

FINANCIAL MANAGEMENT FOR SELF-EMPLOYED OWNERS

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ABSTRACT

Self-employment enterprises play an important role in employment creation, investment and economic growth. Enterprises operated by the self-employed persons are the most common form of business establishment across all sectors of the Australian economy with the majority operating in retail, services and construction industries. Past Australian small business studies have been based on the data collected from small business enterprises – not self-employment. This paper reports on the study concentrating specifically on self-employment enterprises and their owners use of financial information. Financial information systems used by small business enterprises were reviewed to develop a model of financial information systems specifically applicable to self-employment. Several propositions were developed from the model. These propositions address relationships between self-employed enterprises' financial information needs and accounting information systems used to provide such information.

A survey conducted in the North Coast Region of the State of New South Wales, provided empirical data. Data was collected through questionnaires administered in personal interviews with self-employed owners. Frequencies and cross-tabulations were employed to analyse the data. Discussion of findings provided a number of implications for the accounting profession, government departments, educational institutions and self-employed owners.

INTRODUCTION

For decades, many researchers and writers in journals (such as *Journal of Small Business Management*) have pursued the theme that improvements in aspects of small enterprise management and assistance for small enterprises are essential for growth and development of any nation whether industrialised or an emerging nation (Meredith, 1988; Williams, 1987). There exists a substantial body of prescriptive literature dealing with in whole or part with use of financial information for small enterprises. A number of studies in Australia and overseas have indicated that there is a close relationship between the quality and quantity of financial management information used by small enterprise owners and enterprise survival, development and growth. For instance, some financial management literature written for small enterprise owner/managers emphasise the importance of developing skills in reading and interpreting historical financial statements to monitor financial performance and growth (Rausch, 1982; McMahon, 1986; Meredith, 1986; Walker & Petty, 1986; Barrow, 1988). Some relevant journal articles strongly advocate preparation and use of financial information (Mayo & Rosenbloom, 1975; Patrone & DuBois, 1981; Van Voorhis, 1981; Konstans, 1982; Konstans & Martin, 1982), while others do so with some reservations (Welsh & White, 1981; Howell

et al, 1981). A number of publications has also dealt with the distinguishing characteristics, problems, and financial information needs of small and growing enterprises (Hutchinson & Ray, 1986; Stanworth & Curran, 1986; Scott & Bruce, 1987; Kazanjian, 1988; Turok, 1991). These articles highlight the need for comprehensive financial information in growing small enterprises.

Furthermore, a number of studies in Australia have also demonstrated the importance of financial facts and figures in business survival, business growth and development for small enterprises. In Australia, Mirza (1981) produced a research report on a study of 50 small enterprise owner / managers in North Queensland. Over 84 percent of the respondents in that study indicated the importance of financial budgeting in assisting decision making and solving problems. In a landmark longitudinal study of Australian small enterprises conducted by Williams in 1987 and continuing, it was clearly established there has been a positive relationship between the use of accounting information in business decisions and survival. Results of this study continue to show that those owner/managers using cash budgeting, profit planning techniques and time management methods are more likely to survive than those not utilising financial information.

International agencies such as the International Labour Organisation (ILO) are dedicated to assisting small enterprise development in emerging nations. Small enterprise development is equated with improved standards of living and community welfare (ILO, 1990). While the focus of attention on that sector of business seen as "small enterprise" is obvious from the literature and from Government policies and organisations devoted to small enterprise programs, focus on one sub-sector of small enterprise (the self-employed) has been less evident. Yet ILO (1990, p. 7) has identified more than one billion self-employed persons and unpaid family workers associated with self-employment in the world including more than 33 million in industrialised countries and over 800 million in agriculture (Table 1).

No further evidence than that presented in Table 1 should be needed to demonstrate the importance of self-employment throughout the world. For the purpose of this study self-employment enterprises are defined as those business units which are owned and operated by individuals, working proprietors, unpaid family workers and/or what ILO (1990) calls "own-account workers".

The self-employed enterprises are controlled by individuals – without staff employed under normal economic conditions. Self-employment dominates the small enterprise sector throughout the world. As mentioned and illustrated in Table 1, ILO (1990) estimates that there are some one billion self-employed or unpaid family workers worldwide. Self-employment enterprises in Australia are also the most common form of business establishment, yet financial information for the self-employed is not being studied.

Table 1

Self-Employment Worldwide

	Self-Employed (millions)	Unpaid Family Workers (millions)	Total (millions)
Industrialised market economy countries	28.0	5.0	33.0
Developing countries	104.0	33.0	137.0
Industrialised centrally planned economy countries	1.2	0.3	1.5
Agriculture			171.5
			828.5
Total			<u>1,000.0</u>

Source: International Labour Organisation, 1990

The paper now raises a number of questions relating to self-employment enterprises and financial management information systems associated with those who are self-employed.

- a. What are the particular characteristics of the self-employed from the point of view of management?
- b. Why is accounting and financial management information so important for small enterprise survival in general, and self-employment enterprises in particular?
- c. Is it possible to link financial management information systems and self-employed owners needs to demonstrate what aspects of financial management systems should be stressed for small enterprise owners and those advising self-employed owners?

The next sections of this paper provide tentative answers and finally the results of a survey of Australian self-employed owners and their use or lack of use of financial management information is presented. To this end, the paper attempts to present an argument for improved financial information for self-employed while demonstrating current practices by owners and their use of financial management information.

THE IMPORTANCE OF FINANCIAL MANAGEMENT INFORMATION

In reviewing the requirements of financial management information for "small enterprises" (as opposed to self-employment enterprises), needs for financial management information and systems can be identified as to:

- a. meet the needs of statutory accounting information;
- b. provide budgets for internal management planning and control;
- c. provide additional management accounting information; and

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- d. assist operations on a day-to-day basis.

Governments of most countries require the business sector to provide key information to Government for macro enterprise planning. The specific requirements may vary from country to country but in general, society through Government wishes to identify profit for tax purposes, statements of assets and liabilities, details of owner's equity as a measure of "worth" of all enterprises in the community, and as a source of information for macro planning.

Management is the process of planning and controlling of operations. This (from the point of view of financial management facts and figures) includes the preparation of budgets – operating (sales, purchase, expenses, profit and loss) and financial (capital expenditure, cash, balance sheet). Budgets may be expanded to meet the needs of the enterprise and are to a large extent influenced by industry sector and its needs. It is self-evident that budgets prepared by manufacturing enterprises will differ from those prepared by retail enterprises, service enterprises, or farming enterprises.

Accounting is a "service" activity, collecting, analysing, storing and reporting financial facts and figures for owners. These financial facts and figures may extend well beyond what is required for statutory purposes or for budget planning purposes. Perhaps preparation of additional accounting information such as production costing, performance analysis, cost-volume-profit analysis, ratio analysis, cash flow statement may be useful for small enterprise owner/managers.

Day-to-day operations involve the handling of cash, stock, perhaps debtors, creditors, sales in some form, as well as purchases. Financial information such as petty cash summary, bank reconciliation, and debtors and creditors analysis may be necessary for small enterprise owner/managers to assist in the control of these operations.

In preparing these reports for owners or for external parties, small enterprise owners may use manual or computer based systems. Many small enterprise owners use computer based systems with packages readily available to provide for statutory requirements as well as internal management requirements. Whether such systems are justified for self-employment enterprises is discussed below.

LINKING FINANCIAL INFORMATION TO SELF-EMPLOYED OWNERS NEEDS

The task is now to link the importance of financial information to the needs of self-employed owners and to recognise structures of self-employment enterprises and operational constraints faced by the self-employed. By definition, the self-employment enterprises have no paid staff, although there may be unpaid family members involved with the enterprise.

Statutory requirements must be met by the self-employed owners. If legislation requires submission of annual or more frequent returns of profit, assets, liabilities and equity, then the self-employed has no choice but to meet those requirements. A self-employment enterprise

may be organised as a partnership or a corporation with unpaid family members, as partners or directors. Statutory requirements of partnerships and corporations must be met.

Only when consideration switches to budgets, additional management accounting information and operational financial information, possible adjustments in linking the importance of financial information with self-employment needs are acceptable.

Budgets of some kind are important for the self-employed. The format and details of budget preparation may be influenced by self-employment enterprise characteristics. For example, cash flow budgets may be prepared in a simple format. Profit budgets may be no more than estimates of revenue and major expense items. Non-financial budgets may be restricted to key activities essential for business survival, progress and development. No attempt may be made to budget for asset, liability and equity positions in the future. If this suggestion is seen as reasonable, budgets for a self-employment enterprise may be restricted to a single page layout with provision for control through reporting of actual total revenue, total expenses and hence profits as well as regular cash received, paid and balances.

The same principle applies when considering desirable additional management accounting information that may be justified for self-employment enterprises. Table 2 presents a recommended summary of information that may be considered by the self-employed owner.

Table 2

Desirable Additional Management Accounting Information

Accounting Information	Implications for a Self-Employment Enterprise
Job Order Costing	Desirable for self-employed owners in construction industry. Minimum maintenance of job-cost sheets for every job.
Performance Analysis	Desirable to measure efficiency and effectiveness of operations. Minimum monthly or quarter comparisons between actual and budget will ensure that business is proceeding according to plans.
Cost-Volume Profit	Desirable as an effective decision <i>analysis or cost of</i> models. Owners can measure the impact on <i>staying open</i> net profit when decision has been made to change costs or sales prices. Owner's knowledge of break-even point is necessary for many business decisions (special offers). Minimum, whenever there has been change in price, sales volume, and costs – the new break even point should be calculated.
Profitability Ratios	Desirable. Minimum only: return on owner's equity, return on total assets, turnover of total assets and profit margin.
Liquidity and Financial Stability Ratios	Desirable. Minimum only: current ratio, quick ratio, and debt ratio.
Pricing Analysis	Desirable. Most sensitive decision for self-employed owners. Minimum only: mark-up pricing method is widely used. Cost is an important factor in establishing prices. Prices should be analysed when there are some changes in costs. Many self-employed owners are involved in the service industries. Job-cost sheets are desirable to control time cost and associated material and overhead costs.
Industry Comparisons	Desirable internal and external business comparisons. Minimum: interfirm comparisons to have an external standard to measure weakness and strength on half-yearly or annual basis.
Cash Flow Summaries	Desirable. Minimum: daily cash flow summaries to control cash position.

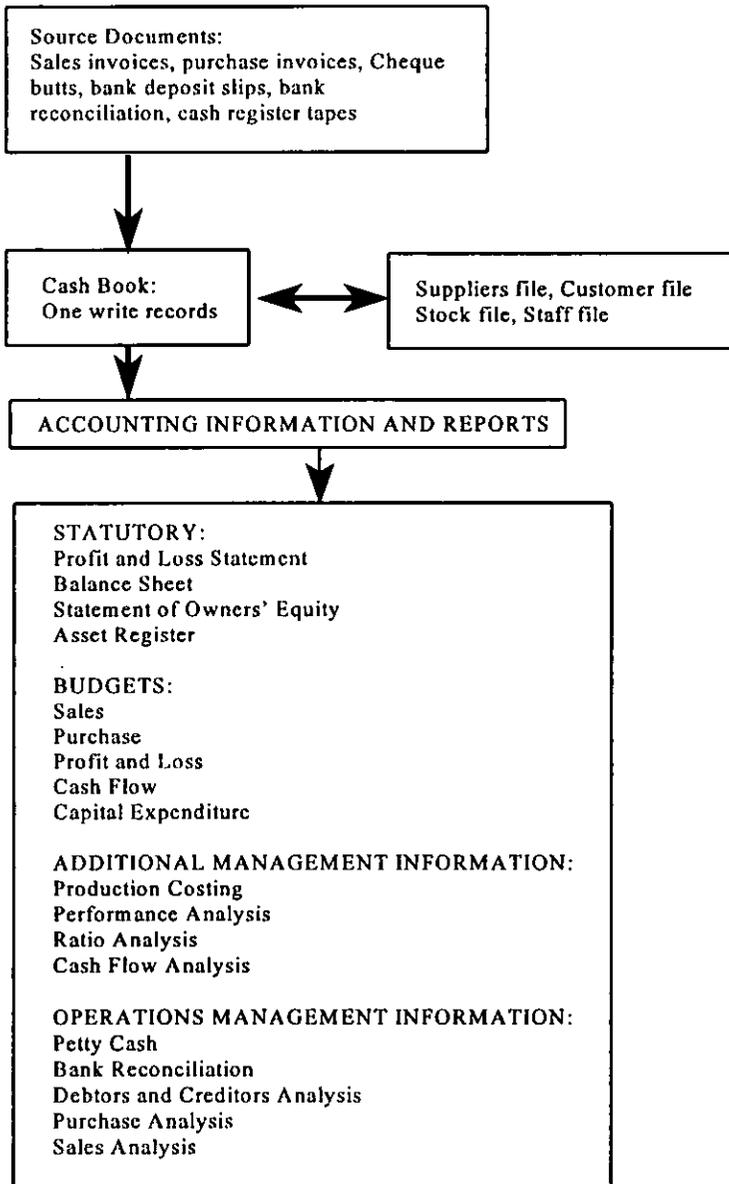
The same principal applies when considering financial information for the control of a self-employment enterprise operations. Activities involving revenue and expenditure may be restricted to a cash basis, eliminating debtors and perhaps creditors although it may be argued that purchases on credit should be a management feature of the self-employment enterprise. Table 3 summarises adjustments that may be appropriate for the self-employment enterprise.

Table 3
Desirable Accounting Information to Control Operations

Accounting Information	Implications for a Self-Employment Enterprise
Petty cash summary	Desirable. Minimum only: To prepare petty cash summary when petty cash fund has to be replenished
Bank reconciliation	Desirable. Minimum only: Bank reconciliation prepared as soon as bank statement is received.
Debtors analysis	Desirable. Minimum only: Weekly analysis of trade debtors to avoid liquidity problems. Cash nature of sales transactions would minimise bad debts and follow-up time. Given the limited human and financial resources, it is desirable to operate on cash sales basis.
Creditors analysis	Desirable. Minimum only: Weekly analysis to maintain the image of enterprise and take advantage of discount terms.
Sales analysis	Desirable: Minimum only: Daily or weekly analysis of sales based on major products or services.
Purchase analysis	Desirable. Minimum: Weekly analysis of purchases based on product and supplier to support sales and control stock level.

The links between key financial management information and reports required for planning and control for the self-employment enterprise are illustrated in Figure 1.

Figure 1
Financial Management Information Systems Model for a Self-Employed Enterprise



Source: prepared for this research

RESEARCH METHOD

The primary research instrument applied to collect data was a survey questionnaire. The questionnaire was divided into four sections and designed to seek information regarding (1) the self-employment enterprises, (2) the self-employed entrepreneurs, (3) details of financial management information system, and (4) use of financial information in planning and decision-making.

A questionnaire was distributed to a random sample of self-employment enterprises in the north coast region of New South Wales in Australia. Self-employment enterprises surveyed were selected at random from the Universal Business Directory, North Coast Region - a directory providing a listing of business enterprises operating in the North Coast Region. A personal contact between the researcher and self-employed owner/managers was made to distribute questionnaires and screen respondents to include only self-employed in the original sample. Ten days after the initial distribution, self-employed owners were visited to discuss questions, and response sheets were collected. In total 90 useable responses were obtained from the survey representing a useable response rate of 75 percent since 120 enterprises were selected in the random sample. This report now turns to results of a study of financial management information system for the self-employed.

SURVEY DATA – SELF-EMPLOYED OWNERS AND ENTERPRISES

In this introductory section to survey results, four tables are presented to summarise enterprise location, legal structure, enterprise ownership/management, owners highest education qualification, and enterprise turnover.

Enterprise Location

The largest percentage of respondents (80 percent) were located in cities (population between 20,000 - 40,000). Another 15.5 percent were located in towns (population between 5,000 - 20,000) and some 4.5 percent were located in villages (population less than 5,000). Total sample distribution per location is presented in Table 4.

Table 4

Business Location

Location	Total		City		Town		Village	
	#	%	#	%	#	%	#	%
a. City	72	80.0	72	100				
b. Town	14	15.5			14	100		
c. Village	4	4.5					4	100
Total	90	100	72	100	14	100	4	100

Legal Structure

Table 5 identifies respondents based on the legal structure of self-employment enterprises dissected by location. This table indicates that the legal structure of businesses differed to some extent between locations, and illustrates that self-employment enterprises tend to use more complex legal structures in cities when compared with town or village enterprises. In the cities, self-employment enterprises were engaged in businesses in the form of sole proprietorship, partnership, company as well as trust. An interesting result of this survey shows that at least 50 percent of all self-employment enterprises surveyed in cities, towns, and villages had partnership business structure.

Table 5
Business Structure by Enterprise Location

Structure	Total		City		Town		Village	
	#	%	#	%	#	%	#	%
Sole Proprietorship	21	23.3	16	22.2	3	21.4	2	50.0
Partnership	46	51.1	37	51.4	7	50.0	2	50.0
Company	16	17.8	12	16.7	4	28.6		
Trust	7	7.8	7	9.7				
Total	90	100	72	100	14	100	4	100

Enterprise Ownership and Management

One of the characteristics of the self-employment enterprise is that ownership and management functions are usually carried out by the same person. This characteristic was present in the population surveyed by this study, in that about 97 percent of self-employment enterprises were managed and owned by the same persons. By definition, owners are the principal workers in the self-employment enterprises. The two-working-owners were involved in operating the majority (61.2 percent) of self-employment enterprises surveyed by this study.

It was observed by the researchers that the two-working-owners of self-employment enterprises are usually husband-and-wife who jointly carry on the day-to-day operations of the business with an exception that the wife is usually responsible for the recordkeeping. The results of the survey also show that this team of husband-and-wife plays a limited role in decision making—17.7 percent of respondents turned to their spouse for advice on decisions involving relatively large financial outlays. Further, self-employment enterprises may face special problems as this relationship between husband and wife is not always smooth and can seriously damage the performance of a self-employment enterprise (Abbot & Meredith, 1984).

Highest Education Qualification

Respondents were asked to nominate their highest education qualification - with the range from a primary school certificate to a post-graduate qualification. Table 6 reports the highest level of formal education achieved by self-employed owner/managers. Over 70 percent of the respondents have attained a high school certificate, with a higher proportion of owner/managers (71.1 percent) having studied for 6 years at high school. This data shows that 63.3 percent of respondents had progressed beyond a high school education, although about 36.3 percent did not attain tertiary level qualifications. In general, self-employed owner/managers' level of formal education increases as self-employment enterprises grow in size. This is evidenced by the decreasing proportion of owner/managers with no tertiary qualifications from 37.6 percent (very small) to 29.2 percent (medium) and the increasing proportion of owner/managers with a university/collegedegrees from 8.3 percent (very small) to 25 percent (medium).

Table 6

Formal Education Completed by Self-Employed Owner / Managers and Dissected by Business Size

	Total		Very small (1 - 3)		Small (4 - 6)		Medium (7 or more)	
	#	%	#	%	#	%	#	%
a. Primary	1	1.1	1	4.2				
b. High School:								
HS 1-3 years	25	27.8	6	25.0	14	33.3	5	20.8
HS 4-6 years	64	71.1	17	70.8	28	66.7	19	79.2
Total	90	100	24	100	42	100	24	100
c. Tertiary:								
Certificate	40	44.4	10	41.6	20	47.6	10	41.6
Diploma	6	6.6	3	12.5	2	4.7	1	4.6
Degree	11	12.2	2	8.3	3	7.2	6	25.0
No qualification	33	36.6	9	37.6	17	40.5	7	29.2
Total	90	100	24	100	42	100	24	100

Sales

A significant number of self-employment enterprises (42.3 percent) reported total sales of more than \$300,000 per annum. In general, a significantly higher proportion of self-employment enterprises in city (45.83 percent) achieved sales of more than \$300,000 as

compared with their counterparts in town (28.6 percent) and village (25 percent). Details are presented in Table 7.

Table 7
Total Sales of the Business

Sales	Total		City		Town		Village	
	#	%	#	%	#	%	#	%
a. \$20,000 – \$100,000	15	16.6	11	15.27	2	14.3	2	50.0
b. \$100,001 – \$200,000	13	14.4	11	15.27	2	14.3		
c. \$200,001 – \$300,000	10	11.2	9	12.52	1	7.1		
d. Over \$300,000	38	42.3	33	45.83	4	28.6	1	25.0
e. No answer	14	15.5	8	11.11	5	35.7	1	25.0
Total	90	100	72	100	14	100	4	100

In summary, it was found that self-employed owners in this sample spent between 40-60 hours per week in conducting business related operations. In total 48.8 percent of self-employed owners have attended some form of management training programs with an upward tendency as they expand their business. Trade/industry associations and TAFE colleges were considered to be the most popular providers of management training programs by self-employed owners with an increasing tendency toward university sponsored programs as the enterprise grows in size.

SURVEY DATA – FINANCIAL MANAGEMENT INFORMATION FOR SELF-EMPLOYED

One of the major objectives of this research study was to explore financial management information systems utilised in self-employment enterprises and the extent to which financial information is used by self-employed owners in day-to-day management decisions of enterprise.

Two sections of the questionnaire sought information which focussed on these objectives - one dealing with a series of questions related to the details of financial management information system, and a second investigating use of financial information in planning, and decision-making.

Details of Financial Management Information System

A series of six questions provided background information on financial management information systems associated with self-employment enterprises. The respondents were asked:

1. Who prepares the financial statements?
2. How often are financial statements prepared?
3. In general are these financial statements useful to you in making business decisions?
4. What are reasons for preparing and/or acquiring accounting information?
5. What accounting records does your business maintain?
6. What type of accounting information does your business produce at least annually?

These questions vary from accounting records maintained, to type and frequency of financial information prepared internally and/or acquired externally.

Usefulness of Financial Statements

The survey questionnaire proceeded to ask self-employed owners to identify the person/s who normally prepared financial statements for the enterprise. As it was expected, approximately 74 percent of self-employed owners acquired accounting information annually through an accountant external to the enterprise. A question was also included in the survey to find out whether self-employed owners regarded financial statements useful or not in making business decisions. The respondents were given the option ranging from extremely useful, to extremely useless. The responses to this question is reported in Table 8.

Table 8
Perceived Usefulness of Financial Statements in Decision Making

Response	Total	
	#	%
a. Extremely useful	19	21.1
b. Very useful	36	40.0
c. Neither useful or useless	14	15.5
d. Not very useful	13	14.4
e. Extremely useless	8	8
Total	90	100

About 61 percent of respondents considered financial statements to be either "very" (40 percent) or "extremely" (21.1 percent) useful in assisting business decisions. By contrast, about 39 percent of self-employed owners did not perceive financial statement to be very useful. Further, the comparison between "very small", "small", and "medium" size enterprises reveal that the perception of self-employed owners regarding the usefulness of accounting information in decision-making improves as enterprises grow in size.

Predominant Purpose for Preparing Accounting Information

Three alternative reasons were nominated in the questionnaire ranging from lodgement of tax return and satisfying legislative requirements, to being informed of business

performance. From the results reported in Table 9, it is apparent that approximately 56 percent of self-employed owners considered the main reason for preparing or acquiring accounting information was to “facilitate the lodgement of a tax return”. Whilst only 10.1 percent of respondents were concerned with “legislative requirements”, some 34 percent acquired accounting information for the purpose of being informed of business performance.

Table 9
Predominant Purpose for Preparing or Acquiring Accounting Information

Purpose	Total	
	#	%
Facilitate lodgement of tax return	82	55.4
Satisfy legislative requirements	15	10.1
Informed of business performance	51	34.5
Total	148	100

Frequency of Financial Statements

Further questions asked self-employed owners to indicate the frequency with which accounting reports were prepared either internally or obtained from some external sources. The responses from this question are reported in Tables 10 (a) and (b). The majority of respondents prepare or acquire “balance sheet” (62.3 percent) and “profit/loss statement” (63.4 percent) on an annual basis which is consistent with responses to prior questions, in that balance sheet and profit/loss statements are part of legislative requirements and these statutory accounts are normally required annually. However, a relatively small number of self-employed owners prepared financial statements on half yearly or quarterly basis.

Table 10(a)
Frequency of Balance Sheet Preparation

Frequency	Total	
	#	%
a. Monthly	10	11.1
b. Quarterly	6	6.6
c. Half yearly	12	13.4
d. Annually	56	62.3
e. Never	6	6.6
Total	90	100

Table 10 (b)

Frequency of Profit / Loss Statement Preparation

Frequency	Total	
	#	%
a. Monthly	8	8.8
b. Quarterly	7	7.7
c. Half yearly	11	12.4
d. Annually	57	63.4
e. No answer	7	7.7
Total	90	100

Accounting Recordkeeping System

Self-employed owners were asked to select from four alternatives levels of record(s) possibly maintained by their business enterprises (see Table 11). These five alternatives covered record-keeping systems regarded as "very simple" (such as one-write systems) or full set of records which uses a journal and ledger system based on double entry accounting concepts.

Table 11

Accounting Recordkeeping System Dissected by Business Size

Accounting Records	Total	
	#	%
Cash book only	44	29.1
Cheque book and bank statement	56	37.1
Full set records (journal / ledger)	50	33.1
One-write only	1	0.7
Total	151	100

The discussion in section 4 linking financial information to self-employed owners' needs outlined major components of a system as being cashbook supported by several filing sub-systems such as debtors and creditors (Figure 1). Further, none of the small business publications reviewed advocate keeping cheque butts and bank statements as accounting records to facilitate the preparation of accounting information. Nevertheless, the results presented in Table 11 indicate that the majority of self-employed owners (37.1 percent) keep cheque books and bank statements as main records to facilitate the preparation of accounting information. The implications of this finding for self-employed owners is that cheque books and bank statements generally list receipts and payments and will not provide any information useful to business management.

Table 11 also shows that 29.1 percent of self-employment enterprises maintain cashbooks as accounting records which is contrary to the financial information system presented in Figure 1. These cashbook are unlikely to provide a great deal of information for management unless expense/revenue dissection is incorporated within the cashbook. Responses reported in Table 12 suggest that such dissections do not exist, since accounting records are mainly kept for tax purposes.

With regard to the maintenance of full journal/ledger system, Table 11 indicates that 33.1 percent of self-employed owners utilise full set of records to prepare accounting information, as opposed to the financial information system model developed in Figure 1.

The financial information systems presented in by Figure 1 is very much consistent with "one-write" (simplified accounting system) which is used only by 0.7 percent of self-employed owners.

Overall, it seems that accounting records maintained by self-employed owners, to facilitate the preparation of accounting information needed for internal decision-making and day-to-day management, tend to diverge significantly from those recommended by the accounting information model developed in Figure 1.

Types of Financial Reports

A number of questions were posed to self-employed owners to seek information on the preparation of the types of financial information and reports either internally or externally. These questions were mainly concerned with the type of financial information such as statutory accounting information, budgeted financial statements including profit/loss and cash flow, and additional managerial accounting information - performance analysis, ratio analysis, industry comparisons, production and job costing reports, break-even analysis, and capital budgeting. The responses to these questions were regrouped to classify self-employment enterprises in three categories:

- a. Self-employment enterprises which prepare or acquire only "statutory" financial information;
- b. Self-employment enterprises which prepare or acquire "statutory/budgeted" financial information;
- c. Self-employment enterprises which prepare or acquire "statutory/budgeted/additional" financial information.

From the results reported in Table 12, it appears that the majority of self-employed owners (52.9 percent) are primarily concerned with the preparation or acquisition of statutory accounting information. Although a higher proportion of self-employed owners generate budgets, but a very limited amount of management accounting information was reported. Thus, it seems that financial management systems used by the majority of self-employed owners basically provide statutory accounting information which is not adequate for the day-to-day management decisions made by owners.

Table 12

Amount and Type of Accounting Information

Information	Total	
	#	%
Statutory	90	52.9
Budget	59	34.5
Additional Management Information	21	12.6
Total	170	100

The Use of Financial Information In Planning, Decision-making, and Control

In order to put the application of financial information into perspective, details were sought concerning the type of financial information and source of advice used for a relatively important financial outlay, use of budgets in forecasting business operations, and reasons for engaging the services of an accountant.

Financial Information Used for a Relatively Large Financial Commitment

Self-employed owners were asked a question on the use of financial information in major decision-making. Respondents were given a number of alternative situations where accounting information may be seen as being important - for example, forecasting cash flow or forecasting product pricing or using accounting information as economic indicators or for cost-benefit analysis. This question was designed to evaluate the respondents' ability to apply accounting information to business decisions. Accounting information is the most relevant input to forecast cash flow and cost-benefit analysis. It is normally expected that the majority of self-employed owner/managers considering accounting information useful in business decisions, would also use forecast cash flow and cost-benefit information when evaluating an important or large financial outlay.

The data in Table 13 indicate that only 17.9 percent of respondents use cash flow forecast and 15.8 percent of self-employed owners use cost-benefit information when considering a relatively large financial commitment. However, the majority of self-employed owner/managers (24.8 percent) consider "finances" to be more relevant than such important financial information as "forecast cash flow" and "cost-benefit" to decisions of a large financial commitment. This may also indicate that self-employed owner/managers consider financial information to be useful in business decisions but do not apply the information when it is necessary.

Table 13

Financial Information for a Major Decision

Information	Total	
	#	%
Forecast cash flow	42	17.9
Supplier information	25	10.7
Product price	38	16.2
Finances	58	24.8
Economic indicators	23	9.8
Cost-benefit	37	15.8
None	11	4.8
Total	234	100

Use of a Written Budget in Forecasting Business Operations

Self-employed owners were also asked several questions concerning the use of written budgets for planning business operations and formal budgets for large capital expenditure items such as plant or buildings. The emphasis on these questions was related to the frequency of use on budgets - with the idea of attempting to determine how useful owners saw financial information as part of budget processes. Responses to the questions are summarised in Tables 14 (a) and (b).

Table 14 (a)

Use of a Written Budget in Forecasting Business Decisions

Frequency	Total	
	#	%
a. Always	13	14.4
b. Usually	11	12.2
c. Half the time	1	1.1
d. Occasionally	24	26.6
e. Never	41	45.5
Total	90	100

Table 14 (b)

Use of a Formal Budget for Expenditure on Large Items

Frequency	Total	
	#	%
a. Always	20	22.2
b. Usually	11	12.2
c. Occasionally	9	10.0
d. Never	50	55.5
Total	90	100

The responses listed in Tables 15 (a) and (b) appear to be consistent with the answers to the earlier question, indicating that the additional managerial financial information, such as budgets are not commonly (14.4 percent and 22.2 percent respectively) employed by self-employed owners for forecasting business operations and major decisions. Tables 14 (a) and (b) also illustrate that the majority of self-employed owners (45.5 percent and 55.5 percent respectively) never use a written budget in formal business planning and capital expenditure decisions.

The majority of respondents reported that budgets were either “never ”or” only “occasionally” used for controlling or forecasting business operations and large capital expenditure items. This suggests that for the majority of owners, accounting information is not seen as critical for budget preparation and control over business activities.

Source and Type Of Advice

There are a range of sources of advice available for self-employed owner/managers in Australia. A further question put to owners of self-employment enterprises, collected information on individuals or professionals from whom advice was sought when the enterprise was faced with a relatively major financial decision. In this question, quite a number of alternatives were presented to owners – bank managers, another business owner, solicitors or accountants and others that may not be so obvious, such as a trade supplier or spouse/relation.

The responses (Table 15) show that the majority of self-employed owners turn to external accountants (31.1 percent), bank managers (19.1 percent) and spouse/relation (17.7 percent) for advice on financial commitments. It is interesting to see that only 0.9 percent of the respondents turn to government agencies.

Table 15

Sources of Advice When Analysing the Feasibility of a Major Financial Outlay

Purpose	Total	
	#	%
a. Bank manager	40	19.1
b. Another business person	13	6.2
c. Solicitor	19	9.0
d. Accountant	65	31.1
e. Trade / business association	8	3.8
f. Government agencies	2	0.9
g. Spouse / relation	37	17.7
h. Consultant	5	2.4
i. Trade supplier	13	6.2
j. Books, tapes, etc.		
k. No response	7	3.3
Total	209	100

Advice sought from an external accountant would be of accounting and/or taxation nature so a further question was asked to identify the type of other advice or assistance. A number of alternatives were presented for owners - some which are obvious and some not obvious. It is possible that accountants may be asked to help on a number of matters so that multiple answers were possible. The responses reported in Table 16 are consistent with the answers to earlier questions. Among six different services listed in the question, 35.9 percent of the self-employed owners selected "tax advice/return" as a predominant reason for engaging the services of an accountant.

Table 16

Reason(s) for Engaging the Services of an Accountant

Purpose	Total	
	#	%
Prepare statutory accounts	39	17.1
Tax advice/ return	82	35.9
Bookkeeping services	15	6.6
Financial advice	47	20.6
Maintain financial control	13	5.7
Assistance with business decisions	32	14.0
Total	228	100

IMPLICATIONS FOR SELF-EMPLOYED OWNERS

The results indicate that legislative requirements are the predominant reason for preparing/acquiring accounting information by self-employed owner/managers which in turn explains the limited preparation and/or acquisition of additional financial information for management decision-making purpose. Thus financial information is considered to be a tool that is designed to satisfy legal requirements and does not serve self-employed owners for strategic planning. Given the main thrust of accounting information to "permit informed judgements and decisions by users of the information" (American Accounting Association, 1966 p.1), it is perhaps relevant to note that traditional financial information has very limited application in practice and application of financial information may vary dramatically from one user to another.

It was also found that 53 percent of self-employed owners surveyed by this study engage the services of an accountant for the preparation of tax return and statutory accounts. Relationships between self-employed owners and the accounting profession are therefore limited to tax advice and it may be argued that the self-employed owners' perception of an accountant is very similar to that of a tax agent. Two possible explanations can be presented:

- a. Self-employed owners are unaware of the additional services available from accountants in practice;
- b. Accountants are specialists in taxation services and do not have sufficient expertise to provide management advisory services.

There are implications from this discussion for self-employed owners, professional accountants, and their advisory services. Self-employed owners should improve their knowledge and understanding of financial information. Accountants should review management needs of self-employment enterprises. Government agencies should consider research programs into the management needs of self-employed owners and tertiary institutions may have to research and publish more data on the establishment, development, and management of self-employment enterprises.

Finally, there seems to be a divergence between the financial management information systems used and that recommended in the literature. It is evident that significant differences exist between "theory" and "practice". Empirical studies indicate a strong relationship between the quality of financial management information systems used and performance of business enterprises. One possible explanation for this disparity would be the lack of communication between the business community and academic researchers. These studies suggest unsatisfactory financial management information systems are being used by many self-employed owners who apparently have not implemented recommendations of academic researchers or have not been aware of these recommendations.

CONCLUSION

This research was undertaken to explore self-employment enterprises in relation to the financial management information systems employed. The primary objective of the study was

to investigate the extent to which financial information is used by self-employed owners in day-to-day management of the business as well as strategic planning. It was found that self-employment enterprises employed inadequate financial management information systems which was mainly used to generate financial information to satisfy legislative requirements. To this end there seems to be a restricted link between self-employed owners and professional financial advisers, and any existing links may be limited to the completion of statutory accounts and returns.

Responses indicated that government departments were not among providers of management training programs. The Federal and State governments provide education, counselling, publications and direct funding to the "small business" sector, but it seems that the self-employment sector in this region is not benefiting from this assistance. Government departments wishing to evaluate the effectiveness of their assistance should undertake further studies to address self-employment enterprises as a separate sector.

Implications drawn from the discussion of the results and limitations inherent in the study provide opportunities for further research. The need for further education and management training programs may be necessary to increase the self-employed owners' perception of the use of financial management systems and information for strategic planning. It is suggested that further research is needed to enhance the relationship between self-employed owners and professional accountants beyond the preparation of statutory requirements. Government departments need to review their educational, counselling and publications in order to address issues specifically concerned with the self-employment enterprises. Finally, educational institutions also need to incorporate topics in their business and financial management courses specifically related to self-employment issues.

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