

The role of the finance professional in rapidly growing SMEs

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Principal Topic

This research examined the timing of employment and role of the finance professional in rapidly growing small- and medium-sized enterprises (SMEs). Specifically, the research problem examined was, "how does the timing of employment, and the activities of, the finance professional impact on the rapidly growing SME?" Hofer and Charan (1984, page 1) observed that "after the starting difficulties have been overcome, the most likely causes of business failure are the problems encountered in the transition from a one-person, entrepreneurial style of management to a functionally organized, professional management team". These transitions accompany movement of the enterprise through lifecycle stages which most commonly have been characterised broadly by enterprise size.

The lifecycle paradigm is well established in academic literature with Davis (1951) proposing one of the earliest models. Chandler (1962) identified a four-stage model of organisation evolution while Greiner (1972) suggested enterprises grew through five evolutionary stages, separated by brief periods of 'revolution', or dramatic organisational change. Subsequently, a number of lifecycle models have been proposed (e.g. Kazanjian and Drazin, 1990; Hanks, 1990a, 1990b; Adizes, 1989, 1979; Baird and Meshoulam, 1988; Flamholtz, 1986; Block and MacMillan, 1985; Churchill and Lewis, 1983; Galbraith, 1982; Filey and Aldag, 1980; Kazanjian, 1988; Scott and Bruce, 1987; Smith, Mitchell, and Summer, 1985; Miller and Friesen, 1984; Tyebjee, Bruno, and McIntyre, 1983; Kimberly, 1979; Katz and Kahn, 1978; Miles and Snow, 1978; Greiner, 1972; Salter, 1968; Downs, 1967; Chandler, 1962; Davis, 1951).

It has been suggested that "as organisations progress through growth stages, they become progressively more specialised" (Hanks and Chandler, 1994, page 24). Consistent with specialisation is the transition from entrepreneurial management to professional management. Flamholtz (1986, page 42) saw five key features of entrepreneurial management; centrality of the founder, an informal structure, ad hoc planning and control, very basic budgeting practices and a "loosely defined, 'family'-oriented culture". Professional management according to Flamholtz (1986), in contrast, is focused toward profit, less likely to have an individual as leader, exhibit greater formal planning, organisational and control programs and employ more detailed budgeting techniques.

Timing of the transition to professional management is more complex, however. Firms that have reached this stage have been referred to as "threshold firms" (Clifford, 1973; Whisler, 1988, Daily and Dalton, 1992). Similar in concept was the proposition of Montoya et al (1993), of the "brick wall" where founders demonstrate resistance to the development of professional management within the firm. According to Montoya et al (1993, page 209) "getting over the 'brick wall' requires significant shifts in the entrepreneur's basic orientation" (Montoya, et al, 1993, page 209). Consistently Montoya et al (1993, page 219) proposed the 'most likely cause of failure, after start-up difficulty had been overcome, are problems encountered in the transition from one-person, entrepreneurial, organic style of management to a functionally organised, professional management team".

Professionalisation and internal finance leaders A range of researchers have observed that as the growing firm moves through the lifecycle, and the financial operations gain increased complexity, financial management gains increasing importance in the successful survival and growth in the future (Hutchinson et al., 1975; Hutchinson et al., 1981; Ray & Hutchinson, 1983; Vozikis, 1984; Hunsdiek, 1985; Ray & Hutchinson, 1985; Hutchinson & Ray, 1986; Kazanjian, 1988; Kazanjian & Drazin, 1989; Kayser, 1990; Kazanjian & Drazin, 1990; Dodge & Robbins, 1992; Terpstra & Olson, 1993; Dodge et al., 1994; Hanks & Chandler, 1994).

Consistently with the changing demands for financial management, the level of management specialisation within growth firms is seen to change through the lifecycle. Studying a sample of high technology firms, Hanks

and Chandler (1994) examined the each lifecycle stage and the number of firms with one full time employee within a management speciality. Consistent with their predictions, Hanks and Chandler (1994) found that accounting specialisation occurred during stage II (the expansion) of the firm lifecycle while finance and payroll specialisations occurred in the third stage.

Methodology/Key Propositions

Case research methodology was considered appropriate in terms of the research problem and was indicative of the typical sample size of studies mentioned by Eisenhardt (1989).

The cases were 'purposefully selected' (Yin, 1994; Patton, 1990), premised on replication using a chain sampling strategy and 'transparently observable'. Accordingly, this study reports results of a semi-structured interview, employing closed and open-ended questions data with 8 finance professionals and 10 SME owners. Case study aims to 'discover' the world of the finance leader in a growth firm by an approach that employs qualitative data and has the advantage of being 'holistic' (gestaltic) in that it integrates the individual's overall life experiences. These characteristics formed a basis of the following discussion related either to personal characteristics (age, education, motivation to start-up, work experience, educational and vocational skills, gender-based discrimination, and family structure), or business characteristics (sector, time commitment, number of employees growth, problems with start-up and operation).

Results and Implications

This research made a number of findings which present significant implications for theory and practice. The employment of a finance professional was predictably associated with the development of more extensive accounting and management reporting systems. Less expected was the number of SME owners with no intention of ever employing an internal finance professional, irrespective of the growth trajectory of the enterprise. The activities of the finance professional were often extended beyond the realm of finance and accounting to include human resources and recruitment, marketing, and customer relations. Further research could involve undertaking an empirical study to test the preliminary findings to date and allow for generalisation toward the broader Australian SME population.

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