The Accountant and the Entrepreneur: Lessons from Irish Tourism

Introduction

This paper profiles the importance of small, particularly micro businesses to the Irish economy, most of which are family owned. It then reviews the literature on the critical central importance of the OM to the success of these businesses and the ensuing need for competencies to be instilled in these OMs.

The challenges facing these businesses, namely their preference for a lifestyle over the profit motive, their need for training and reliance on outside advisors such as the external accountant is discussed. In particular, they have a need for training in the area of IT usage, given their low level of IT use and their financial capability (which comprises three aspects). The paper then discusses the main findings of a Fáilte Ireland (FI) funded study of 12 owner-managed tourism businesses using the case study method. It then suggests areas for further research.

Importance of SMEs

As Figure 1 shows, the majority of enterprises in the business economy (at 90.8%) were micro-enterprises. A further 7.7% were other small enterprises while 1.2% were classified as medium sized enterprises. In the Irish services sector, of which tourism is a part, almost all (98%) enterprises are small (CSO, 2008, p. 6). There are over 82,100 small enterprises in this sector, of which almost half (47%) are family owned with most employing less than 10 people. In relation to the Irish tourism sector, Duffy (2007) reports that the majority of firms are SMEs and in many cases are micro family-owned enterprises.

Figure 1: Active Enterprises by Sector by size class for all sectors

(CSO, 2010, p. 9)
The Centrality of the Owner-Manager to SME success

Kearney and Lavin (2005), assessing the key competencies required by six Irish owner-managers for business success, concluded that the owner-managers were central to the strategic success of any SME. Morrison and Texeira (2004, p. 167) discuss the traditional image of small tourism businesses as one where the maintenance and protection of a certain “lifestyle” would be prioritized over a commercial focus on profit maximization. Caeman Wall, Head of Research, FI, recently noted that:

. . . traditionally financial skills have not been strong in the hotel industry, simply because people skills matter more in terms of customer experience.

(cited in AIB, 2013, p. 15)

Given that tourism is a service business, the manager is both a front office and a back office operator. There is a tension here, until the back office business intelligence (BI) or analytics can be transfused into the business. This conflict between the dual roles of the owner-manager was very evident in most of the case sites examined.

The following paragraphs review their need for training, the role of networks and their reported reliance on external advisors and summarises the literature in terms of their main competency gaps - their low use of IT and the three aspects of their financial capability.

The Challenges facing Irish SMEs

Need for Training: People in tourism businesses are vital, as these businesses are essentially hands-on and provide an experience for a guest in a hotel, a diner in a restaurant or a sports enthusiast wishing to partake in an activity holiday. The right training is vital for the owner-managers:

The story of successful tourism enterprises is one that is largely about people . . . how they are trained and educated, how they are valued and rewarded, and how they are supported through a process of continuous learning.

Fáilte Ireland (2005, p. 8)

The Owner Manager and the Role of Networks: The financial management (FM) practices of owner-managers has been studied over a long period by Deakins et al., (2001), whose important research is now summarised. Their evidence suggests “that the learning process in small firms is a crucial part of their evolution. The entrepreneur learns through experience’ (p.6). FM practices are altered by owners in an evolutionary way; often a critical event can force change and such events can be critical in determining their learning. If the owner-manager is embedded in a network of advisers, this has significant influence on their financial management practices, with the role of accountants having strong potential to get involved in these networks, to ensure that the learning is more efficient. Policy makers were considered to have a role in facilitating such networks (such as FI).

As already noted, small hospitality businesses are reported to have weaknesses relating to planning for training, perceiving it to be a cost rather than an investment (Knowles et al., 2004). Down (1999, p. 268) elaborates on networks, explaining that ‘small firm managers' skills and knowledge develop largely through their existing social relationships within their organisations and with other businesses and organisations in a network of relations’. In the small firm literature, networks have been noted nationally and internationally as the essential support structure in any training intervention to help entrepreneurs to learn (Kelliher et al., 2009; Morrison and Texeira, 2004).
The use of networks would appear to have a positive effect on the quality of this experiential learning (Deakins and Freel, 1998). Tourism and Learning Networks (TLNs) are a response to this reality and are organised in the regional areas by Fáilte Ireland (FI) for owner-managers of micro tourism enterprises. Kelliher et al. (2009, p. 81) report that there are ‘35 networks throughout Ireland’. The TLNs are focused on action-based learning, encouraging participation and interaction, with a minimum of 25 participants in each one. The Extranet is a follow-up web community after the TLN events have finished, whereby participants can keep in touch through on-line discussion groups.

Need for external advice and support: SMEs need to have competencies in order to survive in a changing environment (e.g., Teece et al., 1997) and buying-in resources, in terms of advice and support, is a dominant approach for their survival and development. Hannon and Atherton (1998) identified the need for specific competencies in the areas of financial management, business continuity, HR, training and general management. However, due to their small size and limited in-house talent employed, these skills can be missing in many SMEs (Blackburn and Jarvis, 2010). As a result, the owner-manager compensates by frequently seeking external advice and support. In turn, these gaps in competencies hinder the sustainability of the firm.

Gaps in OM competencies

Use of IT: In Ireland, SMEs tend to make poor use of information technology (IT) (CSO, 2008, p. 7), with “large enterprises . . . more than four times as likely as small ones to use ICT to manage orders”. IT is required to cope with online bookings, currently accounting for 56% of all bookings in the Irish hotel industry, with many hotels up-skilling in digital marketing in 2013 (AIB, 2013).

Financial capability of OMs: Turning to financial competencies, in a UK-based survey, Burgess (2007) addressed hotel controllers regarding the sufficiency of the financial skills of hotel managers to manage their areas. The controllers acknowledged that, while operational managers (running individual hotels in the chain) were good at customer care, there was a need for them to develop financial skills. Perren et al., (1999) concluded:

. . . that owner-managers move from informal methods of financial management and decision-making to more formal methods as their businesses develop

(cited in Deakins, Logan and Steele (2001, p. 17)

Caeman Wall, Head of Research, FI, recently commenting on the hotel sector, noted:

Fáilte Ireland and others have been focussed on up-skilling the sector in relation to business planning and financial management. But there is still some way to go.

(cited in AIB, 2013, p. 15)

ACCA (2012, p. 6) define financial capability as comprising three levels of competency: business planning; management reporting/information systems and employment of financially trained staff. These are now reviewed.

Re: Business Planning

A key informant, (KI/8), commented on the tendency for SME hotel managers to manage intuitively, and, to a large extent, to neglect planning, preferring to be interacting with the customers:
Managers are happier reacting, rather than being pro-active . . . so they don't find sufficient time for planning . . . Planning is low in the order of priorities . . . that, I think, is the fundamental weakness (italics added)

The view of another FI senior manager concurred with this, noting that “management time is taken up with crisis issues and so there is no time to plan forward”.

With the owner-manager playing multiple roles, there is a consequent lack of “thinking time” away from the day to day running of the business (Harris and Brander-Brown, 1998; Harris, 2011). Consequently, these businesses often operate in a reactive rather than a pro-active way, neglecting planning and identification of risks. In the UK SME sector, McElwee and Warren (2000) have also noted the weak strategic planning skills of owner-managers. Particularly, in times of crisis, it pays to be analytical as Moores (2003, p.11) observes:

In times of crisis, there is usually little investment in analysis and reflection. The meat-cleaver approach takes priority over putting the brain to work.

Re: Management reporting/current information sources :

Collis and Jarvis (2002) have noted that owner-managers of small companies in the UK place a lot of reliance on cash management and the management of their relationship with the bank. Also, they did not tend to produce their own in-house financial management information.

The literature notes a need for good information sources to support the OM in financial management which involves managing and measuring performance. This requirement to provide insights rather than just information is vital in a world where, to achieve performance improvement, the business model is being squeezed all the time to generate gains. Cronin (2009), a leading management consultant in the area of performance improvement, recently wrote:

The world has now changed, minimizing revenue loss, cutting cost and conserving cash is what really matters. Analyzing that 0.5% drop in margin, challenging that supplier for cost and service, struggling with that pricing decision, screaming for that cost analysis, and reducing headcount have all become the priorities of the day . . . . Converting to an agile model with the appropriate mix of fixed and variable cost to meet market demands is key.

Cronin (2009, p. 45)

Re: In-house financially trained staff :

Per KIs, there would tend to be an absence of an internal accountant/finance function. Due to a low level of financial capability of the OMs and their lack of time for planning, KIs for this research mentioned that the external accountant and the bank tended to be the key advisors on financial matters.

The Study

Given this literature showing the pressing issues re financial management competency of OMs, the study set out to choose a representative sample of mainly micro-tourism businesses and evaluate the OM by first of all profiling their qualifications and prior business experience and involvement with TLNs and then inquiring into their financial competency as defined by the three criteria in ACCA (2012) :-
Training, Qualifications, Prior Business Experience and Financial Awareness of Respondents (Table 1)

Financial Management Awareness and TLN participation at case sites (Table 2)

The OMs’ ability to plan (criterion 1)

Current Information Systems and Satisfaction with them (criterion 2)

Employment of in-house financial staff (criterion 3)

Given the literature on the OM’s reliance on the external accountant (as an example of one significant external advisor), the study also reviewed:

The support the OMs received from their external accountant and the satisfaction levels of the OMs with this support

Sample Selection

The overall sample was selected with the aim of encompassing a spread of tourism enterprises and with guidance from senior FI staff. In keeping with this objective, it covered five hotels/guesthouses and a restaurant together with a range of six activity centres, providing cycling, diving, golf, riding, surfing and spa treatments. The case sites are listed below in Figure 1 Those 5 marked with an asterisk were obtained with the help of FI (with thanks to Colm Brehony and Breda Mc Nally and their listing of businesses who had participated in the Tourism Learning Networks (TLNs). Identification of and access to the other 7 sites was obtained through the researcher’s own efforts. (In the interests of confidentiality, each one has been assigned a pseudonym). The researcher tried to study the heterogeneity within the industry, covering both micro businesses (less than 10-12 employees) and SME businesses. Only five out of the twelve case studies were involved in accommodation.

Figure 1: Case Sites

- A: Rothar *- cycling company in West
- B: Equus- riding school in Midlands
- C: Sub Aqua *- diving centre
- D: Sea Spa- seaweed spa in North West
- E: Island Retreat- guesthouse in island location
- F: Rustic Lodge *- guesthouse in rural Midlands location
- G: The Cedars- hotel subject to preservation order in North West
- H: The Oaks- small indigenous hotel chain in West
- I: Orangerie- vegetarian restaurant in Dublin
- J: Fairways Country Club- golf and hotel facility-North Co. Dublin
- K: Tonnta*-surf school in South East
- L: Castle*-historic castle used for accommodation in North East

Key Informants

In addition to these twelve case studies, a range of interviews was held with eight other key informants (KIs), who provided further perspectives on the research. Three of these KIs- KI/4, KI/5 and KI/8 were managers and researchers who worked with Fáilte Ireland. They were invaluable given their specialist knowledge of existing FI Business Supports. These supports such as the main Fáilte Ireland website, the Performance Plus benchmarking web-based facility for hotels (now renamed as Business Tools), the Optimus programme and Biz-Check were discussed with KI/5 and the researcher agreed to review these.
The aim of this review was to become familiar with the supports that were already available so that this research would represent new value added solutions. Also, it was considered advisable to speak to KI/4, an economist, who was spearheading a research project, entitled *The HBC/FI Study to evaluate the cost of food preparation and service activities in the hospitality industry*, because of the significance of food cost in the context of the overall costs of running restaurants. The pre-budget submission documents for the Restaurants Association of Ireland (RAI) and the Irish Hotel Federation (IHF) were discussed with KI/1 and KI/3 respectively. The remaining three KIs, - KI/2, KI/6 and KI/7- were all associated with accountancy firms which provided financial accounting services to hotels. Overall, these KIs contributed valuable guidance which was used to augment the insights gained from the initial orientation meetings with senior management. The complete list of KIs is summarised in Figure 2 below.

**Figure 2: Key Informants**

| KI/1: A representative of the Restaurants Association of Ireland  |
| KI/2: A qualified accountant whose firm provided a financial accounting service to hotels in Ireland.  |
| KI/3: A representative of the Irish Hotels Federation.  |
| KI/4: An economist who is employed by Fáilte Ireland  |
| KI/5: An accountant working as a manager of Online Business Supports with Fáilte Ireland.  |
| KI/6: A consultant from a leading accountancy firm with specialisation in hotel clients.  |
| KI/7: A hotel accountant working in a hotel as a consultant on secondment from a hotel accountancy/consulting firm.  |
| KI/8: A training manager in Fáilte Ireland who was involved with the Optimus programme  |

**Key Findings**

The key findings are set out below starting with a profile of the OM and then looking at the three aspects of financial capability (ACCA, 2012)- planning, the information systems they currently use to run their businesses (i.e., their financial management routines) and satisfaction levels with these, employment of in-house financial staff. It then concludes with the support they receive from the external accountant and how satisfied they are with this support.

**Profile of Owner-Managers**

- *Training, Qualifications, Prior Business Experience and Financial Awareness of Respondents (see Table 1)*

The attainment of educational qualifications was ascertained, mainly with the purpose of finding out whether any owner-manager was in fact a qualified accountant, or had a relevant academic degree or a non-relevant degree or had no formal qualifications.

As can be seen from Table 1 below, just over half (7) had relevant third level qualifications, while another three had non-relevant third level qualifications. The remaining three respondents had not attended third level. Regarding more specific training, as can be seen from Column D in Table 1 below, five respondents had availed of this option. For example, some had achieved (vocational) qualifications in teaching riding, diving or in surfing (B, C, K) and/or had completed “start your own business courses” (B). Taking an overview of these findings, they reveal a commendable level of general educational and vocational attainment.
### TABLE 1: TRAINING, QUALIFICATIONS, PRIOR BUSINESS EXPERIENCE OF RESPONDENTS

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<tr>
<th>Case site</th>
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<td><strong>Overall Total</strong></td>
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*Note 1:* There were 2 respondents at Tonnta (K). As they were interviewed together, Tonnta was treated as one case study. So there are 12 case sites in total, but 13 respondents in total.

*Note 2:* Respondents at B, C and F had both non-relevant third-level educational attainments and vocational qualifications.

Prior business experience (i.e., having worked as a salaried employee in a business setting) was calibrated on two scales—considerable/minimal. These are indicated in codes in the case site column in Table 1 above, using superscripts “c”, “m”. There were no respondents without any prior business experience, and indeed eleven respondents had considerable business experience (c), whether in tourism businesses or in some other non-related sector. For example, one respondent had grown up in the family business of mushroom farming and the moved into a management role, when his parents purchased a large old historic house and renovated it into a guesthouse.
As an example of prior minimal business experience (m), one home economics teacher had purchased a country house 13 years before she retired from full-time teaching. While still teaching, she carried out a piecemeal renovation of the house, using savings and a special incentive grant from the County Enterprise Board. On retirement from teaching, she spent a year in New Zealand, travelling around and working in restaurants and hostels, then returning to work in her guesthouse full-time, having benefited from the experience gained abroad.

Only one of the respondents had previously set up and run his own business (a swim school) as an owner-manager: “that was my first kind of taste of business” (D). Two of the respondents (E and G) had grown up in the family business (a guesthouse and a hotel respectively) and had inherited the businesses from their families. Another (H) had grown up in a hotel business and had married into another chain and ran one of the hotels in that chain, as general manager. Four respondents who ran activity businesses- A, B, C, and K had converted a hobby into a business. “It was going to be my retirement hobby ... family and friends taking pony lessons ... but it took off like wildfire” (B). Owning one’s own business permitted a lifestyle choice for K. Another (B) mentioned the vulnerability that would be exposed, should illness or an accident strike her, as she felt she was “mother and father to the business” and that her own skills were the making of the business.

To conclude, the majority of the respondents were new to the rigours of actively running their own business, but had worked in other businesses before as salaried employees or had grown up in a family business.

➢ *Financial management awareness and participation in TLNs (see Table 2)*

Financial management awareness (skills and perception) was broken down into four levels. The first level comprised three respondents who had either completed MBA degrees and/or had prior experience in banking/finance jobs. One other respondent had worked as a company secretary in a security firm, where she was trained in preparing accounts using Sage. Then, it is important to note the third level, where four other respondents were self-taught or “muddled through” as regards book-keeping for their own business. Finally, the remaining five had minimal or no accounting experience. Overall, these results indicate that a significant number of the interviewees (5) seem to lack financial awareness.
### TABLE 2: FINANCIAL MANAGEMENT AWARENESS and TLN PARTICIPATION AT CASE SITES

<table>
<thead>
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<th>Case site</th>
<th>Financial Management Awareness</th>
<th>Participation in TLN</th>
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<tr>
<td></td>
<td>MBA degrees or Banking/Finance/experience or both</td>
<td>Prior training in preparation of accounts</td>
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<tr>
<td>Overall Total</td>
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*Note 1: There were 2 respondents at Tonnta (K).

All of the owner-managers required the assistance of an outside accountant to prepare a full set of accounts for them at year end, finalise their tax liability and assist with grant applications. Additionally, an auditor was needed, if the business was not exempt from the audit requirement (D).

Tourism and Learning Networks (TLNs) and Extranets

Turning to the Tourism and Learning Networks (TLNs), eight out of the 13 respondents had attended these courses. TLNs were unanimously positively rated by those who attended them (eight out of the 13 respondents- see Table 2). The Mergo county based tourism learning initiative in the South and South East region, set up by Waterford Institute of Technology, in conjunction with Fáilte Ireland, was given high praise by respondent C. Some sample positive comments were:

- Trainers were very good”(G)
- TLN was great . . . setting up of TLN in 2006 was what got us really thinking about planning” (K)
- I liked the TLN support and the extranet after the course was great (C)
It gives you a chance to step away from the business, which is great, as often being too close to the business, one can lose objectivity, being small (K).

The Extranet prompted change in the owner’s thinking about what might be done: “someone brought into the office to take the answering of the bookings to release me to plan was an idea I got from Extranet” (K). The same owner-manager who ran a surf school in the South East, with her husband, was prompted by one of the courses she had studied in the TLNs to research the history of her area and build an annual surfing festival around a unique historical event. The result was a resounding success and a growth in the brand identity for her surfing business, through being associated with the festival.

Particular praise was given to the TLN trainers, particularly if they had a business background and demonstrated practical examples to the participants or told stories of how they made their own business a success. This was seen to provide “dialogue on the ground” (C) and was rated as “no-nonsense talk from the ground up” (E). The fact that the TLNs were located around the country was also a positive aspect (an arterial network). The TLNs were a good alternative to doing courses, whose content was perceived to be orientated towards larger businesses and required the small business owner to leave their business to attend it, which was too great a cost in terms of time out of the business (K and I).

The TLNs she attended prompted one of the respondents, (C) to start a very successful marketing network where local businesses would join up and prepare a brochure of activities, accommodation and restaurants in the area around a central theme, to “create a buzz” to attract the domestic market to the area. As part of her TLN, a dialogue had started about setting up a honeypot of activities for a particular area, but due to lack of funding for the Extranet after the TLN had ended, this dialogue stopped (F).

Respondent C also mentioned that she would like to meet participants from similar networks in other European countries, who run small tourism businesses, in places such as Belgium, Holland and Denmark.

Overall, it can be concluded from these findings that the TLNs were highly valued by the respondents who had participated in them.

➤ **OM Planning (and time for same)**

A lack of planning and a lack of time to think, due to the manager being immersed in the day- to- day running of the business, playing both a front office and a back office role, was also evident in the case sites, in agreement with the literature. A lot of this was blamed on lack of time: Respondent K reported that: “the time to do accounts is not there . . . we have to give time to be hands-on in the business”. Likewise, respondent L complained about the lack of time for management:

> . . . the biggest problem we have is time- spending too much on the day-to-day things and not enough on the management side.

➤ **Current Information Systems /Financial Management routines**

Results showed that half of the case sites (six) used accounting packages, with the remainder relying on more basic accounting procedures. While all participants had a formal booking system in place, the information gathered varied from a basic manual booking system (B, E, F, I, L) to more sophisticated systems providing information on patterns of demand (H- small chain, J-medium golf hotel, C, K). However, even the more advanced systems did not provide information on the profitability of the various
activity products. The FM systems, often based on invoices and cash records, were limited in analytical content.

Cost Control Issues: Cost control was high on the agenda of all the respondents. The main emphasis was on staff costs and participants had devised creative ways to minimise these, including multi-tasking, the use of family labour and of flexing the costs of employed staff to turnover.

Cost control was not confined to labour cost issues. For instance, three respondents (E, F and G) discontinued an evening meal because of the high associated material and cooking costs and consequential lack of margin. Some of these respondents were aware of the FI CD on Food Costing and were very positive towards it. Control of energy costs was seen as important by respondent D.

Overall, these findings indicate that there is considerable room for the development of basic management accounting systems and indeed up to the higher levels of business intelligence (BI).

➢ In-house financial staff

Apart from case site H, The Oaks, which was a chain of indigenous hotels, none of the case sites employed their own in-house finance staff and few had formal continuous planning or management reporting systems (including management accounts); rather they relied on cash, booking systems and invoices.

➢ Satisfaction with current information systems

Findings indicated a high reliance on the use of intuition in decision-making. This is not surprising, given the lack of day-to-day management accounting information. As respondent I quipped: “It’s all in the head... an awful lot is done by guesswork”. One savvy owner-manager (A) recognised the need to supplement intuition with some form of BI and designed her “own client control form” which gave feed-forward information on her expected margins per client. This self-designed document was highly influential in her efforts to maintain margins. In fact, the researcher noted it was a “service costing sheet” with profit per cycling client computed. At a general level, it can be said that the problems appear to be a lack of tailored real-time BI and the owner-manager being unable to take time out of the business to see what was needed or to self-design reports. As respondent A tellingly stated:

BI is so key, it frees up my time... a lot of money goes on administration, when a bespoke solution should be available... we, as owner-managers, have to do the hard slog ourselves.

These findings show an over-reliance on the use of intuition in decision-making, a general shortage of time and a lack of analytics. The lever of cost control was well used, but this is not sufficient on its own to generate sustainability of profits or to re-invent the business. This deficit is an opportunity for the external accountant to step in and fill this gap.

Many respondents would like business advice and perhaps high level business intelligence (BI) which would provide profitability analyses and planning information to focus up the business model for the owner-manager. As the businesses enlarge, this need for higher levels of real-time BI becomes more pressing.

➢ Support from External Accountant and Satisfaction levels with this support

An analysis of the responses to this query indicated that, for most respondents, the role of their external accountant was confined largely to compliance tasks. Some sample comments endorsed this finding:
They just put the end of year accounts together (D)
They just do the figures, but don’t help with business advice (E)
Tax returns and audit . . Doesn’t really inquire into the business (G)

F and G specifically highlighted the fact that their external accountants had no specific experience in the sector. Respondent F commented that her external accountant “was not a specialist in bed and breakfasts”, while G said that his accountant “had no background in hotels”. On a more positive note, respondent C said that her accountant “talks to them about costs”, while I reported that his accountant “was good at making sure we practice rigid procedures”.

Findings from the study cohort strongly indicated that the input from their accountancy practices was largely confined to the preparation of year end accounts and related tax compliance matters. This service was seen as unsatisfactory by the majority of the case sites, e.g., “they just do the figures but don’t help with business advice” (E).

The mainly compliance service already provided by the external accountants was deemed insufficient.

**Areas for Further Research**

Other important research questions would be to explore the training, qualifications and previous business experience of start-up entrepreneurs and see if there are particular profiles of start-up entrepreneurs that seem to develop formalized financial capability. Does failure of some of these start-ups seem correlated to late development of or inadequate levels of financial capability? Finally, the attitude of local regional accountants towards their own participation in the TLNs could be surveyed, given that their owner-manager clients seem particularly satisfied with the learning they experience within these networks.

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**References**


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