

Taking the M out of SME - ICAEW

KEYS TO SUCCESSFUL M-BUSINESSES IDENTIFIED 2006

Seven factors have been identified as the characteristics of a medium-sized business - the powerhouse of Britain's economy. Research conducted by the Institute of Chartered Accountants in England & Wales (ICAEW) and BDO Stoy Hayward also reveals a number of issues affecting medium-sized businesses, or 'M' businesses, which Government needs to take into consideration.

Traditionally businesses have been defined by number of employees, turnover and size of balance sheet, but the ICAEW/BDO study titled 'Taking the M out of SME' discovered that the real difference between M-businesses and small companies was mindset. It revealed that 'M-business' success is driven by disciplined creativity – a distinctive blend of professionalism and an enabling culture in an environment of long-term growth.

M-businesses need to be treated very differently from the small and micro companies with which they are bracketed and understanding the sector is seen as vital to economic development. The more we know about these companies – their values, their culture, their behaviour – the easier it will be for smaller counterparts to emulate them.

The research identified seven key characteristics that set M-businesses apart from small enterprises:

Professional management teams

Vital business functions are run by individuals with specialist skills and experience. There is far less control by founders and the CEO serves as leader rather than a micro-manager. Financial skills were also found to be important with 60% of M-businesses recruiting chartered accountants as the finance director compared with only 18% of small businesses.

Enabling cultures

M-businesses have an ingrained belief in staff development and retention, viewing it as the single most important factor in their success over the previous five years. Small businesses tend to place more importance on shorter-term competitive advantages such as technology. Empowerment for staff, company culture and branding were also seen as significant success factors.

Effective systems

M-businesses are evidently likely to operate with well-defined structures and processes such as regular board meetings and annual budgets and measuring their performance against them.

Longer time horizons

M-businesses are more likely to think and plan for the long term. Sixty per cent anticipate market change and plan accordingly, compared with only 25% of small companies. One M-business said “Decisions are now made on the basis of facts. When we were smaller our business decisions were made on opinions, hearsay and gut instinct.”

Value outside advice

Not only are M-businesses likely to have appointed non-executive directors, they are far more likely to appreciate the experience and insights that they bring. There is also a greater reliance on professional advice, especially accountants and lawyers, and this is indeed seen as an M-business hallmark. But many say that what public support agencies such as Business Link provide is of little value to M businesses.

Distribute equity

An M-business is more likely to have distributed share capital beyond the small circle of its founders – showing willingness to cede total control of the company. Management is also more frequently given equity for the purposes of retention and/or incentivisation.

One M-business owner commented: “As companies move from being a small company to a medium one the owners have to look beyond their own personal ambitions and consider the team that is driving the growth.”

Diversify customer base

Growing M-businesses continually diversify their customer base and do so to a far greater extent than their smaller counterparts.

A number of issues were raised by M-businesses however. They wanted more recognition as a group and more assistance from government directly aimed at them. The sector also required regulation that applies to M-businesses, not a one-size-fits-all method.

Paul Druckman, former President of the ICAEW, who led the project throughout his presidential year, commented: “M-businesses need to be treated very differently from the small and micro companies with which they are bracketed. The term ‘Small and Medium sized Enterprise’ has become a straitjacket for public policy. It is time to take the ‘M’ out of SME.”

Peter Leach, from BDO Stoy Hayward, added: “Across the UK, medium-sized businesses contribute a considerable amount of corporate wealth as well as being major employers, making them vital to both the local and national economies. In our experience, however, these businesses suffer through a lack of collective voice and have no champion to fight

their corner. These companies should be celebrated and supported by us all and 'Taking the M out of SME' gives a jump-start to their cause.”

Notes to Editors

1. The Institute of Chartered Accountants in England & Wales is the largest professional accountancy body in Europe, with over 126,000 members. Three thousand new members qualify each year. The prestigious qualifications offered by the Institute are recognized around the world and allow members to call themselves Chartered Accountants and to use the designatory letters ACA or FCA.

2. The Institute operates under a Royal Charter, working in the public interest. Its primary objectives are to educate and train chartered accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy.