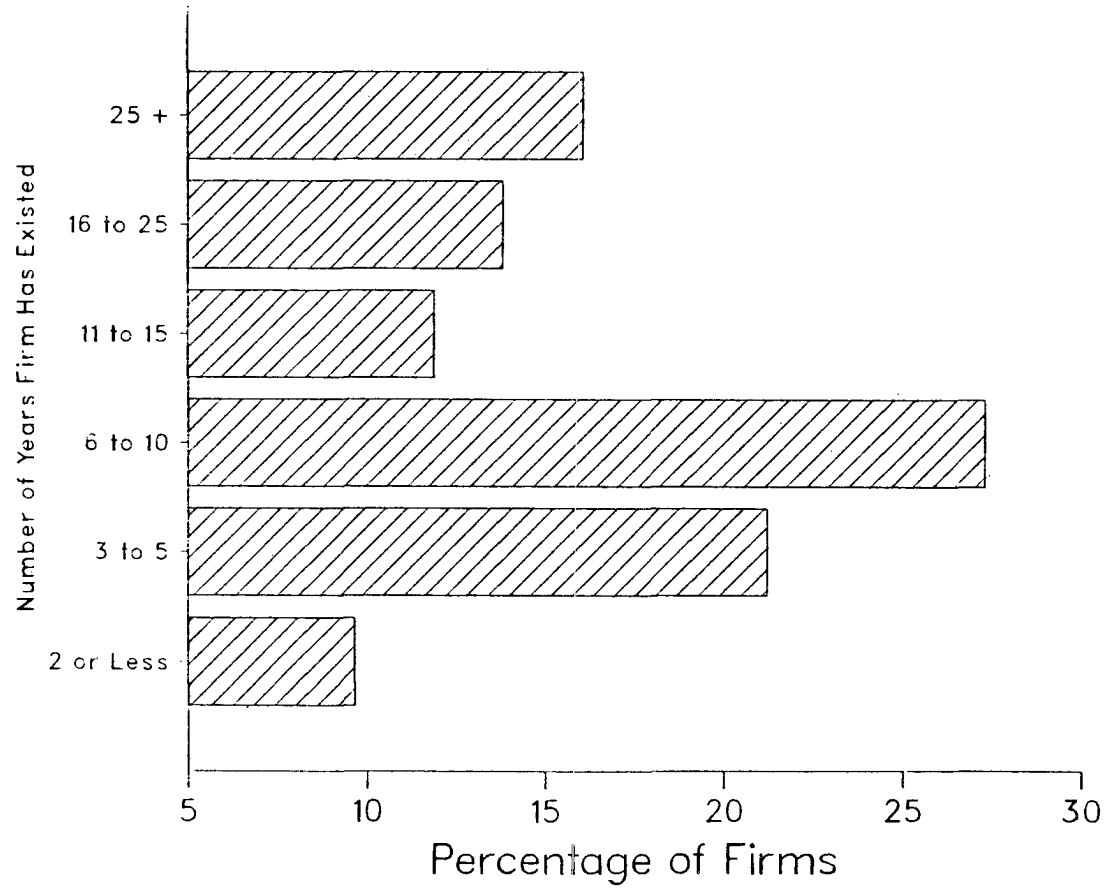
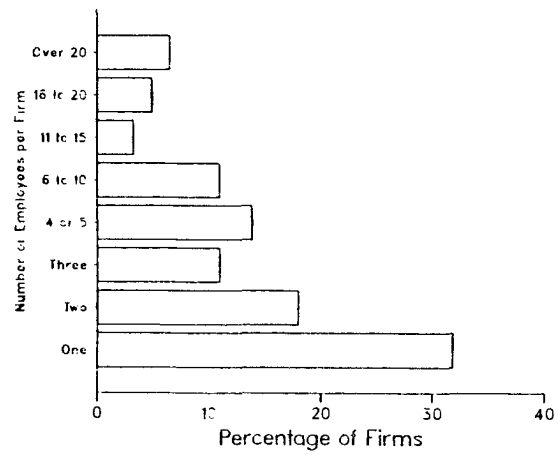


EXHIBIT III

Number of Full-Time Employees



Number of Part-Time Employees

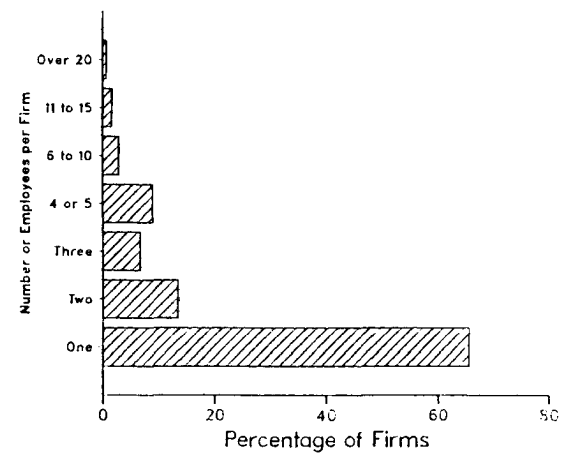
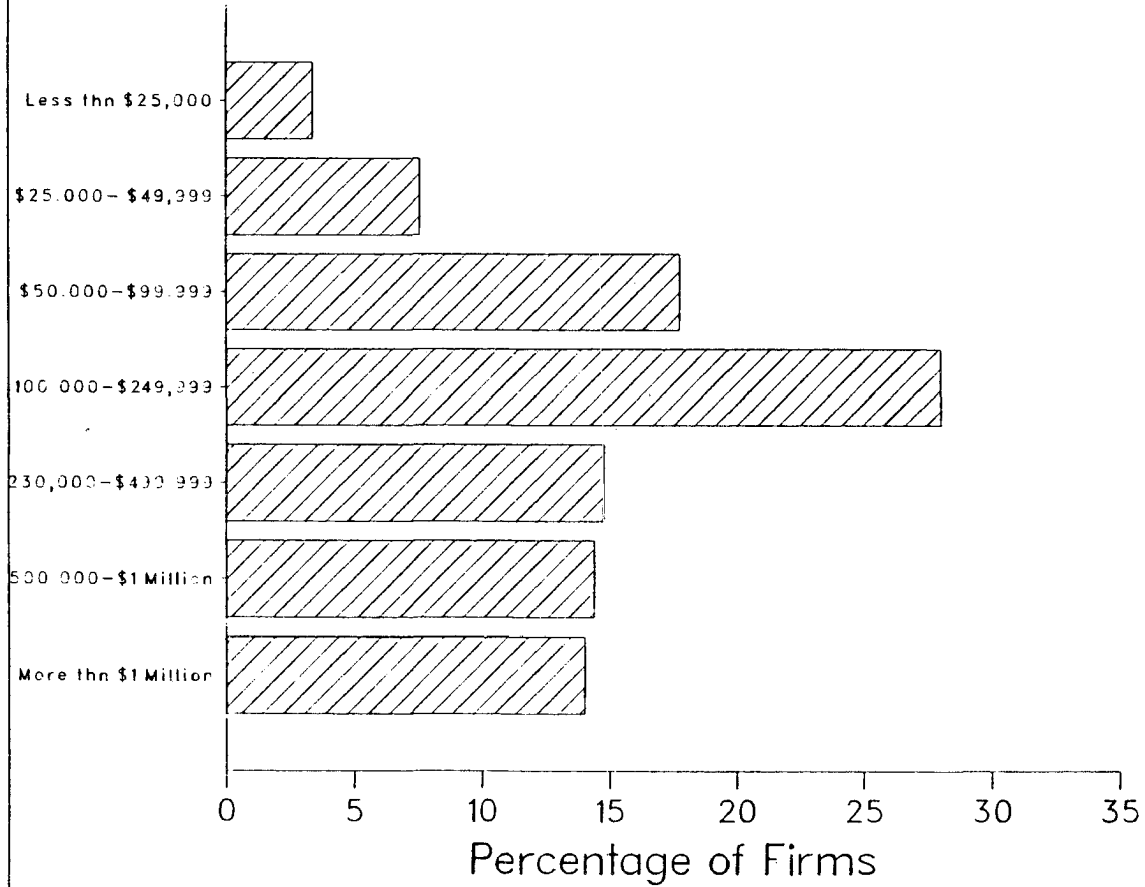


Exhibit IV Total Annual Dollar Sales in 1982



- (1) the types of firms surveyed,
- (2) the age of the firms surveyed,
- (3) the number of employees per firm, and
- (4) total dollar sales for 1982 per firm.

The Small-Business Firm's Relationship
with Lending Institutions

The overwhelming majority of the firms surveyed (97 percent) utilized banks (as opposed to savings and loans or credit unions) as their primary financial/lending institution, citing (1) past experience with a particular bank, and (2) location, as significant factors in selecting a bank and banker.

Overall, respondents felt that their bankers were: helpful, cooperative, easy to talk with, and positive in their attitude. Most felt that the banker functioned in the best interests of the small-business firm. Not surprisingly, interest rates charged were noted by respondents as the most negative factor encountered in their banking relationship.

In addition, respondents indicated that their bankers were generally quite specific in requesting financial information to evaluate the firm's financial status, most often requesting income statements and/or balance sheets.

The Small-Business Firm's Relationship
with Accounting Firms

The majority of small-business firms surveyed (70 percent) did all or most of their accounting internally. Those firms using outside accountants (30 percent) generally felt that their accountants were

helpful, experienced, personally concerned, and positive in their attitude. Not surprisingly, costs associated with contracting accounting services were noted as the primary negative factor in this working relationship, analogous to the interest rates charged by bankers.

Respondents cited reputation of the accounting firm (or reputation of an individual accountant within the firm), and referral by a business or personal colleague as the two most significant factors in selecting an outside accountant, or accounting firm.

Table 2 (p. 13) comparatively summarizes the small-business firm's perceptions of both its banker and its CPA, offering a more complete breakdown of: (1) factors cited in selecting a banker and CPA, (2) the client's perception of the banker's and CPA's general attitude as it relates to his business, and (3) that which the client liked most and least about both his accountant and his banker.

Several comparisons delineated in Table 2 deserve special emphasis here:

1. *Factors cited in selecting an outside accountant and a banker . . .*

indicate that the factors most influencing the selection of an accountant or banker are generally reversed for the two professions. Reputation and referral are important factors in selecting an accountant, whereas location is less important. In choosing a banker, location is twice as important as reputation and referral. Costs, however, are the least important factor in selecting either a banker or an accountant.

TABLE 2

SELECTION FACTORS, ATTITUDES, STRENGTHS AND WEAKNESSES

I. Factors cited in selecting . . .An Outside Accountant

| | |
|-----------------------------------|-----|
| <i>Reputation</i> | 27% |
| <i>Referral</i> | 26% |
| <i>General services</i> | 9% |
| <i>Location</i> | 7% |
| <i>Taxes</i> | 5% |
| <i>Costs</i> | 3% |

A Banker

| | |
|---|-----|
| <i>Always done business there</i> | 24% |
| <i>Location</i> | 16% |
| <i>General services</i> | 9% |
| <i>Referral</i> | 9% |
| <i>Reputation</i> | 9% |
| <i>Costs (Interest Rate)</i> | 2% |

II. The small-business owner's feelings about . . .The accountant's attitude

| | |
|---------------------------------|-----|
| <i>Helpful</i> | 46% |
| <i>Good attitude</i> | 20% |
| <i>Professional</i> | 7% |
| <i>Little concern</i> | 7% |
| TOTAL OF 73% POSITIVE | |

The banker's attitude

| | |
|---------------------------------|-----|
| <i>Helpful</i> | 33% |
| <i>Good attitude</i> | 25% |
| <i>Well-informed</i> | 2% |
| <i>Little concern</i> | 10% |
| TOTAL OF 60% POSITIVE | |

III. What the small-business owner liked MOST about . . .His accountant

| | |
|-----------------------------------|-----|
| <i>Experienced</i> | 29% |
| <i>Personal concern</i> | 23% |
| <i>Availability</i> | 12% |
| <i>Promptness</i> | 7% |
| <i>Honesty</i> | 7% |

His banker

| | |
|---------------------------------------|-----|
| <i>Cooperative</i> | 27% |
| <i>Easy to talk with</i> | 18% |
| <i>Firm's best interest</i> | 17% |
| <i>Availability</i> | 10% |
| <i>Competency</i> | 5% |

IV. What the small-business owner liked LEAST about . . .His accountant

| | |
|--|-----|
| <i>Costs too high</i> | 15% |
| <i>Slow to complete work</i> | 8% |
| <i>Distance</i> | 6% |
| <i>Doesn't apply</i> | 43% |

His banker

| | |
|------------------------------------|-----|
| <i>(Interest Rates)</i> | 12% |
| <i>Little concern</i> | 9% |
| <i>Uncooperative</i> | 9% |
| <i>Not knowledgeable</i> | 3% |

- II. *The small-business owner's feelings about the accountant's attitude and the banker's attitude . . .*

indicate that the small-business client's feelings about each of these professionals (relative to their working relationships) are generally very positive . . . , i.e., 73 percent positive in the case of the accountant and 60 percent positive in the case of the banker.

- III. *What the small-business owner liked MOST about his accountant and his banker . . .*

emphasizes that the client values his accountant's experience and personal concern above other attributes. Conversely, he finds his banker cooperative and easy to talk with, offering that his banker seems to hold the firm's best interests paramount.

- IV. *What the small-business owner liked LEAST about his accountant and his banker . . .*

illustrates that the small-business client is most concerned with the cost of doing business with both professionals (as might have been anticipated); citing high costs as the primary disadvantage to doing business with his accountant and interest rates as the primary disadvantage in the firm's banking relationship. This provides a direct contrast to the insignificance of the cost factor in selecting either an accountant or a banker.

The Overall Lender/CPA/Small-Business Interrelationship

In discussing their working relationship with both their outside accountant and their banker, the majority of small-business owners saw the accountant: (1) as their primary financial advisor, (2) as being more helpful than the banker in providing financial advice, and (3) as being more thorough in requiring more complete and more detailed financial statements. Table 3 (p. 15) provides a summary of the questions asked and the responses obtained on these issues.

TABLE 3

FINANCIAL ADVICE, ASSISTANCE, AND THOROUGHNESS

I. Respondents were asked--"Who do you see as your primary financial advisor-- your accountant or your banker?"

47%--saw the accountant as their primary financial advisor.

27%--saw the banker as their primary financial advisor.

10%--saw both as equally fulfilling this role.

II. Respondents were asked--"When you need financial advice for your business, would you say that you get MORE help from your accountant or from your banker?"

53%--saw their accountant as most helpful.

28%--saw their banker as most helpful.

10%--saw both as equally helpful.

III. Respondents were asked--"When you are requested to supply financial information, would you say that your accountant or your banker requires more complete and more detailed financial statements?"

51%--said their accountant required more complete information.

29%--said their banker required more complete information.

12%--said both required equally complete information.

It is interesting to note that while almost half of the respondents saw the accountant as their primary financial advisor, only 11 percent felt they were receiving any kind of management assistance or financial counseling. This issue is addressed in SECTION III: THE MAJOR ISSUES: OBSERVATIONS AND RECOMMENDATIONS.

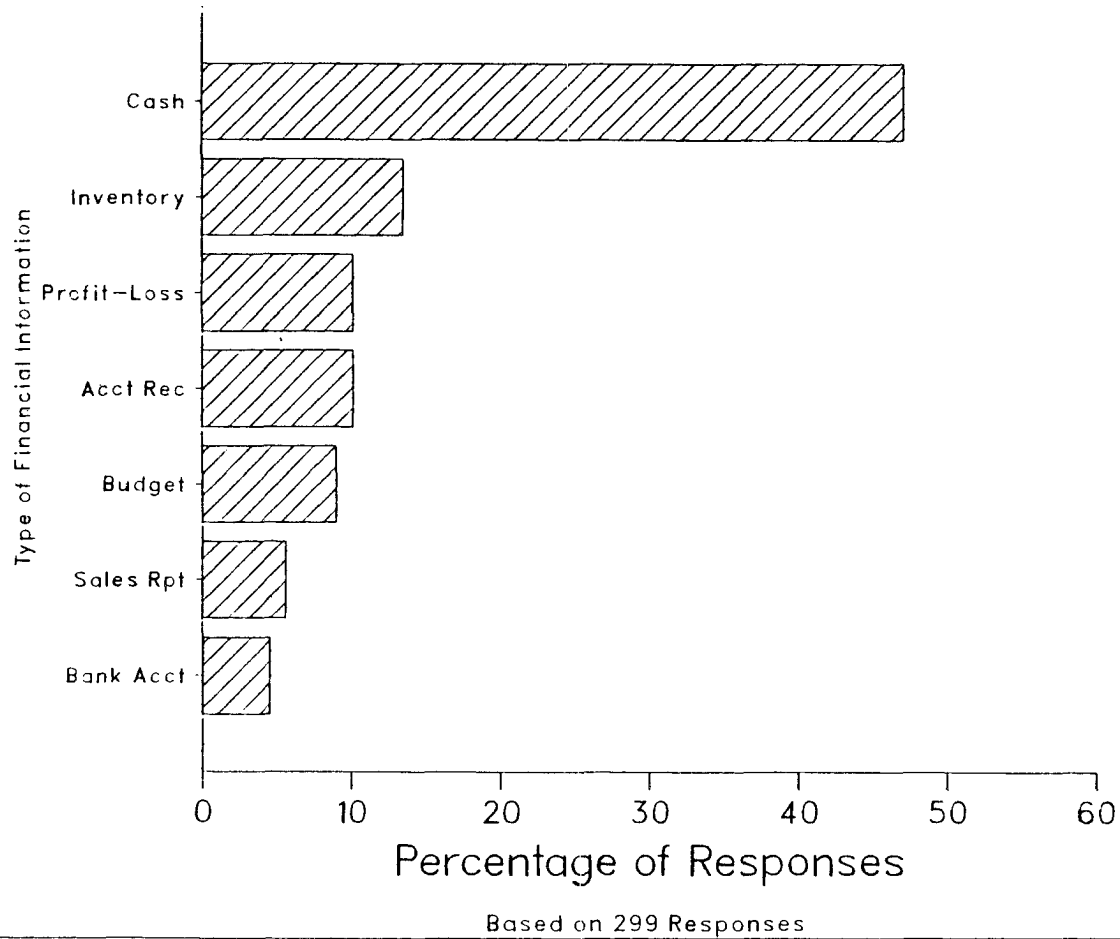
To study the small-business client's perception of the relationship between his banker and his outside accountant, a series of questions was asked with the resulting observations. Approximately one-fourth of the small-business owners surveyed had been in a position requiring that the firm's banker and the firm's outside accountant work together concerning the firm's business. The majority of these respondents (80 percent) commented that their banker and accountant had worked well together, with only 6 percent reporting any negative perceptions of this relationship.

Utilization of Financial Information

When questioned as to the types of financial information used most often in the daily operation of their business, owners listed cash receipts, inventory levels, profit/loss statements, accounts receivable, and budget comparisons as the types of data used most frequently. Exhibit V (p. 17) graphically delineates these daily usage patterns.

When questioned as to the types of accounting services used, owners indicated that two-thirds of all outside accounting services utilized were of a required nature (i.e., tax-return preparation, tax-planning, and financial statement preparation). Conversely, less than 35 percent of the services used were analytical in nature (such as

Exhibit V
Type of Financial Information Used Most Often
in Daily Operation Of Business



financial-ratio analysis, cash-flow analysis, income projections or management assistance). Exhibit VI (p. 19) summarizes both required and analytical services used.

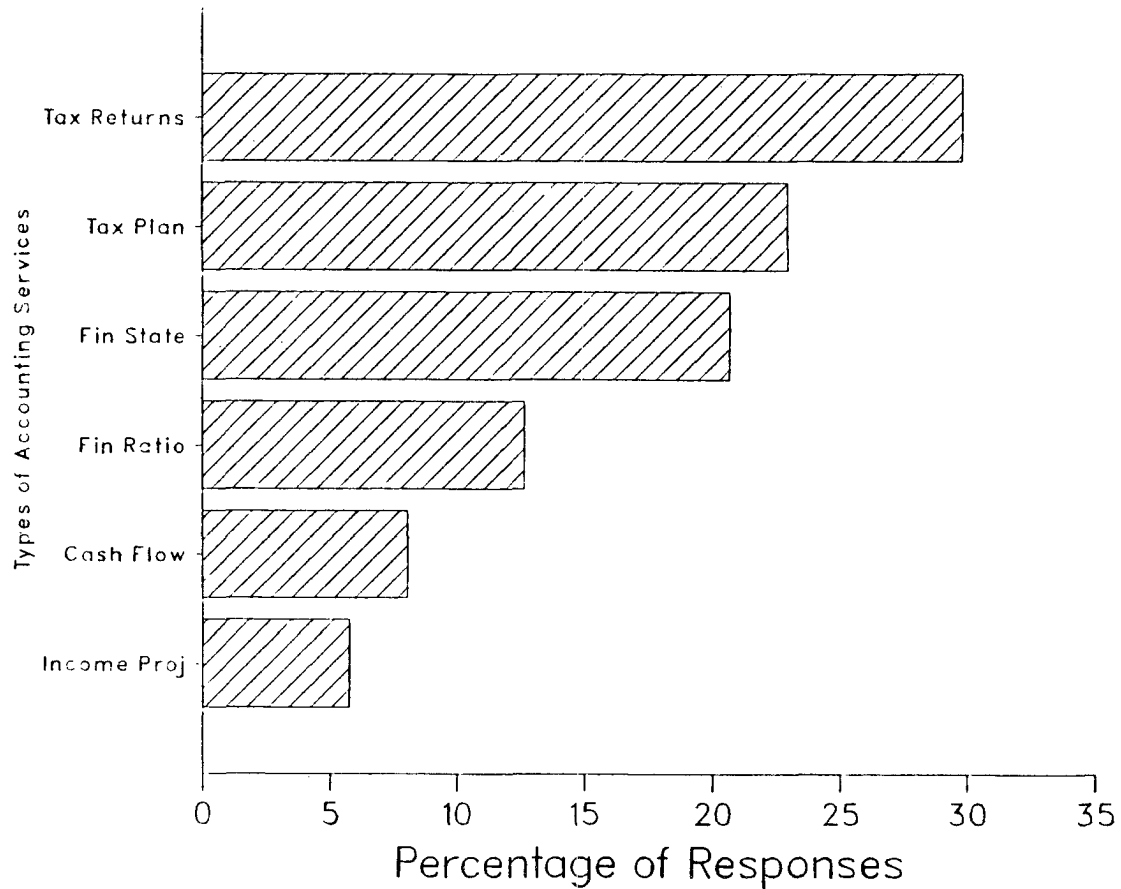
When questioned as to the type of financial information usually requested by their banker, over half of the respondents reported that income statements and balance sheets were requested. Another 25 percent indicated that their banker requested either cash-flow statements, or sales projections, while only 10 percent reported that their banker requested any type of financial-ratio analysis. Exhibit VII (p. 20) summarizes the types of financial data requested by bankers.

Over 75 percent of the respondents were unfamiliar with the terms compilation and review as methods of preparing financial statements and only 14 percent of the total sample had used compilation and/or review. These statistics should provide an educational challenge to the CPA to familiarize the client with such options and services.

Respondent Comprehension of Financial Statements/Information

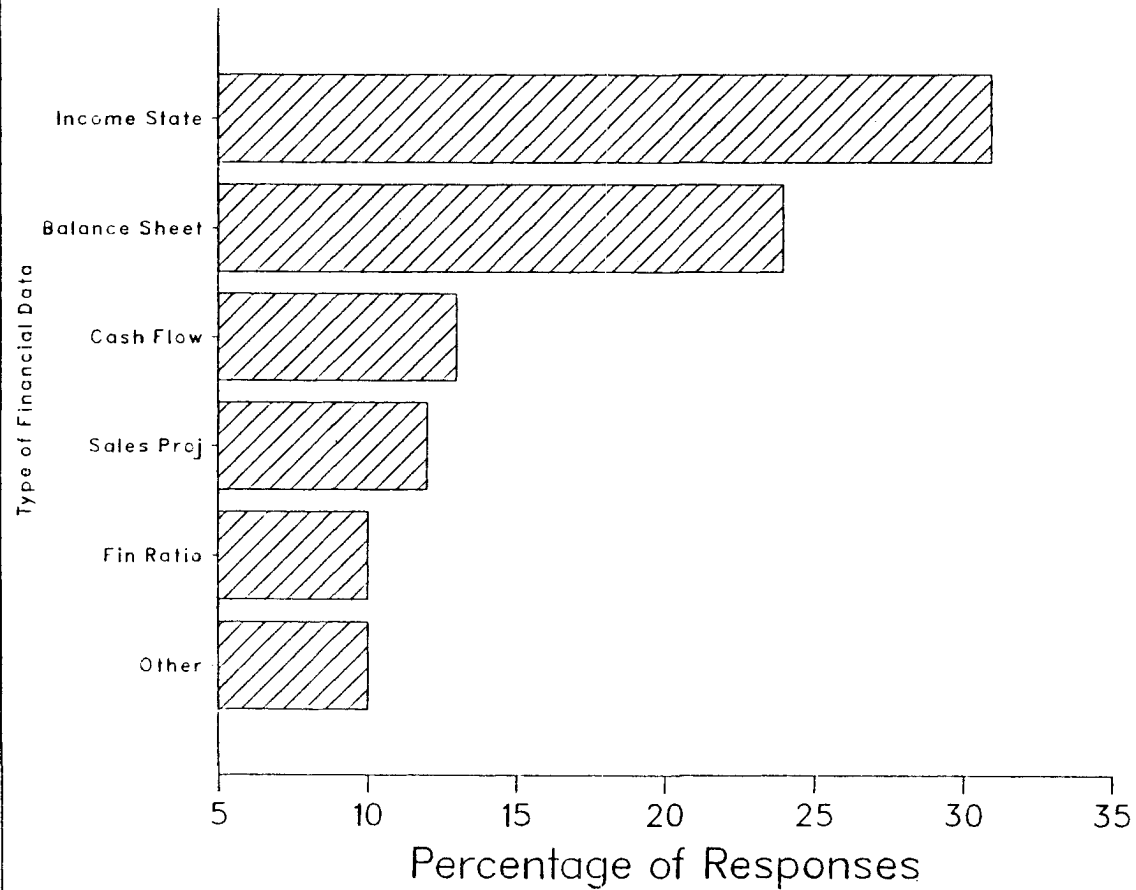
When questioned as to their level of understanding of the financial statements, over 90 percent of the respondents indicated that they "fully understood" (37 percent) or "understood most" (55 percent) of their prepared financial statements. The reader is cautioned that the definition and interpretation of the concept "understanding" can vary dramatically between individuals . . . particularly between persons with different professional orientations such as the CPA and the small-business client. The small-business owner's perception of "understanding" may simply entail a recognition of

Exhibit VI Types of Outside Accounting Services Used



Based on 1045 Responses

Exhibit VII
Types of Financial Information
Requested by Bankers



Based on 477 Responses

basic, critical accounting figures such as "net income," and "cash balance," whereas the accountant's interpretation of "understanding" generally encompasses a more thorough analysis of the data provided within the statements. In reality, therefore, the small-business owner may not understand the financial statements nearly as well as he thinks he does.

Respondents generally felt that their accountant explained these statements either fully (68 percent) or at least somewhat (19 percent); indicating that such explanation of the statements was very important (72 percent) or at least somewhat important (12 percent).

Again, the reader is cautioned that the above figures reflect respondent perceptions. The client may feel that the statements have been adequately explained, but again the term "explanation" may be subject to interpretation. In effect, the small-business client may receive an explanation that he considers sufficient but yet lacks depth and interpretation.

Workshop/Seminar Attendance

Respondent interest in workshops and seminars was explored, revealing that over two-thirds of the small-business respondents interviewed had not attended (or had a representative attend) a seminar or workshop of any kind within the past two years. Of the 37 percent who had attended any kind of seminar/workshop, roughly half (or 20 percent of the entire sample of 311) had participated in financial types of workshops/seminars where the primary areas of interest were:

basic accounting, taxes and computer applications. Exhibit VIII (p. 23) summarizes workshop/seminar attendance patterns.

Sponsorship of financial workshops was as follows:

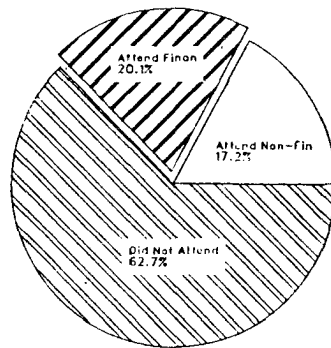
- 25 percent were sponsored by universities and colleges (14 percent by the University of Montana),
- 12 percent were sponsored by banks,
- 10 percent were sponsored by local chambers,
- 10 percent were sponsored by the IRS, while only
- 3 percent were sponsored by CPA societies.

Respondents were surprisingly negative as to the value and usefulness of potential, future workshops. This may be due in part to: (1) various costs incurred in attending workshops, (2) the inconvenience and impracticality of spending time away from the business (particularly applicable in the very small one- or two-persons firms, (3) the quality of workshops attended in the past, and (4) the negatively perceived value of workshops in general. The area of workshop attendance is one that should definitely be addressed in a subsequent, separate study since it is beyond the designated scope of this study.

For those respondents who saw merit and expressed interest in future workshops (45 percent of the entire 311-respondent sample), the majority were interested in: taxes, basic accounting, financial statement analysis, cash-flow analysis, small-business procedures, and computer applications of accounting procedures. Perceived value of future financial seminars and topics viewed as potentially helpful in future seminars are graphically illustrated in Exhibit IX (p. 24).

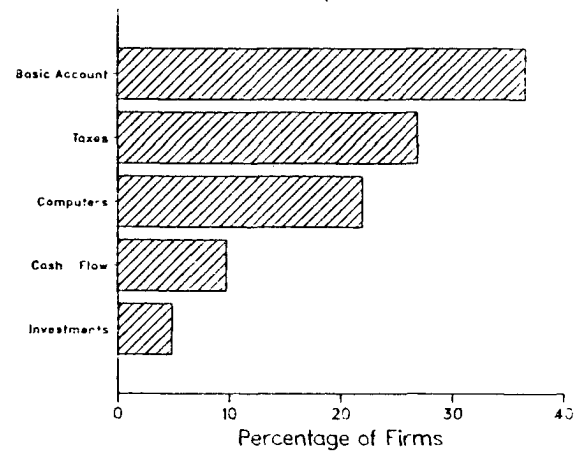
SEMINAR—WORKSHOP ATTENDANCE PATTERNS

Exhibit VIII-A
Attendance During Last 2 Years
(Any Type Seminar)



Sample size: 508

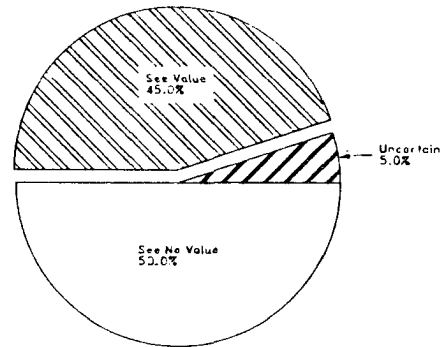
Exhibit VIII-B
Nature of Financial
Workshops Attended



Sample size: 62

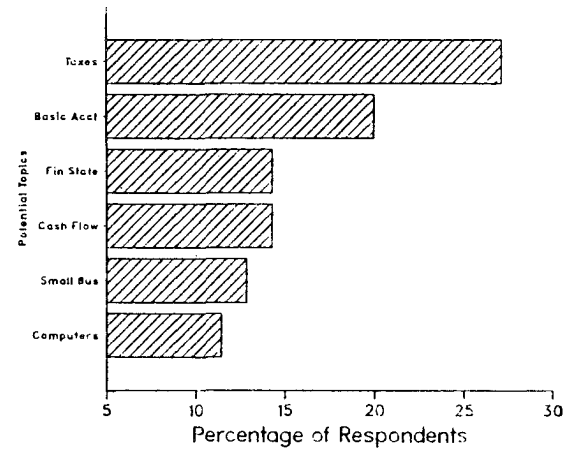
INTEREST IN FUTURE FINANCIAL SEMINARS

Exhibit IX-A
Perceived Value of Future
Financial Seminars



Sample size: 100

Exhibit IX-B
Topics Seen as Potentially
Helpful in Future Seminars



Based on 142 Respondents

Computer Utilization

Twenty-one percent of the total sample (311 small-business owners) indicated that the firm currently used a computer in some capacity, while 25 percent of the total sample had at least attended a seminar on the use of computers in business applications. The reader will recall that this 25 percent computer-seminar attendance is higher than the 20 percent financial-seminar attendance noted earlier.

Regionally-Segmented Patterns

To determine if any of the perceptions and patterns presented thus far differed by area, regionally-segmented data was analyzed; yielding only two distinct variations in attitude as based on location:

1) On the average, more persons in Missoula and Great Falls had attended financial seminars than small-business owners or representatives in other parts of the state.

2) On the average, more firms in the Missoula area had used Compilation/Review procedures than small-business firms in other parts of the state.

SECTION III
THE MAJOR ISSUES:
OBSERVATIONS AND RECOMMENDATIONS

THE MAJOR ISSUES:
OBSERVATIONS AND RECOMMENDATIONS

The major observations resulting from this study revolve around two primary issues:

(1) The nature of the financial data requested and used by the lender and the small-business client in the operation of their businesses

- and -

(2) The question of who should serve as primary financial-advisor to the small-business client.

Communication difficulties, educational responsibilities and professional challenges are also discussed here as secondary issues.

The Nature of Financial Data
Requested and Used

It was noted earlier that most small-business owners tended to have only the required types of accounting services (i.e., statement preparation, tax preparation, and tax planning) performed. It is this author's opinion that a wealth of underutilized information (i.e., the more analytical types of services) is potentially available to the small-business client and that the use of such information could significantly enhance the operation and profitability of the business.

The small-business client's use of this type of data could also benefit both the lender and the CPA. For the banker it would provide more pertinent data by which to evaluate the financial status of a

firm in granting or servicing a loan, and would therefore increase the quality of the loans extended. Even for those firms offering collateral substantial enough to fully secure the loan, the use of this data could minimize the time, costs, and loss of good-will involved in foreclosure proceedings or loan-renegotiations. In the case of the latter, renegotiating an outstanding loan to a lower discount rate, forces the lending institution to accept a smaller return on its committed investments.

The CPA would benefit from the small-business client's use of the more analytical types of accounting services since this would enable the CPA to move towards a different "market of services," other than the "required services" market in which the CPA predominantly functions and competes at the current time.

Getting the client to realize the value of the more analytical types of services and getting that client to request and use such data, presents the greatest challenge to both the lender and the accountant. It seems highly unlikely that the business client would realize the potential value of the additional preparatory and consultative hours unless he had previously been exposed to such. He would most likely consider only the additional costs involved, and be hesitant to incur such costs.

Both the lender and the accountant need to encourage the small-business client's use of analytical types of data. The CPA needs to aggressively market those analytical services to the client . . . simultaneously stressing their potential benefit. The lender could play a part in initiating the use of analytical types of financial

services by requiring or at least requesting this type of data more often. A formalized requirement would obviously have to be uniformly established among local banks as an accepted code of practice to be effective.

Most significantly, both the lender and the CPA should emphasize future-oriented types of analytical services, i.e., pro forma statements, projections, and overall long-range planning. Trend analysis of data as opposed to the static analysis of only the current situation is of course critical to accurate interpretation of present financial status and future profit potential.

The Client's Comprehension of Financial Data Received

The client would undoubtedly see greater value in the accounting services he does receive, if he fully understood his prepared statements. Although the majority of respondents felt they "understood" their statements, the majority of lenders and CPAs felt the small-business client did NOT understand these statements.¹ This apparent discrepancy probably involves a "frame-of-reference" or "level-of-understanding" differential. As noted earlier, various levels of understanding can easily exist among individuals of different professional orientations.

When the small-business client reports that he understands his financial statements, he may simply be referring to key figures such as "net income," or "cash balance." While fully comprehending these

¹Larry Gianchetta and Timothy Jackson, "A Study: Montana CPA/Lenders Attitudes," (printed by Montana CPAs and Montana Bankers Association), Summer 1982.

statistics, he may well lack the interpretive ability to grasp the full meaning of the data contained within these statements.

The accountant and the banker should be aware of this level-of-understanding differential, where the financial professional's frame-of-reference differs dramatically from that of the small-business client. Clarifying the client's level-of-understanding could alleviate potential problems of misinterpretation and miscommunication in servicing the client.

Interpretation of the financial statement. It would seem to be the CPA's responsibility to convince the small-business client of the necessity and potential benefit of the extra "consultative dollar" spent to have the CPA fully explain and interpret the financial statements. Once the initial accounting work is done and the financial statements prepared, the marginal cost of having the CPA spend additional time in a meaningful interpretation of the data, would be minimal compared to the potential benefit.

The Role of Primary Financial Advisor

A major question addressed in this survey of small-business owners and the earlier CPA and lender surveys, asked each of these three parties whom they saw as the primary financial advisor for the small-business client. All three perceived the CPA to be the most appropriate professional to fill this role, yet only 10 percent of the small-business clients interviewed felt that they currently received any type of management assistance or financial counseling.

It is not the intention of this author to afix responsibility for assuming such an advisory role, but rather to discuss: (1) the benefit to all three parties when the client does receive the appropriate financial consultation, and (2) the potential opportunity available to the professional who does choose to serve the client in this role.

Basically, the small-business receiving the appropriate financial counseling is more likely to survive, prosper, and grow. This should obviously be the ultimate goal of all three parties, as each prospers via the firm's success.

It is the opinion of this author that there is a significant opportunity available to the professional who does choose to assume this advisory role. Lenders could be equally as qualified as CPAs to provide this service and could propose to do so on a consultative-fee basis.²

The question of who should serve as the primary financial advisor then becomes a situational question. In one set of circumstances the accountant might best fill this role; in another set of circumstances the lender might be best qualified to serve as financial consultant to the small-business client. Location, frequency of contact with the business itself, training and experience of the professionals involved, and familiarity with the client's financial history and current status are all variables to be considered in determining who could best serve the needs of the client as financial advisor.

Regardless of which professional assumes this role in individual cases, both the lender and the CPA have a shared responsibility to

²See Kay-Lutz Ritzheimer and James W. Royan, "An Analysis of Commercial Banking," 31 May 1983. (Typewritten)

provide the small-business client with the type of timely financial advice that will ultimately serve to benefit all three parties . . . the lender, the accountant and the small-business client.

This shared responsibility extends to educating the small-business client in financial matters as well. A thorough and candid evaluation of professional participation and sponsorship of educational activities to date should be undertaken by both lenders and CPAs.

As discussed earlier, the small-business client appears skeptical of the value of seminars and workshops. Perhaps both of these professional groups need to honestly scrutinize the nature of such programs presented to date to determine if these workshops are genuinely geared to the small-business owner, on a level that he can easily understand, or whether these workshops were really addressing other professional peers. As suggested earlier, the area of educating the small-business client via workshops and seminars is one which needs to be thoroughly studied through a subsequent survey to determine: (1) genuine needs of the client (as perceived by the client), (2) the most efficient ways to entice small-business clients to participate in these programs, and (3) the most appropriate procedures for educating that client in the financial areas critical to his business, his success, and even his very survival.

The Challenge to Bankers and CPAs

One very obvious challenge to bankers in Montana will be to maintain their current 97 percent market share of financial services utilized by the small-business client. Deregulation of the banking

industry, subsequent restructuring of the financial market, and repositioning of the various types of financial institutions within the newly defined boundaries of the financial market, all mean an increasing competitive market for banking and related financial services.³

An obvious challenge to the CPAs in Montana is to better service the small-business client as reflected in their formalized, comprehensive goals for 1983. This must include a new orientation towards aggressively marketing the analytical and advisory types of services that would benefit not only the small-business client but the lender and the CPA as well.

Both professionals face challenges in educating, informing, and advising the small-business client. The "responsibility" for serving the small-business client should be viewed as a shared opportunity where both the lender and the CPA share a responsibility for initiating those activities designed to inform, educate, and advise. Both professionals share a responsibility to foster clear lines of communication not only with the small-business client, but also with each other.

Re-emphasizing a critical point made in the analysis of the lender and CPA surveys,⁴ the lender and accountant must strive towards cooperative communication through formalized meetings of all three

³See Kay-Lutz Ritzheimer and James W. Royan, "An Analysis of Commercial Banking," 31 May 1983, (Typewritten).

⁴See Larry Gianchetta, Robert Bragg, and Timothy Jackson, "Lenders, CPAs, and Business Loans," *Montana Business Quarterly*, Summer 1982, pp. 28-30.

parties involved in this working relationship triangle. This would foster a definite sense of direction and cooperation where the defined goal is to assist the small-business client to the ultimate benefit of all three parties involved in this working relationship.

SECTION IV
COMPLETE METHODOLOGY

COMPLETE METHODOLOGY

A more complete explanation of the methodology employed in evaluating the interrelationship between the lender, the CPA, and the small-business owner, is presented here to provide the reader with a more complete understanding of the procedures involved in conducting this study. Planning structure, questionnaire design, sample definition, sampling procedure, and sample validation are summarized as follows.

Organization and Planning Structure

The following abbreviated chronological outline summarizes significant phases of the research involved in this project.

- 1) Initial planning sessions in the Fall, 1982 with Dr. Larry Gianchetta, Chairman, Department of Management, University of Montana, School of Business Administration and Bob Bragg, CPA and Guest Lecturer in Accounting at the University of Montana.
- 2) Review and revision of the questionnaire via pretesting the survey instrument on owners of local small-business firms.
- 3) Construction of the sampling frame via selection of every twentieth name on a mailing list provided by Small-Business Administration. A random sample of 700 small-business firms was chosen.
- 4) Affixing telephone numbers to each name in the sampling frame. (Approximately 500 of these had current telephone numbers.)
- 5) Drafting and mailing of a personalized, hand-signed letter to

each of the 500 names remaining in the sampling frame. This letter relayed the nature and significance of the study and asked for each owner's cooperation in completing a telephone interview to follow in the subsequent week. (See Appendix A [p. 41] for a copy of this letter.)

6) Selection and training of interviewers, including instruction in accounting/financial terminology and concepts.

7) Conducting 311 completed telephone interviews of small-business owners/general managers in mid-February 1983, many of these completed on an appointment/call-back basis.

8) Computer analysis of small-business owner responses, followed by interpretation and evaluation of statistical data.

Questionnaire Design

The questionnaire was designed to allow for spontaneous responses wherever possible. Responses were subsequently post-coded into common categories for computer analysis. A copy of the questionnaire is found in Appendix B (p. 43).

Sample Definition

Defining the sample obtained involves establishing the perimeters of the sample, i.e., deciding who is to be included in the sample. Since the definition of a "small-business" varies dramatically depending upon the specific industry, it will suffice here to define small-businesses as those firms meeting the specific, designated requirements as set forth under the Small Business Act of 1953 by the

Small Business Administration.¹ The sampling frame utilized in this study was provided by the Small Business Administration Office, Helena, Montana in the form of a mailing list.

Sampling Procedure

The small-business-owner survey was completed over a two-week period, where calls were placed primarily between 8 a.m. and 5 p.m. on business days. Appointments for call-backs were often made for evening or weekend hours at the convenience of the respondent.

In conducting this survey a number of specific interviewing procedures were strictly followed to insure that the person interviewed did possess the necessary knowledge of the firm's financial transactions to participate in the survey. (See "Interviewer Instructions" in the questionnaire itself . . . Appendix B, p. 43).

Sample Validation

A critical part of any research project based on a sampling technique such as the one used here involves validation of the sample obtained. Validation simply refers to the ability to demonstrate that the sample obtained does truly reflect characteristics of the population from which the sample was taken. Validation is usually accomplished by comparison of sample demographics with those same characteristics of the general population.

¹See Vol. 13 CFR, Part 121.3-8 through 121.3-18, SBA Size Standards, U.S. Government Printing Office, Washington, D.C., 1983.

Since specific statistics are unavailable on small-businesses in particular, state and county statistics were used to compile approximations.² Comparisons of sample and overall state approximated small-business statistics are presented in Exhibit X (p. 40). The reader will note that the sample obtained closely parallels the state data as seen in the direct comparisons of:

- 1) the type of business, and
- 2) the distribution of firms throughout the state.³

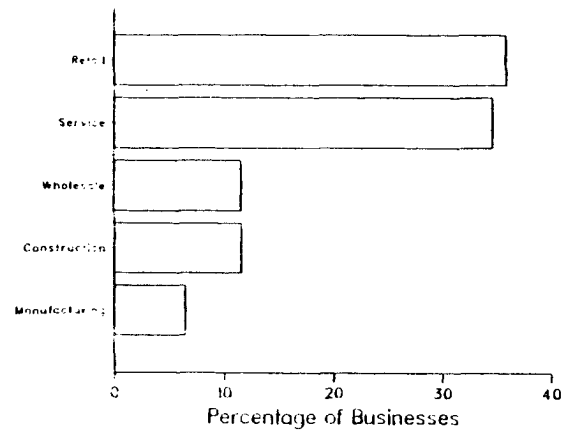
Based on the closely correlated characteristics of both the sample and state-wide small-business population, we feel that the sample does accurately represent that which it proports to represent, i.e., the state-wide population of small-business firms throughout Montana. The sample presented in this study is therefore felt to be a statistically valid sample.

²Statistics were compiled from *County Business Patterns*, 1981, Montana, U.S. Department of Commerce, Bureau of the Census, U.S. Government Printing Office, Washington, D.C., 1982.

³Comparision of company size as determined by the number of employees is not appropriate here since *County Business Patterns* does not include self-employed persons in its figures as does this sample.

EXHIBIT X-A

Types of Businesses in State



Types of Small Businesses in Sample

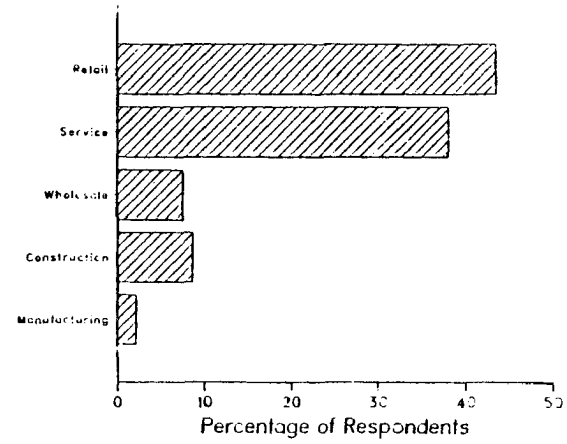
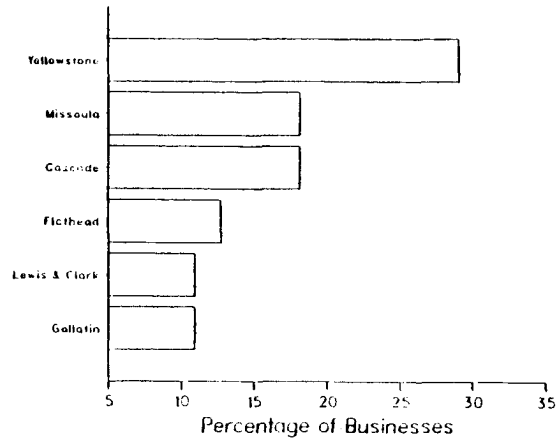
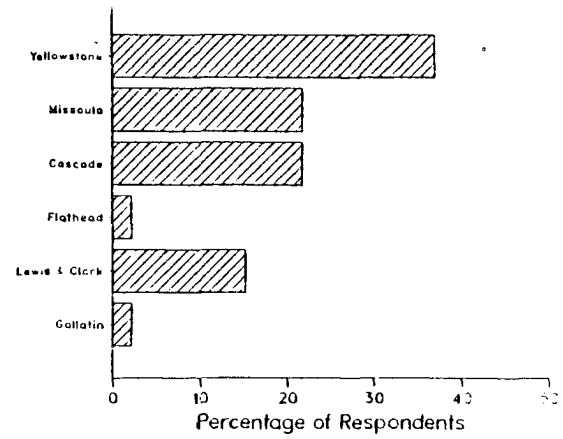


EXHIBIT X-B

State Distribution of Businesses by Major County



Sample Distribution of Small Businesses by Major County



APPENDIX A

Antecedent, introductory letter
sent to owners/presidents of
firms randomly selected to
participate in survey

University of Montana
Missoula, Montana 59812

February 14, 1983

Cottage Gift Shop
PO Box 607
Great Falls, MT 59403

Dear Mr England:

The graduate school of the University of Montana School of Business is conducting an extensive state-wide research project designed to assist owners of small businesses. The study examines the relationship between owners/managers of small businesses, and their accountants and bankers.

Our telephone interviewers will be calling in February, asking you to complete a five to ten minute telephone interview. We ask that you take this opportunity to express your opinions and suggestions. If the time for the call is not a convenient one for you, please feel free to designate a time when the interviewer might call back.

As an expression of our appreciation for your assistance, we will make available to you the results of this survey upon request.

We look forward to talking with you in February.

Sincerely,

Kay Lutz Ritzheimer
Project Director
Graduate School
School of Business
University of Montana

Larry Gianchetta
Chairman
Dept. of Management
School of Business
University of Montana

WW

APPENDIX B

Copy of questionnaire used in
survey of small-business owners/
presidents

QUESTIONNAIRE NUMBER

| | | |
|--|--|--|
| | | |
|--|--|--|

SURVEY OF SMALL BUSINESS OWNERS/MANAGERS
(EXCLUDES BANKERS AND ACCOUNTANTS)

INTERVIEWER INSTRUCTIONS: ALL INSTRUCTIONS ARE WRITTEN IN ITALIC AND ARE NOT TO BE READ TO THE RESPONDENT. BEFORE STARTING EACH INTERVIEW, PLEASE FILL IN THE INFORMATION BELOW, CHECKING THE APPROPRIATE BLANK TO THE LEFT OF THE RESPONSE.

DATE OF INTERVIEW: February __, 1983
March __, 1983

TIME OF DAY: ___ morning 9 a.m. to 12 noon
___ afternoon 12 noon to 5 p.m.
___ evening 5 p.m. to 9 p.m.

NAME OF INTERVIEWER: _____

PHONE NUMBER DIALED: _____

LOCATION (CITY) OF BUSINESS: _____

INTERVIEWER: YOU MUST ESTABLISH THAT YOU NEED TO TALK WITH THE OWNER OR MANAGER OF THE BUSINESS! IF THIS IS NOT POSSIBLE, YOU MAY INTERVIEW THE CONTROLLER OR FINANCE PERSON WHO REPRESENTS THE FIRM IN ITS DEALINGS WITH OUTSIDE ACCOUNTANTS AND BANKS (LENDING INSTITUTIONS).

BANKS (FINANCIAL INSTITUTIONS) AND ACCOUNTING FIRMS ARE TO BE EXCLUDED FROM THE SURVEY. INDICATE THAT YOU WILL BE HAPPY TO MAKE AN APPOINTMENT, IF NECESSARY, TO CALL BACK AND TALK WITH THE APPROPRIATE PERSON. (LETTERS HAVE BEEN SENT OUT TO EACH NAME ON THE LIST.)

COVER SHEET

INTRODUCTORY COMMENTS:

46

Hello, this is (your first and last name) calling from the University of Montana School of Business (in Missoula). I'm calling to talk with (name of president, if available from list, or "the owner or manager") in regards to a letter that he/she recently received from us about a special study that we're doing here in the graduate school. Is he/she available to talk with me for a few minutes? *(IF THIS PERSON IS UNAVAILABLE, SAY . . .)* Is there another number where I might reach him/her) . . . *(IF NOT, SAY . . .)* We will be happy to call back at a more convenient time -- Can I set up a time to call back? *(MAKE APPOINTMENT FOR CALL-BACK ON APPOINTMENT SHEET.)*

NOTE:

IF IT IS NOT POSSIBLE TO INTERVIEW THE OWNER, SAY . . .

May I talk with the general manager, controller, finance person, or whoever would have the most knowledge about your firm's dealings with your accountant and your bank.

(MAY BE NECESSARY AT THIS POINT TO SET UP APPOINTMENT TO TALK WITH THIS PERSON -- AGAIN, ASK FOR ANOTHER NUMBER WHERE HE(SHE) CAN BE REACHED OR SET UP A CALL-BACK TIME.)

INTRODUCTORY COMMENTS ONCE YOU'VE REACHED THE APPROPRIATE PERSON TO INTERVIEW:

Hello! This is (your first and last name) calling from the University of Montana School of Business (in Missoula). I'm calling in regards to a letter your firm recently received from us about a statewide study of businesses in Montana. As our letter stated, this study is concerned with the relationship between the owners of small businesses and their accountants and bankers. Would you have 5 to 10 minutes to answer a few questions for me? *(IF NOT, ASK TO SET UP AN APPOINTMENT FOR A CALL-BACK.)*

Before we start the interview, I want to assure you that all information you give me is confidential -- also, you may decline to answer any question.

SECTION A

1. Can you tell me your position in this firm? (check one)

- Owner
- General Manager
- President
- Vice-President
- Controller
- Accountant
- Bookkeeper
- Other (please specify) _____

2. What type of business is this? . . . retail, wholesale, service . . .? (check all that apply)

- Retail
- Wholesale
- Manufacturing
- Service
- Construction
- Other (please specify) _____

2a. Briefly describe the business.

NOTE: IF FIRM IS A BANK, FINANCIAL/LENDING INSTITUTION OR ACCOUNTING FIRM STOP INTERVIEW.

3. How many years has this business existed under its present management?

- Years (fill in number)
- Don't know
- Other (please specify) _____

4. How many employees are working for this business? (Fill in both of first two blanks)

- Full-time (40 hours or more/week)
- Part-time (less than 40 hrs/week)
- Other (please specify) _____

5. I am going to read some categories to you. Please stop me when I reach the category that contains the total annual dollar sales for this business in 1982 (last year). (If respondent seems hesitant to answer, explain that he can decline to answer.)

| | |
|---|---|
| <input type="checkbox"/> Less than \$25,000 | <input type="checkbox"/> \$500,000 to \$1 million |
| <input type="checkbox"/> \$25,000 to \$50,000 | <input type="checkbox"/> More than \$1 million |
| <input type="checkbox"/> \$50,000 to \$100,000 | <input type="checkbox"/> Declines to answer |
| <input type="checkbox"/> \$100,000 to \$250,000 | <input type="checkbox"/> Don't know |
| <input type="checkbox"/> \$250,000 to \$500,000 | <input type="checkbox"/> Other (please specify) _____ |

| |
|-----------|
| SECTION B |
|-----------|

INTERVIEWER COMMENT: We would like to ask you a few questions regarding the type of accounting services you use . . .

6. In which of the following ways is the accounting of financial information handled for your business? (Read options and check one)

(A) all of the accounting work is contracted outside the business.

(B) a little of the accounting work is done within the business, but most of it is contracted outside the business.

(C) most of the accounting work is done within the business, but year-end statements and taxes are contracted outside the business.

(D) the business has a full-time accountant(s) within the firm, but also contracts accounting work outside the business.

(E) all of the accounting work for this business is done internally
(SKIP TO SECTION C, PAGE 6.)

DO NOT READ:

(F) Don't know

(G) Other (please specify) _____

7. What were the two primary factors in selecting the outside accounting firm that you now use? (List two) (POSSIBLE PROBES: services, location, reputation, costs, advertising . . .)
-
-
-

8. Which of the following accounting services are contracted for outside of the business? (Read options and check "Yes" or "No" for each alternative.)

| <u>YES</u> | <u>NO</u> | <u>DON'T KNOW</u> | |
|------------------------------|-----------|-------------------|---|
| ___ | ___ | ___ | . . . (A) Tax Returns? |
| ___ | ___ | ___ | . . . (B) Tax Consultation and Planning? |
| ___ | ___ | ___ | . . . (C) Payroll? |
| ___ | ___ | ___ | . . . (D) Accounts Receivable Billing? |
| ___ | ___ | ___ | . . . (E) Inventory? |
| ___ | ___ | ___ | . . . (F) Preparation of Financial Statements? (Balance Sheet and Income Statement) |
| ___ | ___ | ___ | . . . (G) Financial Ratio Analysis |
| ___ | ___ | ___ | . . . (H) Cash Flow Analysis? |
| ___ | ___ | ___ | . . . (I) Income Projections? |
| <input type="checkbox"/> YES | ___ | ___ | . . . (J) Management Assistance? |

(jj) What type of management assistance?

| <u>YES</u> | <u>NO</u> | <u>DK</u> | |
|------------|-----------|-----------|---|
| ___ | ___ | ___ | . . . (k) Any other type of accounting service? (please specify) |
| | | | _____ |
| | | | _____ |

INTERVIEWER NOTES:

9. Which of the following statements best describes your understanding of the financial statements (balance sheet and income statement)? (Read alternatives and check one)

- ___ I fully understand all of them
- ___ I understand most of them
- ___ I understand very little of them
- ___ I don't understand them at all

DO NOT READ:

___ Other (please specify) _____

10. How well would you say that your accountant explains these statements to you? . . . Would you say that your accountant . . . (Read alternatives and check one)

- Fully explains the statements
- Explains them somewhat but should spend more time doing so
- Doesn't explain them very well
- Doesn't explain them at all

DO NOT READ

- Doesn't apply
- Don't know
- Other (*please specify*) _____

11. How important is it to you that your accountant take time to explain the financial statements and other relevant financial information to you? (Read alternatives and check one)

- Very important
- Somewhat important
- Not very important

DO NOT READ

- Don't know
- Doesn't apply
- Other (*please specify*) _____

12. I will read three statements regarding accounting services contracted outside of the business. Please complete each of these statements with your initial feeling:

(a) When it comes down to my business, my accountant has the general attitude . . .

(b) The thing I like most about my accountant is . . .

(c) The thing I like least about my accountant is . . .

INTERVIEWER COMMENT: Now, rather than thinking about your accountant, we would like to switch and ask a few questions about the bank (or financial institution) your business uses . . .

13. What type of financial institution does your business primarily associate with? (check one)

- Bank
- Credit Union
- Savings and Loan
- Other (please specify) _____

Don't use any type of financial institution
 SKIP TO SECTION E ON PAGE 9

14. What were the two primary factors in selecting the bank (or financial institution) that you now use? (list two) (POSSIBLE PROBES: services produced, location, reputation, interest rates, advertising . . .)

15. Do you currently have a loan with, or receive financial advice from your bank (or financial institution)? (check one)

- Yes
- No (SKIP TO SECTION E ON PAGE 9.)
- Other (please specify) _____

16. Which of the following types of financial information does your bank (or financial institution) request? (Read each alternative and check "Yes" or "No" for each.)

| <u>YES</u> | <u>NO</u> | <u>DON'T KNOW</u> | |
|------------|-----------|-----------------------|---|
| ___ | ___ | ___ | . . . (A) Income Statements? |
| ___ | ___ | ___ | . . . (B) Balance Sheets? |
| ___ | ___ | ___ | . . . (C) Cash Flow Statements? |
| ___ | ___ | ___ | . . . (D) Sales or Income Projections? |
| ___ | ___ | ___ | . . . (E) Financial Ratio Analysis? |
| ___ | ___ | ___ | . . . (F) Any other types of financial information? (please specify) _____ |

INTERVIEWER NOTES:

17. How clear is your banker when requesting financial information? . . . 52
How specific is he as to the type of information that he wants? (Read
alternatives and check one)

Very specific

Usually specific

Not specific at all

DO NOT READ

Don't know

Other (*please specify*) _____

18. I will read three statements regarding banking services provided for your business. Please complete each of these statements with your initial feeling:

(a) When it comes down to my business, my banker has the general attitude . . .

(b) The thing I like most about my banker is . . .

(c) The thing I like least about my banker is . . .

INTERVIEWER NOTE: IF FIRM DOES ALL OF ITS OWN ACCOUNTING WORK AND DOES NOT USE AN OUTSIDE ACCOUNTING FIRM, GO TO SECTION E ON PAGE 9.)

SECTION D

19. Have you ever been in a position where it has been necessary for your banker and your accountant to work together concerning your business? (*check one*)

No (GO TO #20 ON PAGE 8) Other (*please specify*) _____

Yes (ANSWER 19a ON PAGE 8) _____

Don't know (GO ON TO #23 IN SECTION E ON PAGE 9)

19a. How well did your banker and accountant seem to work together regarding your business? (Read alternatives and check one)

- They worked well together
 They worked together somewhat
 They didn't seem to work well together

DO NOT READ

- Doesn't apply
 Don't know
 Other (*please specify*) _____

20. When you want financial advice, who do you see as your primary financial advisor . . . your accountant or your banker? (*check one*)

- Accountant
 Banker
 Both equally
 Don't know
- Neither
 Other (*please specify*) _____

21. When you need financial advice for your business, would you say that you get more help from your accountant or from your banker? (*check one*)

- Banker
 Accountant
 No difference
 Don't know
- No response
 Doesn't apply
 Other (*please specify*) _____

22. When you are requested to supply financial information, would you say that your accountant or your banker requires more complete and detailed financial statements? (*check one*)

- Accountant
 Banker
 Both equally
 Neither one
- Doesn't apply
 Don't know
 No response
 Other (*please specify*) _____

23. What type of financial information (prepared either within or outside of the business) do you use most often in the daily operation and management of your business? (*POSSIBLE PROBES: sales reports, cash receipts, budget comparisons, inventory levels . . .*)
-
-

24. Are you familiar with the accounting terms "compilation" and "review" as methods of preparing financial statements? (*check one*)

No (*GO ON TO #25 IN SECTION F ON PAGE 10*)

Yes (*ANSWER #24a BELOW*)

24a. Have you ever had a "compilation" or "review" performed for this firm? (*check one*)

No (*GO ON TO #25 IN SECTION F ON PAGE 10*)

Don't know (*GO ON TO #25 IN SECTION F ON PAGE 10*)

Yes (*ANSWER #24a(1) BELOW*)

24a(1). To what extent have you used "compilation" and/or "review"? (*Read alternatives and check one*)

The firm has used compilation

The firm has used review

The firm has used both compilation and review

25. Have you (or any other employee of your firm) attended any workshops, seminars, or courses within the past 12 months? (NOTE: This can include any type course pertinent to the respondent's profession or business) -- (check one)

- No (GO ON TO #26 ON PAGE 11) Don't know
 Yes (ANSWER 25a BELOW) Other _____

25a. Have any of these workshops, courses or seminars been of a financial or accounting nature? (check one)

No (GO ON TO #26 ON PAGE 11)
 Yes (ANSWER #25a(1) AND 25a(2) BELOW)

25a(1). Please describe the financial or accounting-type seminar/course.

25a(2). Who sponsored this course(s), seminar(s), workshop(s)?

NOTE: IF MORE THAN ONE SUCH COURSE, OBTAIN INFORMATION ON ALL.

26. Would it be helpful to you if more accounting or financial seminars were presented? *(check one)*

No *(GO ON TO #27 BELOW)* Don't know
 Yes *(ANSWER #26a BELOW)* No response

26a. What topics would you like to see presented in financial or accounting-type courses or workshops to help you operate your business?

27. Does your firm currently use a computer? *(check one)*

Yes No response
 No Other *(please specify)* _____
 Don't know

28. Have you (or any other employee of your firm) attended a seminar (or workshop) on the use of computers within the past 12 months? *(check one)*

Yes Don't know
 No Other *(please specify)* _____

FINAL COMMENTS: We thank you for taking time from your schedule to help us with this survey. We sincerely appreciate your interest and your assistance.

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