

GIVING A GOOD ACCOUNT

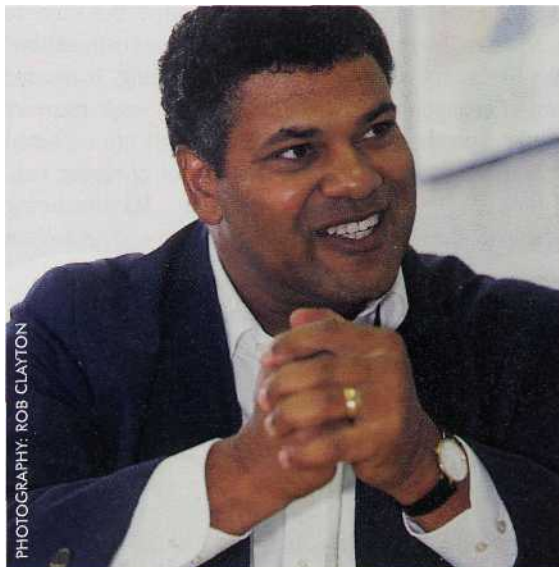
It's time small businesses realise that management accounts aren't just for auditors and the tax man.

WHO GETS TO see your management accounts? I'm guessing that for some of you, it's too few people outside your company. I concluded this after a conversation with some bank managers. (Of course they enjoy much grander titles these days, something to do with "relationships".)

I was struck by their exasperation with their customers - they both deal with smaller businesses, turning over between £1m and £10m. The crux of their concern was what they saw as the paucity of the management information provided by client companies. At first, I was sceptical. I thought they were complaining that these companies (and their hard-pressed finance managers or FDs) were being asked to provide detailed analysis above and beyond the call of duty.

But it seems that even the basic management information sent in by some companies was appalling. I had naively assumed that any business worth its salt would regularly send its bankers a profit and loss account, cash-flows and comparisons to budgets, with some brief analysis explaining material variances. Standard stuff from the management accounts, really. Let's be clear: I'm not talking about businesses that had surplus funds and just used their bank as a chequing account. These were businesses that have some form of borrowings from the bank and who relied on those borrowings to stay in business.

The bank managers I was talking to were often presented with nothing more than a few figures on one poorly formatted page. That made it tough to make sense of the figures. And they said that often there'd be no explanatory notes. To add insult



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to injury, the figures were often two or three months out of date.

Some small businesses, especially those without an FD, don't have detailed management information that they can share with the bank. Other companies may be hiding something. But many must have the information and simply haven't realised the benefits of sharing it.

You do get entrepreneurs who feel they don't have time to generate pages of financial analysis. They tend to manage by rule of thumb, which is fair enough. Take a client I worked with who ran a coach company. His simple measure of success was to gaze out of his office window at his yard. If it was empty, he was happy. If there were coaches standing idle, he shouted at someone. I only got involved when his lack of management accounts left

him none the wiser as to where his profits were actually coming from! But the bank won't usually do anything about a lack of information as long as everything else is ticking over, a situation that's less common in a tight economic environment.

A few FDs deliberately hide damaging information from the bank. Those who do are technically in breach of a non-financial covenant. A bank will chase them for information and can charge for it being late. But they soon start to try and figure out what's wrong with the company. In extreme cases, they could withdraw the overdraft if they feel they're not seeing the whole picture.

You could criticise the banks for extending loan facilities to clients that don't provide them with proper accounts from the off. But banks have to do business like the rest of

us. The facility letter that every business borrower signs is an agreement as to who is going to do what by when. In other words, inaction by the bank does not mean that they are happy, just that they're not going to ditch you as a borrower - yet.

Also, bankers have to tread carefully. They can request information but can't demand it for fear of being viewed as interfering with the running of the company (or worse, being seen in the eyes of the law as shadow directors). Banks have thousands of clients borrowing money off them at any one time. So they're bound to be fairly hands-off, even if their ad agencies try to suggest otherwise.

And there *is* an upside for open-book FDs. If your company is borrowing from the bank, you're in competition with other borrowers, fighting to get and keep that loan at the best price possible. It's in every borrower's interest to ensure they look good, especially when demand starts to outstrip supply. Recent developments in the banking sector (especially the capital adequacy rule changes in Basel II) and in the economy make that financial PR job even more important.

You need the bank's trust so you can keep borrowing and maybe even increase your facility when times get tough. If 2003 turns out to be rough, you're bound to get a more favourable reception from the bank if you've built up a good relationship by providing decent financial information rather than passing over the equivalent of random figures on the back of a fag packet.

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