

The Fragility of Smallness: Financial management skills in owner managed Irish SME tourism businesses : Findings and Recommendations

A Report Prepared on Behalf of



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Dr. Ruth Mattimoe
Accounting Group,
Dublin City University Business School
Glasnevin
Dublin 9
Email: ruth.mattimoe@dcu.ie

EXECUTIVE SUMMARY

The research presented in this report is centred on an investigation into the financial management skills of a sample of owner-managers of small and micro tourism enterprises. Perceived gaps in the information sources available to the owner-manager in running the business and in planning, controlling and making decisions for the future were identified. In addition, the satisfaction levels of the owner-managers regarding other supports provided to them by Fáilte Ireland and by the accountancy profession were investigated.

The fieldwork is outlined in Section 2 of the report.

Orientation Meetings with Senior Management of Fáilte Ireland

Prior to undertaking the fieldwork with the cohort of respondents, meetings were arranged with the Director of Strategic Management in Fáilte Ireland and his senior managers (heads of departments) to fine-tune the objectives and to approve the sample of case sites.

Sample chosen

In order to obtain first hand information on the research topic, it was decided to undertake a series of case studies involving in-depth interviews with a sample of twelve owner-operated businesses in a diversified sample from the tourism industry. The overall sample was selected with the aim of encompassing a spread of tourism enterprises. As the activity centres generate demand for accommodation, they were deemed more important to research. 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. One of the case sites (**H**-The Oaks) was a small indigenous hotel chain, but was included in the sample as it had been the subject of doctoral work by the researcher and had installed new systems.

The sample of 12 cases (with 13 respondents as one case site (**K**) was run by a husband and wife team) is outlined in Figure 1 in Section 2 of the report and reproduced below. Participation in TLNs was investigated and showed that just eight of the thirteen respondents had availed of this facility (see Table 2 in Section 3). Interviews were also held with 8 key informants (**KIs**) who provided invaluable extra insights into the SME sector. A detailed listing of KIs is to be found in Figure 2- Section 2 of the report.

Figure 1: Case Sites

- A:Rothar *- cycling company in West
- B:Equus- riding school in Midlands
- C:Sub Aqua *- diving centre in South West
- 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:Tonnata*- surf school in South East
- L:Castle*-historic castle used for accommodation in North East

(* denotes those sites obtained with the help of Colm Brehony and Breda Mc Nally and their listing of businesses who had participated in the Tourism Learning Networks (TLNs)).

Objectives of Study and Conclusions/Recommendations reached for each Objective

In a recent CIMA second quarterly survey of mid-sized businesses, almost 60% of mid-sized companies in UK and Ireland have experienced falls in turnover and net profits over the last quarter (CIMA,2009b).

The companies have had a tough 12 months but have been agile and made changes quickly, concentrating on reducing costs. 59% of respondents reduced overheads, 18% managed supplier prices down, 40% cut their external training budgets and almost 55% reduced the number of full-time employees.

The availability of financial management skills was seen by just under a quarter of the companies responding to the survey as "more challenging than last year . . .addressing this skill gap is crucial for mid-sized businesses' success"(CIMA 2009b).

Relationships with bank managers, accountants etc are very important in the early stage development of small firms, reducing the isolation and self-dependency of the owner-manager that is high during the early years of trading. The role of networks, and the embeddedness of the owner-manager in them, is an important factor that influences learning, decision-making and hence, financial management practices. To support better financial management practices in small firms, Deakins Morrison and Galloway (2002, p. 16) suggest that 'interventions must be based on helping the

entrepreneur to learn, rather than imposing prescribed solutions and (top down) financial consultancy' (p. 16).

The aims of the project and associated conclusions and/or recommendations for each of the 5 objectives were:-

Objective

1. To explore the training and qualifications, financial management awareness, IT competency and prior business experience of owner-managers;

Objective

2. To examine the degree of interaction with external accountants and the satisfaction levels of the owner-managers with this support;

Objective

3. To examine the information systems which are currently available together with approaches adopted by the owner-manager in running the business.

Objective

4. To review whether there are gaps in the current information systems for the scorekeeping, control and decision-making tasks of the owner-managers;

Objective

5. To examine the attitude of owner-managers to the support they receive from Fáilte Ireland and to establish gaps in this support.

Interaction with External Accountants

Findings from the study cohort strongly indicated that the input from the external accountant (largely small to medium sized accountancy practices) was mainly confined to the preparation of year end accounts and tax payable calculations that were necessary for external compliance. 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).

In most cases, there was little evidence of using sophisticated management accounting metrics which would assist the owner-managers in seeing the problems within the business, in fostering sustainability in the business model and in engaging in forward planning. These findings were endorsed by various key informants,

e.g.,“ top line revenue and profit but little analysis in-between”(KI/6). Financial management systems and practices were often simply book-keeping.

The limited financial management expertise in the study cohort (see **Table 2- Section 3**) and the constraints on the owner-manager’s time means it is unlikely that they can self-develop better systems and appropriate metrics in-house to progress the business. Therefore, this gives rise to the need for external input to develop such systems. Eleven of the thirteen respondents had considerable prior business experience, while the remaining two (**B** and **F**) had converted a hobby into a business, on retirement from teaching.

Overall, the findings suggest that there is considerable room for the development of more sophisticated internal information systems for control, decision-making and performance evaluation (i.e., some management accounting tools such as costing, menu engineering but also moving up to the higher order of business intelligence systems (BI)).

Recommendation 1 (re Objectives 2 and 3)

It is suggested that the small to medium sized accountancy practices can address this gap, by adding more value to the services they provide to the small owner-managed tourism business. As the expertise of these firms seems to be confined to a generalist financial accounting/tax service provision, they need to be trained in the specific issues arising in the tourism sector (e.g., accommodation, restaurant and activity businesses as sampled in this research), in order to upgrade the basic service. However, the development of bespoke reporting packages and templates (BI) for small guesthouses, restaurants and activity centres would be too difficult and costly for these SME accounting firms.

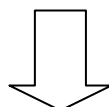
The development of these packages would be the responsibility of a large specialist accountancy firm and they could be distributed and installed by the regional SME accountancy firms. Following her review, the researcher would feel that the *Business Tools website* could be incorporated into these bespoke packages and so be embedded into them, rather than be an external on-line aid to the SME business.

It is considered that Fáilte Ireland could prime this initiative by commissioning this development from one of the larger accountancy firms specialising in hospitality and tourism businesses - see Figure 3 below. Then, in turn, they could infuse this knowledge into their regional SME accountancy counterparts (who serve the owner-managed tourism businesses) by using peer- to-peer Work Based

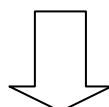
Learning (WBL) mechanisms to train the owner-managers in how to use these packages (*by an arrangement similar to the TLNs, as further discussed in Section 4- Objective 5*).

Figure 3: Development of Business Intelligence

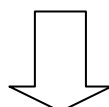
Large central specialist accountancy firm (tourism expertise) who will develop BI techniques and packages using material from *Business Tools* website and the research in this report



Large specialist accountancy firm with BI expertise will train regional SME generalist accountancy practices- using a special TLN network for these accountants



Regional SME owner-managers of tourism businesses attend special TLNs organised by local regional SME accountants, trained in BI techniques and with bespoke packages for various types of tourism businesses- activities, accommodation, heritage etc



Owner- managers find the BI packages easy to use and are embedded in the business by their external accountant, so they are likely to be used by the proprietor.

The small owner-managed tourism business might welcome this infusion of Business Intelligence (BI), if the upgraded and value-added service was available for a *similar level of fee*, given the recessionary times. The cost of up-skilling the service provided by the SME accountancy practices would be borne by the accountancy profession at the macro level, with perhaps some subvention from Fáilte Ireland. The SME accountancy firms would also benefit from the enhancement of their skill set.

Recommendation 2 (re Objective 4): Comprehensive BI bespoke packages beyond simple management accounting tools:

It is suggested that additional management accounting tools, such as a costing levels maturity model and menu engineering can help, but are not sufficient. A comprehensive bespoke BI package is needed for each hotel, restaurant and activity centre, which is set up by the external accountant, who has already been trained in its use, by a TLN for accountants. The bespoke BI package must be deemed easy to use, by the owner- manager. Thus, a higher level of BI than just some management accounting tools will be necessary- a complete IT solution with a dashboard of metrics, perhaps interlinked with booking systems, will especially be needed for restaurants and activity centres (see Figure 4-Section 4).

Owner- manager competencies- financial literacy and use of IT

While four of the thirteen respondents had relevant financial qualifications or job experience in the financial sector, of the remaining nine, four were self-taught and could “get by”, while five had little or no accounting experience. This indicates less familiarity with the financial aspects of running their businesses among the majority of respondents, thus indicating a need for improvement in this area.

While the issue of the efficiency of the processes behind delivering the service, was not being specifically investigated in this research, it was felt that the level of use and confidence regarding IT by the owner-manager would impact on quality of service (front office) as well as the financial literacy and financial management systems (back office). Efficient use of IT can free up the manager’s time to focus on decision-making and can also allow an overhaul of inefficient processes surrounding service delivery, e.g., booking systems, staff rostering etc. Therefore, IT can improve both the front office interface with the customer as well as back office financial management and literacy.

If the owner-manager becomes more confident in using IT effectively, then service is not compromised by too much overload on the owner-manager, due to the inefficient use of IT.

Recommendation 3a (re Objective 1):

WBL could be used to help with financial literacy and to augment the service provided by Fáilte Ireland’s Biz-check and Web-check service. Some of the front office process delivery issues might also be addressed by the WBL mechanism, to ensure the most efficient

organisation of the processes delivering the service in the SME business.

It is recommended that FI could engage with the HEIs using the model put forward in the FI-commissioned Athlone Institute of Technology study, to extend this WBL initiative for the HTL sector nationwide.

Current Business Supports : TLNs and Extranets

Eight of the 13 respondents attended TLNs (**Table 2 in Section 3**). All rated them in very positive terms. This is a very significant finding, as it establishes the potential of TLNs as a conduit for developing best practice at a regional level, together with priming opportunities for joined up projects in the area. The follow-up web community after the TLN event- the Extranet, was very positively rated, although some mentioned that this facility ended too soon, because funding ran out.

Recommendation 3b (re Objective 5):TLNs

Taking all these positive aspects of TLNs into account, it is *recommended* that this concept could possibly be adapted for use by the SME accountancy practices who, having been trained in bespoke BI packages by the larger specialist firms, could infuse this knowledge into the SME tourism businesses at a local level (see Figure 3 in Objective 2).

Other supports provided by FI : Marketing support

Recommendation 4 (re Objective 5): Marketing support

Given the positive response to this form of marketing support, it is *recommended* that FI could build on this success to date

Biz-Check, Web-Check, Optimus, Business Tools website

Those who made use of these tools, were positive in their assessment. However, those case participants who had not used them, did not appear to be aware of them. However, they expressed interest when the researcher showed them an explanatory booklet. Also, the reaction of those owner-managers to the presentation on these tools at the Town Hall meetings was very positive.

Recommendation 5 (re Objective 5): *Business Tools and other supports*

It is *recommended* that FI could promote better awareness of these tools, perhaps through the TLN networks and Work Based Learning (WBL) mechanisms. Also, the research indicated that *Business Tools* on its own, because it is an online facility external to and not embedded in the business, may not be as specifically useful for the owner-manager as the bespoke BI packages which have been recommended above. However, the metrics within *Business Tools* could be embedded in the bespoke IT packages, so ensuring that they are visible to and used by the owner-manager.

Recommendation 6 (re Objective 5): FI -Operating Issues

Based on the findings, it would be *recommended* that FI should adopt a more customer service orientation in its interaction with the SME tourism sector. It might be instructive to create a database of extant SME businesses (including activity centres, small hotels and other accommodation providers, restaurants and heritage operations etc) and evaluate them in terms of potential. The database should include not just those who have participated in the TLN, but try to identify others outside this cohort who are probably more likely to be in trouble. This could then be used to create a Boston Consulting type matrix (see **Figure 5** in **Section 4**) to show those businesses which are "stars" and "cash cows". These could be fostered into further growth, using a type of "Fáilte Ireland talent scout", who has solid prior business experience.

Grants

Recommendation 7 (re Objective 5): Grants

Overall, grants are most useful when easily identified by the applicants and represent a good match to the needs of the business. An opportunity cost does arise, if the owner-manager is not aware of a suitable grant or does not fit somewhat limiting criteria. It is recommended that a grant portal be established on the FI website, which would act as a single collation point for all grants referable to setting up and continuing an SME business in the HTL sector. Additional grants to help keep a successful business going, such as stimulus grants or indeed grants to facilitate extension of the extranets would also be welcome. However, it is noted that perhaps a new BSc in Small Enterprise Management (Hussey, 2010) might, if rolled out nationally, be a suitable follow-up to the TLNs.

Policy issues surrounding VAT, Local Authority Rates and Water Charges, Other Charges and the Minimum Wage

Many of the respondents expressed concern about the level of charges on the tourism sector. These included Local Authority water charges, "savage" rates on business premises and VAT. Many professional bodies and economic think-tanks have commented on the adverse effects of such charges. These issues affect the profit margins of operators and the prices charged to the consumer and have been noted to affect competitiveness:

The Report on Food Cost Preparation by Horwath Bastow Charleton (HBC) (2009), which has been commissioned by Fáilte Ireland, also noted that the high fixed cost element of their total cost often comprises local authority imposed costs such as rates and water charges, which have increased at a considerably faster rate than general prices (HBC, 2009, p. 21)

VAT

The Restaurants Association of Ireland (RAI) also expressed concern about VAT rates in their sector. It is calling for VAT on beverages served as part of a meal to be reduced from 21.5% to 13.5% (RAI, 2009, p. 15). Alternatively, where the food element of a meal is over- two-thirds of the value of a meal, a composite rate of 13.5% be applied to the total bill, by way of VAT (RAI, 2009, p. 14).

In particular, in the restaurant sector, as noted below, the margin is on average 13.1% on a standard meal, but nets out at a lower return for the proprietor, when other costs such as rent and taxation are deducted.

After taking into account the raw materials, labour costs, utility costs, fixed and overhead costs and VAT, a restaurant is left with a return of 13.1% on a standard meal. .

(HBC, 2009, Food Cost Report, p. 15)

Other Charges

The issue of other Local Authority charges is also addressed by the RAI (2009) in its pre-budget submission and are viewing them as a type of stealth tax on small businesses. As they see it:

. . . the local authorities are moving to bridge the gap left by development levies and National Exchequer funding by increasing fees & charges to small businesses; for example a waste licence fee has increased from €1200 to €4000, with no justification. Another example is the introduction of a monitoring charge by local authorities of fat oils and grease trap licences of €870 per restaurant.

(RAI, 2009, p. 17)

Minimum Wage

The high minimum wage issue in Ireland has been noted by many commentators. This puts Irish SME tourism businesses at a disadvantage relative to their foreign counterparts, who have lower minimum wage and so, can charge significantly lower prices to customers:

France, Ireland and the UK have some of the highest minimum wages in the EU. Ireland has the second highest minimum wage in Europe, on the basis of gross hourly pay, ahead of both France and the UK.

(HBC, 2009, p. 27)

In relation to restaurants, RAI also is advocating a reduction of the minimum wage from €8.65 per hour to €7.65 and an abolition of the Catering JLC minimum rates (8% higher than the minimum wage) and the Sunday Premium scheme¹ in its pre-budget submission (RAI, 2009, p. 3). This has been re-iterated by the HBC Consulting report regarding the minimum hourly catering wage rate in Ireland in stand-alone restaurants being €9.32, is the second highest in Europe (HBC, Food Cost Report, 2009, p.25).

(RAI, 2009, p. 17)

Recommendation 8:

As all of these are policy issues which affect the tourism industry as a whole, they need to be addressed at *industry level*, to effect change.

Subscription costs to FI and other bodies

Several respondents felt that subscription costs to various tourism-related organisations, together with expense in attending trade shows, were considered too high for small businesses.

Recommendation 9:

Perhaps it might be possible to research the levels of renewal of these subscriptions and to devise a sliding scale of subscription, based on the size of the SME business.

Once again, these are industry-wide issues, requiring policy change at a macro level

¹ Minimum wage, minimum catering wage and Sunday premium : €8.65, €9.32 and €12.42 (RAI, 2009, p. 7)

Summary

The conservation of "smallness" may represent an important contributor to the achievement of competitive advantage, but certain competencies, need to be instilled into the small firm sector, faced with market competition. It is hoped that with the implementation of the above recommendations, that the sector can aspire to self-improving practitioners.

TABLE OF CONTENTS

	Page
Acknowledgments	13
Section 1-Introduction	14
Section 2-Fieldwork	21
Section 3-Main Findings	26
Section 4- Conclusions and Recommendations	61
Bibliography	88
Appendix 1	96
Sample of Interview guide- activity centre	
Appendix 2	98
Prof. Bitici's work on this area	

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SECTION 1

INTRODUCTION

The research presented in this report is centred on an investigation into the financial management skills of a sample of owner-managers of small and micro tourism enterprises. Perceived gaps in the information sources available to the owner-manager in running the business and in planning, controlling and making decisions for the future were identified. In addition, the satisfaction levels of the owner-managers regarding other supports provided to them by Fáilte Ireland and by the accountancy profession were investigated.

The study consisted of undertaking twelve case studies spread over a range of tourism enterprises. These included accommodation provision, a restaurant and the important market of activity centres. The researcher tried to study the heterogeneity within the industry, covering both micro businesses (less than 10-12 employees) and SMEs. Only five out of the twelve case studies were involved in accommodation.

The objectives of the study are set out below. A brief overview of the Irish SME sector is provided as a backdrop to the main study. This is followed by an outline of the overall report.

Objectives of Study

The aims of the project were:-

1. To explore the training and qualifications, financial management awareness and prior business experience of owner-managers;
2. To examine the degree of interaction with external accountants and the satisfaction levels of the owner-managers with this support;
3. To examine the information systems which are currently available together with approaches adopted by the owner-manager in running the business.
4. To review whether there are gaps in the current information systems for the scorekeeping, control and decision-making tasks of the owner-managers;
5. To examine the attitude of owner-managers to the support they receive from Fáilte Ireland and to establish gaps in this support.

While many small hoteliers are articulating a vocabulary that is connected with financial metrics, they have impoverished financial literacy (Aidan Pender, Fáilte Ireland). Some type of predictive model of critical metrics such as linked financial ratios and non-financial metrics could indicate early warning to these businesses of financial ill-health. Financial information systems may have been past-orientated, giving information aggregated at a level that is not helpful for the operator. It may be that the systems concentrated on day-to-day reporting of how the business was doing. However, essentially looking mainly at the past is flawed, as it is not providing business intelligence to steer the business forward.

When run on this basis, it is effectively like managing performance while looking through a rear-view mirror (Tony Lenehan, Fáilte Ireland). It is running using lagging indicators, which may work in a rising market, but in a recession, a shake out occurs and the flaws in this approach can appear. Fáilte Ireland already provides business supports, as outlined in their guide *Your Guide to Fáilte Ireland Services 2010*².

The relative role of Fáilte Ireland when no in-house accountant is employed, was examined and the norms of their training materials explored, to see the stock of business intelligence currently being diffused into the industry.

Strategic Background

The Small Firms Association (SFA), together with the Irish Small and Medium Enterprises Association Ltd (ISME) are the national organisations exclusively representing the needs of small enterprises (i.e., those employing less than 50 employees) in Ireland. ISME has stated the case for the indigenous SME strongly in their recent pre-budget submission:

It should not go unnoticed that SMEs have consistently demonstrated that if provided with the right economic conditions, they have the ability to deliver us out of the current economic situation as employment and wealth creators, with a loyalty to the local economies that they serve. *The Government therefore must shift their focus from the 'multinationals at all costs' approach to adopting a policy that assists in the promotion of indigenous enterprise and in particular the development of SMEs.*

(ISME, 2010, p. 15 emphasis added)

² http://www.failteireland.ie/Information-Centre/Publications/Corporate-Documents/Corporate/Your_Guide_to_FI_Services_2010

Some facts from Ireland serve to highlight firstly the economic importance of the SME sector and the services sector where almost all enterprises are small and mainly indigenous.

In Ireland, the following definitions apply:

Small Enterprise: A small enterprise is defined as an enterprise which has fewer than 50 persons engaged.

Medium Enterprise: A medium enterprise is defined as an enterprise which has at least 50 but fewer than 250 persons engaged.

Large Enterprise: A large enterprise is defined as an enterprise which has at least 250 persons engaged.

(CSO, 2007, p. 83)

Family Owned Business: An enterprise is defined as a family owned business if it meets one or more of the following conditions:

- An enterprise where one family holds more than 50% of the voting shares;
- A family supplies a significant proportion of the enterprises' senior management and is effectively controlling the business;
- An enterprise where there is evidence of more than one generation working in the business;
- An enterprise that is influenced by a family or a family relationship and that perceives itself to be a family business.

(CSO, 2007, p. 84)

In 2004, almost half of all small service enterprises were family-owned businesses (CSO. 2007, p. 26).

Taking a look at the economic importance of the service sector in Ireland, some interesting facts emerge:

- In the services sector almost all enterprises (98%) are small (less than 50 employees).
- Small businesses employed over 400,000 people in services in 2004, accounting for more than half of total employment in the sector.
- The number of small enterprises in the services sector grew from 60,500 in 2000 to 83,500 in 2004. In the same period the number of large service businesses grew from 1,200 to just under 1,800. (CSO, 2007, p.19)
- Small firms accounted for more than half (52%) of the total turnover in the services sector, generating a total turnover of just under €74bn in 2004.

- There are over 83,000 small enterprises in the services sector, of which almost half are family owned (47%). The vast majority of these family businesses employ less than 10 people.

(CSO, 2007, p. 6)

- Small firms account for the vast majority of enterprises across a wide range of service sectors. In general, small firms account for between 96% and 99% of service firms in these sectors. They also account for the greater share of employment, turnover and gross value added, except in the transport, storage and communications sector.

(CSO, 2007, p. 24)

These facts establish the very significant contribution of the service sector to the Irish economy, showing also that it is composed mainly of small firms.

In relation to tourism, the majority of firms involved in this sector in Ireland are small and medium enterprises and in many cases are micro enterprises employing fewer than 10 people (Duffy, 2007).

For the purposes of this report, a small firm is taken to mean a small privately owned hotel (or other tourism entity such as an activity centre, a golf club or a guesthouse for example), which is operated as an owner-operated unit, where the property and the business are one entity.

SME: Challenges

The relatively small size of SMEs gives rise to certain challenges in this sector. Some of these are now considered.

Outcome based SME companies

At the Inaugural CIMA Ireland conference on 2 October 2008 "*Excellence in International Markets: Strategic Financial Management for competitive positioning*", the speakers commented on the importance of a layer of mid-sized companies with a niche strategy, often family owned, for the future competitiveness of the Irish economy, noting that if they fail, the failure is not as catastrophic as that of a large multi-national company. The international speakers also commented on the need for simplicity in processes and products to attract customers, who "hate complexity". Competitive companies, they opine, would have moved "from cheap work power to cheap brain power". Such companies needed to move from "managing a product to managing

a result” and be an outcome-based company. This requires, the speaker stated, a finance function with qualities that can drive value for the company.

Role of the Accountant

The external/internal accountant must give business insight to the owner-manager to help them get an understanding of performance at a granular level and to identify and support initiatives to improve performance (Cronin, 2009). Generally, for SMEs, this means an external accountant, as they are unlikely to afford to be able to employ an internal accountant as well.

In a rising economy, the tide lifts all boats and the accountant’s role in booking increasing profits and revenue may suffice, but in a recession, the accountant’s role must *add value* to the business, whether employed in-house or not. This may mean *challenging the business model* and getting an independent perspective on options from a non-executive director or an external expert (Cronin, 2009).

Empirical evidence in this Fáilte Ireland-funded study showed that the metrics that are measured by owner-managers may not be as appropriate or insightful as they might be. In the tourism enterprises examined, the accountant is often external to the enterprise and largely operates an end- of- period accounts preparation service for control and for tax purposes. The question must be asked “is this service enough?”. The research would indicate that this is not enough, particularly in a downturn, where it is much harder to drive profits, control costs and achieve growth.

SME competencies

The strategic importance of the small firm owner-manager to successful firm performance and survival has been identified by Hannon and Atherton (1998) who argue that their ability to cultivate strategic awareness capabilities contributes to both firm sustainability and success. These strategic skills are essentially specific competencies in the areas of financial management, business continuity, HR and training and general management. These skills have been noted as missing in SMEs: “there are gaps in their internal resources” (Blackburn and Jarvis, 2010, p. 7). These gaps are due to their limited capacity and in-house expertise, so the SME owner manager frequently seeks external advice and support.

These gaps in competencies or deficits hinder the **sustainability** of the firm’s core business and inhibit the achievement of its objectives. The management of business risk, financial risk and reputational risk for the SME business is at the core of the sustainability issue. As Woods and Dowd (2009) state “a good risk

management policy helps encourage equity investors, creditors, managers, workers, suppliers, and customers to remain loyal to the business”.

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. The sector needs an infusion of highly skilled professionals, as noted by CIMA Ireland:

An increase in levels of training and upskilling across the economy also has the potential to increase the prospects for success of Irish businesses and, in particular, SMEs. These businesses need employees with a diverse skill set, who can add value by bringing with them increased versatility, fresh insights, specialist expertise and compliance based qualifications.

(Denis McCarthy, Divisional Director, CIMA Ireland
http://www.iptas.ie/news/higher_education_business_and_finance_Aug09.pdf)

Financial Literacy in owner-managed SMEs

These businesses lack business intelligence (BI) and suffer from poor financial literacy. With the owner-manager playing multiple roles, there is a consequent from lack of thinking time and of relevant information help make decisions. These businesses often operate in a reactive rather than a pro-active way, i.e. they neglect planning and may find it difficult to identify risks for the business and manage these risks.

IT skills in owner-managed SME businesses

According to one industry analyst, business intelligence has surpassed security as the top technology priority in 2006 (Microsoft Dynamics 2008, p. 7). So, firms need to “mine” their own data to extract actionable, insightful metrics, rather than simply generating disparate information. If then, an IT solution can capture these critical internal and external financial metrics, then, being real-time, it can avoid the overload on the manager in a manual system (the “busy fools” idea of Harris, 1992).

However, SMEs make poor use of IT and suffer from poor information for decision-making as a result.

The larger the size of the firm the more likely they are to be innovative and engage in a more sophisticated use of Information, Communication and Technologies. Large

enterprises employing 250 or more persons were more than twice as likely as small enterprises (10-49 persons engaged) to use a dedicated ICT system to manage orders.

(CSO, 2007, p. 7)

To summarise, it is evident that SMEs make a valuable contribution to the overall Irish economy and in particular, to Irish tourism. However, in common with other sectors, this sector does have some challenges which need to be addressed, in order to survive and prosper in the less benign climate of recent years.

Overview of Report

Following on from this introductory section, the fieldwork carried out for the study is described in Section 2. The selection of the sample of participant companies is explained and details of the research methodology and interview procedure are provided. The main findings which emerged are presented in the next section (3). Finally, the conclusions and recommendations are set out in Section 4

SECTION 2

FIELDWORK

This section begins by outlining the methodology used in the study and explains the selection of the twelve case sites. The inclusion of additional interviews with eight key informants (**KIs**) is described. The need for unstructured interviewing is explained and the interview procedure and the instrument used (an interview guide) is discussed.

Choice of Qualitative Research Methodology and Use of Case Study Research Method

Due to the 'gap' between theory and practice in management accounting in the decade 1980-1990, accounting researchers became increasingly interested in the nature of actual accounting practice (Scapens, 1990). Case studies can be very useful in this regard, because they can describe accounting practice, explore the difficulties in applying new accounting techniques, attempt to illustrate innovative practices in companies, explore the reasons for particular practices and explain the determinants of existing practice (Ryan, Scapens and Theobald, 2002). In this project, cases were used to explore the financial management routines and information systems used by the participating businesses, to explain them and then see the gaps between what is used and what should be used.

Selection of Case Sites

In order to obtain first hand information on the research topic, it was decided to undertake a series of case studies involving in-depth interviews with a sample of twelve owner-operators in a diversified sample from the tourism industry. The selection of the case sites was made in conjunction with Fáilte Ireland at special orientation meetings (see below). At one of these meetings, the researcher was kindly facilitated in finalising a choice of four cases (asterisked in Figure 1 below) from the listing of participants in the Tourism and Learning Networks (TLNs). The remaining eight case sites were identified and contacted by the researcher herself, with the expectation that some would be run by owner-managers who had not participated in the TLNs.

Orientation Meetings with Senior Management of Fáilte Ireland

Prior to undertaking the fieldwork with the cohort of respondents, meetings were arranged with the Director of Strategic Management in Fáilte Ireland and his senior managers (heads of departments) to fine-tune the objectives and to approve the sample of case sites.

The overall sample was selected with the aim of encompassing a spread of tourism enterprises. 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).

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:Tonnata*-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

Review of existing FI supports, attendance at Town Hall Meetings and at Business Finance course

In addition to this cohort of respondents, the researcher also reviewed the main Fáilte Ireland website, the *Performance Plus* (now re-named *Business Tools*) website and the *Optimus* literature and discussed these with two relevant Fáilte Ireland managers- **KI/5** and **KI/8** respectively. At the request of a senior manager in Fáilte Ireland, she attended two other support facilities for the industry:

- “Town-Hall” meetings in February/March 2009 at Louis Fitzgerald Hotel, Naas and at The Grand Hotel, Malahide
- Business Finance workshop hosted by Horwath Bastow Charleton (HBC) under the direction of Fáilte Ireland

When attending these two facilities, she was able to make her own favourable appraisal and also sought informal opinions from some of the participants. These were predominantly favourable.

In sum, these meetings effectively gave the researcher an overview of what support was already *in-situ* from Fáilte Ireland, so the researcher could build on the existing supports, identify further development of these supports that might be necessary and so provide innovative solutions.

Interviews

Regarding the case studies, the relevant owner-manager was interviewed at each site, as detailed in Table 1 Section 3. An interview guide with a list of broad topics was used to conduct these unstructured interviews- see Appendix I for a sample of the guide.

Ethical guidelines from the Office of the Vice President for Research at DCU were used to draft consent forms and plain language statements. These statements clarified the research objectives and purpose of the research in simple terms. A copy was given to each respondent at the commencement of each interview and then the consent form was signed. At the outset of each interview, interviewees were informed that their participation was totally voluntary and they were given an assurance of confidentiality regarding the interview material.

Permission to tape the interview was sought and given in all cases. Individual interviews lasted from one hour to four hours, depending on how much time the respondent could allow. After each interview, a transcript of the material was prepared.

Analysis of Findings

When the interviews had been completed and transcripts prepared, the next task was to read through them to become familiar with the "raw" data, as suggested by Saunders *et al*, (2007). The next step was to analyse the "raw" data into sub-themes associated with each research objective (Patton, 1990). To this end, when the transcripts had been scrutinised, a very large analysis sheet was prepared for each objective, with respondents on the vertical column and sub-themes associated with the particular objective, arrayed on the horizontal columns (Patton, 1990). Then, the relevant data were extracted from the transcripts and manually written into the appropriate cells on these analysis sheets. Having all the data and quotes in relation to one objective (and associated sub-themes) available on a single large sheet, facilitated the aggregation of the data. The final step in the analysis was to apply cross-case comparison for each large sheet, searching for similarities and differences in the findings.

This process was replicated for each of the five objectives. While it was time consuming, it provided a structured format for analysing the findings. Individual case write-ups were also facilitated for later use, as an educational by-product of the research. These cases can be used as a teaching resource for hospitality practitioners and academics, to train them and allow transfer of the research findings into practice.

The main findings arising from these interviews, supplemented by insights provided by the **KIs**, are presented in the next section.

SECTION 3

MAIN FINDINGS

It will be recalled that the research has five main objectives, as set out in the introductory section. The research findings are now presented in relation to each objective.

Research Objective 1

To explore the training and qualifications, financial management awareness and prior business experience of owner/managers

Findings in relation to Research Objective 1 now follow.

Training, Qualifications, Prior Business Experience and Financial Awareness of Respondents

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

	Training and Qualifications of Respondents (see columns A to D below) and Prior Business Experience (see superscript in case site names below)			
	A	B	C	D
Case site	Undergraduate and/or post-graduate business or hospitality degrees or diplomas or professional accountancy or higher qualifications in business or hospitality	Non-relevant qualifications meaning non-business degrees or non-accounting degrees or non-finance degrees.	No third level qualifications	Vocational training or FÁS courses or "Start your own business course" by County Enterprise Boards
A^c	√			
B^m		√		√
C^c		√		√
D^c	√			
E^c			√	
F^m		√		√
G^c	√			
H^c	√			
I^c	√			
J^c	√			
*K^{cc}			√√	√√
L^c	√			
Total	<u>7</u>	<u>3</u>	<u>3</u>	<u>5</u>
Overall Total	<u>13</u>			<u>5</u>

**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 are shown in Table 2 below. 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

Case site	Financial Management Awareness (skills and perception) of Owner- Manager Respondents and participation by them in TLNs				Participation in TLN	
	Financial Management Awareness				TLN-yes	TLN-no
	MBA degrees or Banking/ Finance/ experience or both	Prior training in preparation of accounts	Book-keeping - self-taught	None		
A	√				√	
B			√			√
C		√			√	
D				√		√
E				√		√
F			√		√	
G				√	√	
H				√	√	
I			√			√
J	√					√
K*			√	√	√√	
L	√				√	
Total	3	1	4	5	8	5
Overall Total	13				13	

*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**).

Turning to the Tourism and Learning Networks (TLNs), eight out of the 13 respondents had attended these courses. Their satisfaction levels with TLNs is detailed later in Research Objective 5.

Research Objective 2

To examine the degree of interaction with external accountants and the satisfaction levels of the owner-managers with this support

Interaction with External Accountants

An analysis of the responses to this query indicated that, for most respondents, the role of their external accountant was confined largely to the preparation of annual accounts and determination of tax liability. 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**)
- They take accounts at the end of the year and do the tax (**L**)

Two respondents, **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".

Some of the key informants had observations to offer in this area too. For instance, a representative of the Irish Hotels Federation (**KI/3**) noted the lack of internal accountants in small (<80 bed) hotels. Typically, these hotels will not have a qualified accountant. Rather they would employ an internal book-keeper "who would have a set way of compiling information", doing the hotel management accounts, bank reconciliation, cash takings and payroll. The outside accountant, he commented, typically does the VAT return, PAYE/PRSI returns and the audited accounts. In an 80+ bedroom hotel, an in-house accountant would be employed, but this person would most likely be not fully qualified. This highlights the lack of qualified accountants working in internal roles in hotels. Financial controllers, he opined, would work mainly in large hotel chains.

KI/2, an accountant consulting to the hotel industry, remarked on the gaps in the service offered by external accountants (which were filled by his consulting company): “they can’t afford to have a full-time financial controller, but I don’t think their external accountant is necessarily providing that service to them-they prepare year-end accounts and tax computation and that’s it”.

In a similar vein, **KI/1** commented on “rigid procedures of book-keeping, but not much on the Business Intelligence front” and “on the need for IT support- accountancy that is relevant and makes immediate impact”.

KI/5 who manages the online *Business Tools* website for Fáilte Ireland, observed that “one of the weaknesses of the industry generally is that, due to size, small hotels wouldn’t have an in-house accountant, compared to chains who have their own internal accounting team”. However, some internal accountants can be purely administrative people and not involved in decision-making (**KI/7**).

The financial demise of a lot of hotel properties which were built to avail of tax incentives, meant that a lesson needed to be learned by the accounting profession as well as by the hotel operators. A certain recklessness was revealed in the building of hotels by developers at inflated property and land prices, to avail of these tax breaks, without considering the likely earnings before interest, tax depreciation and amortisation (EBITDA) from the business that the management company could generate. With hindsight, it would have been better to focus on the potential profit that could be generated from the proposed hotel operation and then work back to how much could afford to be paid for the capital development (**KI/6**). A representative of the Irish Hotels Federation, (**KI/3**) noted that a huge number of hotels were tax driven, not market driven and were unaware of how to bring demand to these properties; “people went into hotels thinking it was an easy business, but were mistaken”.

Finally, Brian Maher, one of the Heads of Department in Fáilte Ireland, who commissioned the Food Cost study (carried out by **KI/4**) commented: “accountants need to be talking the right language- also the restaurateur needs to be able to talk in the language of the accountant such as cost per meal efficiency levels- can you get more from what you are putting in?”

Overall, these findings suggest that the businesses do not receive much assistance from their external accountants, beyond the

preparation of their annual accounts (i.e., financial accounting) and related tax matters. In turn, this suggests that there could be room for further engagement with these accountants in the realm of providing internal information to the owner-managers to help them run their business more profitably (i.e., management accounting services). However, as mentioned by respondents **F** and **G** above, it cannot be assumed that these external accountants are all familiar with the particular businesses under review. Therefore, some further specialist training in the business models and specifics of the various tourism enterprises (activities, hotels, restaurants, festivals etc) may be necessary to enable these “generalist” accountants to create value for these businesses. Suggestions in this regard are addressed later in the recommendations.

Research Objective 3

To examine the information systems which are currently available together with approaches adopted by the owner-manager in running the business

Current internal information systems and approaches to running the business

Information resources to support the business such as in-house financial accounting systems and booking management systems are considered in this section. In addition, an attempt was made by the researcher to understand the approach of the owner-manager to running the business. Issues such as cost control, decisions concerning revenue and profit and sustainability issues and business development issues are reviewed.

Regarding financial accounting systems, findings indicated that six of the respondents used packages such as Sage (**B**, **C** and **D**) and Quickbooks (**A** and **I**) and a less well known package (**H**). The remainder used various basic accounting procedures such as recording invoices, doing bank reconciliations, basic monthly accounts and bi-monthly VAT returns.

All of the participants had a formal booking system in place. However, the information gathered from the system varied between the participants. For instance, the systems used by participants **A**, **C** and **K**, who had activity businesses, provided information on the patterns of demand, revealing peaks and troughs in the business, as well as insights into the service that would be required by customers and whether they were new or repeat business. However, these systems did not provide financial information as to the *profitability* of the various activity products. The woman who

ran the equestrian centre (**B**) just had a diary to record bookings for lessons. Although, she had a web-site which was the main vehicle for advertising her school, it was not active as a booking engine. Small guest-houses and hotels such as **E**, **F** and **G** had a web-presence which could take bookings as well as a diary for recording telephone bookings. Respondents **F** and **G** sought information on how effective their marketing was by asking how the customer found about their accommodation, and using follow-up emails and Christmas cards, tried to capture repeat business. In contrast, **E** had a basic manual system of booking and did not appear to try to actively capture repeat business. As the owner herself admitted: "repeat business- this is where I am really bad. I could not give you a percentage, but it is a fair amount"(**E**).

Two hotel owners (**G** and **H**) made an interesting observation regarding web-derived bookings. **G**, the owner of a small hotel in the North West, reported that only 25% of bookings were received on-line, leaving 75% who relied on telephone bookings. Similarly, **H**, who operated a larger hotel in the West, said that in the week before the interview, only 10% had booked on-line. Both hoteliers cautioned against an over-reliance on the web as a source of bookings. The ease of using the web facility to book a room is another issue, according to respondent **H**. He had received assistance from Fáilte Ireland to simplify the number of clicks on his hotel website, to ensure ease of booking. Another factor would be the need to take account of the type of guests who were core to the business. In the case of **G**, he sourced a lot of his business through word-of-mouth and through advertising in the press in Northern Ireland, while **H** attracted a lot of older active groups on bridge and bowling breaks.

Turning to key informants, one, **KI/6**, a consultant from a leading accountancy firm with some specialisation in hotels, referred to "the very antiquated systems in owner-operated [hotel] properties". He commented that "financial management systems are often simply book-keeping". This yields poor analytical content in the output from these systems, namely reports with "top line revenue and profit but little analysis in-between". Also, **KI/2** identified "the lack of day-to-day management information in small and medium-sized hospitality businesses". Another hotel consultant (**KI/7**) who was working on secondment in a troubled hotel chain, remarked that the accounting content of hotel management courses did not make sense of the operations and that unit managers within the hotel may not be given the management accounts, so the manager of the unit may not be able to buy in to the accountant's suggestions and decisions.

KI/1 spoke about the stress created when restaurateurs have to design their own reports - it can take one day a week. These small businesses have to work off cash takings and projected payments. "The affordability of wages is being tracked against cash takings all the time".

Cost control issues

There was a high level of cost consciousness among all the respondents. As respondent **A** reported: "I'm doing really well on costs . . . squeezing the margins more". **C** mentioned that "we keep a tight rein on overheads . . . I'm good at it" while **D** counselled "you try to keep costs down to a minimum".

Unsurprisingly, the main focus was on the control of labour. Seven of the participants (**B**, **C**, **F**, **H**, **I**, **K** and **L**) emphasised the importance of controlling staff costs. An approach of offering an educational opportunity (i.e., to receive accredited training as a riding, diving or surfing instructor) in return for either no wages or minimal wages was used in the riding (**B**), diving (**C**) and surfing school (**K**) businesses. For example, **B** reduced her staff costs by offering work experience and accommodation to equestrian students. In return, these students provided free instruction for the clients doing riding lessons. **C** and **K** adopted a similar tactic to reduce staff costs.

Others controlled staff costs through flexing them in line with variations in the level of demand. For example, informant **H**, a hotelier, reduced staff costs by cutting rosters, while **I**, explaining that he had to take in €100 at the till to pay €10 of labour, observed that "you can make money by sending staff home". The owners of the surfing school, (**K**), reduced the cost of their instructors by paying them on a lesson by lesson basis rather than by a flat fee per week. Finally, **F**, the owner of a country house, converted into a guest-house, minimised costs by doing much of the work herself, "including the laundry".

Another tactic for minimising labour costs was multi-tasking, where an owner-manager, together with members of his family, carry out other tasks connected to the business, as well as management roles. For example, commenting on the gym and pool in the leisure centre attached to his specialist historic house accommodation, respondent **L** said: "none of us [the family running the house] are trained in gym work, but all of us can do the pool and one person can float between the gym and the pool". Respondent **D** identified good design of a spa as a means of controlling energy costs.

“Every room is isolated and that’s the way I wanted it designed. . . . I’ve three people in, there’s three rooms in operation, so I just knock the power off the other seven”.

Three respondents (**E**, **F** and **G**) reported on discontinuing the evening meal for individual guests (rather than groups) due to the high costs involved and lack of a sufficient profit margin to make it worthwhile- “we cut down on dinners as profit was small” (**E**). Respondent **F** explained: “Dinners are not profitable, by the time you buy food and travel to get food supplies . . . the fruit goes off if people don’t turn up”. Both **F** and **G** were prepared to make an exception to this general rule in cases where groups might stay, only if dinner was provided. An interesting example of business savvy was displayed by **E**. She explained the problem of her guesthouse being located on a part of the island far away from restaurants, which were located near the port. By discontinuing dinner in her guesthouse, she needed to meet the expectations of her guests by alternative means. So, to keep her guests happy, she bought a minibus to transport guests free of charge to the most convenient restaurants. Her return for this service, though not financial, helped to maintain the goodwill of the guests. She reported: “that’s working and it takes the pain out of it” (**E**).

In sum, the overall findings indicate a healthy level of cost consciousness among participants.

Also, Key Informants had some insightful comments about costs. For instance, **KI/1** mentioned that “using family labour is often the only way to avoid the minimum wage” and the need for labour costs to be flexed to the business and the fact that “you’re often at the bottom of the cost barrel looking for VAT differences³”.

In relation to the cost reasons behind menu changes in the restaurant industry, **KI/1**, a representative of the Restaurants Association of Ireland, had some ideas about ways of reducing costs in the restaurant business. He suggested having “a lot of tapas-style menus and using cheaper cuts of meat”.

Another accountant who consults to hotels, **KI/2**, observed “a lot of them are very cost conscious but not as conscious of profitability”. Advice from **KI/5** highlighted the need “to cut costs to a minimum and control them”. Regarding variable costs, he emphasised the need to make sure “you’re only incurring them when it’s absolutely necessary-like when you have staff on call, only call them in as and

³ In checking the competition for restaurants, **KI/1** mentioned that deli counters in Spar charge 0% VAT on sandwiches, as they are cold, but restaurants have to charge 13.5% VAT on soup because it is hot.

when you need them". **KI/7** gave an interesting example of the issues relating to energy costs. He raised the query "why is air conditioning on in an empty meeting room?". In addition, he stressed the requirement to match the energy consumption with occupancy levels. If turnover falls, there should be a commensurate reduction in the energy bill.

In conclusion, the same key informant (**KI/7**) counselled that hotels should maintain service expectations and quality of the guest experience, when engaged in cost cutting measures.

Reviewing the overall evidence from both the case studies and the key informants, there was unanimity regarding the need to control costs. This was endorsed by some of the comments (see below) made at the Town Hall Meetings and at the meetings with Heads of Departments in Fáilte Ireland.

"Watching costs- this is the key concern now – in the past, when business was booming, one was concerned re volumes coming in and having enough food; . . . It was all about order taking in the past, because of boom, now need training in making sales" (comment from Town Hall Meeting at Louis Fitzgerald Hotel, regarding the need for restaurants to control costs and for upselling by the staff to the diners).

The Food Costing CD available from Fáilte Ireland was mentioned as a way of getting a guiding picture of the costs of ingredients- the master ingredients schedule of the costing module allows chefs to put in their own ingredients and costs; and all recipes will be updated for the latest cost. Guideline costings for ingredients can be uploaded and comparisons made with the actual cost of ingredients to point out to the restaurateur where they are being over-charged or where savings are being made.

"Encourage consistency in how you garnish the dishes- don't offer strawberries in wintertime- very expensive to source them"
(Town Hall Meeting, Louis Fitzgerald Hotel)

Decisions involving Revenue and Profit

As widely accepted in the literature, e.g., Drury (2009) running the business involves scorekeeping, control, performance evaluation and decision-making tasks. However, in the study cohort, there was a lack of comprehensive management accounting information to support all the owner-managers in these tasks.

Use of intuition

In the absence of tailored hard data on costs, revenues and profit for services and products provided, there was an indication that owner-managers seemed content to rely on an intuitive grasp of the business, relying on the year end accounts to confirm their hunches. When there was less complexity in the business model applied, the owner-manager's ability "to see into the business" was the basis for the intuitive knowledge. Some sample comments endorsed this approach:

Intuition can tell you what's a profitable trip (**A**).

No cash flow forecasting is done- we know it in our head (**E**).

You sort of know if you're making money or not making money (**G**).

It's all in the head. . . . An awful lot is done by guesswork (**I**).

We don't do monthly accounts, but it would be in our heads.

. . . We don't have the real time information to know about the affordability of the marketing spend -you spend on an intuition (**K**).

Overall, these findings indicate some reliance on intuition in the running of the business, with formal accounting results available from the financial accounting package at month end, after the decision has been made. The results also suggest a need for "hard" information, to help the decision-making process.

Use of intuition combined with information

Some owner-managers realised the need to supplement intuition with some form of management accounting information. This information allowed them to be pro-active in their decisions. For example the owner of a cycling company (**A**) reflected that: "the booking management system doesn't do the financials". So, she designed a "client control form" herself, which formalised the costs of the products and services she provided to clients and matched them with the quoted price, in advance of the trip being undertaken. Often, it gave an early indication of a lower profit margin than budgeted, which prompted her to change the service/product mix to bring the costs down, without affecting the overall quality of the package. This was the only option, as changing the price or the tour itinerary of a pre-booked client would not be acceptable. She works backward to regain her margin, by re-negotiating the prices she pays to restaurants and/or hotels or she may require clients to pay for some meals or some other service, e.g., airport transfers.

This type of feed-forward control was vital to her business and was in fact a type of home-grown Business Intelligence system which supplemented the financial accounting package she already had. As she explained: "it's a management accounting tool, where the costing is being tracked. . . . Quickbooks is scorekeeping . . . but it [client control form] is a decision-making tool"(A).

KI/3 observed that "how discounting is done is not scientific".

Time Factor in aggregating information for decision-making

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".

Turning to the insights provided by the key informants, **KI/3** noted that "family-owned businesses have no real-time information". This fact only heightens the critical factor of the lack of time available to the owner-manager to make decisions, when most of his/her time is spent on running the operation or indeed, manually gathering information on an ad-hoc basis. **KI/3** commented that "family owned [hotel] businesses had no real-time information".

To summarise, the evidence gathered suggests an over-reliance on intuition in decision-making in many cases. Lack of time to aggregate information seems to contribute to this situation.

Sustainability Issues and Risk

Monahan (2009, p.26) notes the importance of being able to understand, quantify or define what the risks are to your business, as the key to making business decisions. He points out that the first step is to define the business strategy and define the risks around that strategy, both the external risks as well as the internal risks. Once risks have been defined, one must determine what has to be addressed to mitigate those risks and then create ownership around them, within the organization. While the management of risk might be viewed as simply a compliance (box ticking) issue, the true benefit from it (e.g. what if analysis and modeling future scenarios) is when insight into risk has the ability to create valuable management information, turning what was a compliance issue into a tool for creating profits and sales (Trigwell, 2009, p.27).

Risk Management -initial conditions

Findings indicated that some owner-managers had a fortuitous aspect to the original business. For instance, it could have been

inherited with no debt or could be in a captivating location or could have benefited from generous government grants by conversion from a previous use.

Risk management- diversification of revenue streams

Adept management of risk in their current businesses also helped to build long term sustainability. Some lowered their risk through diversifying their revenue streams within the original business. Others had a separate cash stream which often came from income from other sources not connected to the business under review, e.g., rental income from rented properties (**B**) or part-time lecturing in a third level institute (**L**).

It was more testing to have to discover ways of creating sustainability from within the existing business. Some owner-managers had a natural ability to spot these opportunities to create different revenue streams around the core business, often without any outside advice. For example, respondent **B** had a livery business and also did trekking, in addition to her main activity of providing riding lessons. Also the erection of an indoor arena enabled her to extend her operating hours, giving riding lessons at night and throughout the year. Without the arena, adverse weather conditions would cause cancellations of lessons.

The legal requirement for testing and servicing of cylinders used in diving schools provided additional revenue for respondent **C** apart from her main business of chartering a boat for divers and giving diving lessons. In addition, she had four rooms in her cottage devoted to bed and breakfast for anyone, even non-divers. This provided another revenue stream, apart from core diving activities.

Respondent **D** had developed a retail business selling organic health products related to his core spa business. The main outlet for these products was at the reception in the spa itself. In addition, they were sold through mail order as well as through other spas and retail outlets throughout Europe. He explained that “we’re the biggest supplier of organic seaweed- based products, for retail and spas in the world and we’re the only certified organic brand in the world”(D). This is a prime example of building on the core activity of natural seaweed baths to generate a related retail business of organic products.

Four streams of income –from a farm, a guesthouse (on the farm), a coffee shop built by converting a disused cow shed and a recently constructed large meeting room which yielded rent-provided diverse sources of revenue for respondent **E**. It also have her the chance to cross-subsidise a short season for the guesthouse with a longer

season for the coffee shop, the meeting room and the farm. “The 12 room guesthouse is small and the other sources of revenue help” (E). The farm was partly converted out of intensive farming and a grant given to her and her husband, under the Rural Environment Protection Scheme (REP). The original guesthouse was extended using a mortgage and her husband continued to keep a herd of Aberdeen Angus cows on the remaining farmland surrounding the house. “The grant gets paid and hopefully will last for the duration of the loan on the house” (E).

Realising that its core summer surfing activity provided insufficient revenue on its own, the surfing school, (K), re-branded itself as a marine education facility. Building on the uniqueness of the local ecology and environment enabled it to design field studies to the rock pools and guided beach walks for groups of local primary and secondary school children. The husband and wife who ran the surfing school had previous experience in lifeboats as well as qualifications in surfing instruction. They saw the opportunity to expand their business by devising summer certificate courses in surfing and beach safety for secondary schools. These diversifications “got the groups going . . . reducing the uncertainty and covering the cost of replenishing the [surf] boards” (K) while adding to the core business of summer surfing lessons for individuals. Also, they devised a mobile unit (a surfing simulator), which they will use to bring surfing to beaches without a surf school. They will man this unit as a family for the month of August, while using senior trained instructors to run their surfing lessons back at base.

Overall, these examples show that many of the respondents hedged themselves against over-reliance on one business by building additional revenue streams onto their core business. A concern might be that, as the owner-managers nurture these additional “green shoots”, the need for real-time management accounting information systems is overlooked and managers may lack time to “mind” the enlarged businesses effectively. They may lack the awareness of the need for business intelligence and currently, there is no bespoke solution available for different tourism businesses from the accountancy profession. As A stated: “Business intelligence 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”.

Business Development

Various owner-managers gave indications of pro-actively planning for the future development of their businesses. Three activity centre owners, B, D and K mentioned the importance of building up

relationships with local hotels with a view to creating reciprocal demand for their respective businesses. Respondent **B** had already begun this process with local hotels in her area. **D**, the owner of a successful seaweed spa, estimated that there were 3,000 hotel rooms available in the locality. However he observed that “I’m not in competition with them”, recognising that forging links with these hotels could be mutually beneficial. Hotel guests can avail of the spa facilities while non-local clients attracted to the spa by repute, can be directed to these local hotels. **K** planned to develop surf and stay packages aimed at the UK market. This would involve liaising with local accommodation providers. The husband and wife who ran the surf school, **K**, also had plans to bring their mobile surfing simulator unit to schools, in order “to move activity indoors” together with a winter school for educating and training of surf instructors. They were also investigating the possibility of developing a third level degree in surfing with the local Institute of Technology.

Two respondents, **D** and **H** were looking into the possibility of using solar and wind power to reduce their energy costs while improving the environment. **D** also intended to research the possibility of manufacturing the spa products in Ireland, as opposed to the UK, where they were currently made. Three accommodation providers, guesthouse owners **E** and **F** and the owner of an inherited hotel, **G**, (subject to a preservation order) were reflecting on alternative uses for their properties. **E** and **F** considered converting their guesthouse into an art gallery or a self-catering home respectively. **G**, a trained chef, having inherited his father’s listed hotel, realised it had become outdated, largely being bypassed by the children of former guests (who had bought holiday homes in the area), needed to re-invent the property to attract occupancy. However, he surmised that this was an insurmountable task and so was thinking of running a cookery school in part of the property.

This is an example of a hotel business that was not sustainable and indeed, others were closing while the researcher carried out her work, indicating that the life cycle of some family-run hotels in the North-West had come to an end. Interestingly, **H**, the owner of a medium sized hotel, intended to develop beach riding as an activity. He viewed this new development as an exit route for himself and his family, should his hotel business fail. To this end, he owned the horses himself and located the stables on his own farm property, decoupling this activity business from the hotel, which was experiencing stiff competition from other hotels and a new foreign chain in the area. Respondent **L**, the owner of a historic house/hotel, had similar plans to develop horse-riding together with woodland walks on the extensive grounds surrounding the property.

In conclusion, this review of possible future developments indicates that some of the respondents intended to grow their core business and diversify their revenue streams even more. In contrast, others had identified possible exit routes, should the current business become unsustainable.

Research Objective 4

To review whether there are gaps in the current information systems for the scorekeeping, control and decision-making tasks of the owner-managers

This objective looks at the key aspects of each business that were identified by the respondents as the drivers of value in the business. However, a critical analysis by the researcher of the financial information systems available to the owner-managers did not reveal the metrics associated with these drivers, but simply reported the results of the business.

Therefore, a certain gap was obvious to the researcher. It appeared that there was no management accounting system which would drill into the business and focus up the leading indicators of business success, or in other words which could reveal the business model (i.e., business intelligence-BI). Therefore, the fall-back position was that it became a matter of the owner-manager relying on their business savvy or on their ability to know intuitively what had to be done well, in order to drive profits and cash flow. The evidence shows that, as their current financial management systems and reports were financial accounting-oriented in design, they focussed only on the overall performance for the previous accounting period. This was a serious weakness, in that there were no forward planning or reliable performance metrics to point up worrying trends in the business.

The rest of the discussion for this objective (4) contains a combination of literature insights to identify ways of plugging these gaps together with insights from the KIs and from the respondents at the case sites.

Key Success Factors

KI/1, a representative of the Restaurant Associations of Ireland identified the key success factors for restaurants as location, attractiveness of product, profit conversion from revenue, the personal touch, service, value for money and consistent standard.

The success factors for small hotels were itemised by **KI/7**. These were generation of demand, diversification of revenue, control of costs and adjustment of the product offering instead of changing price as well as having critical metrics “on a dashboard” to monitor the business, especially during a recession.

Gaps in current financial management systems

There is a need to understand that gaps existed in the financial management systems that prevailed before the downturn in the economy. However, “a rising tide lifted all of the boats” (Champion, 1999) and many hotels with sub-optimal information systems still managed to generate substantial profits. Then, with the economic downturn and the increased price transparency from the internet, turnover increases did not result in commensurate increases in profit. As **KI/3** explained, due to a lack of incisive financial analysis in their internal day to day information systems, many hoteliers “did not know why”.

Hotels versus Restaurants

KI/1 highlighted the greater challenge in obtaining good financial management in restaurants compared to hotels. He explained that this difficulty arises because “you cannot plan financially in restaurants as you don’t know the consumption patterns”. Hotel bedrooms are either occupied or not, but a booking at a table in a restaurant may yield low or high spending. He continued by contrasting the metrics available to analyse rooms revenue in a hotel (the metrics of occupancy percentage and average daily room rate), compared to the lack of sufficient metrics to bring out the more hidden reasons for the profitability of restaurants. For instance, the number of sittings per night and average spend per table and the number of covers all affect revenues. In addition, chefs are not always aware of the profitability of the various dishes on the menu, because they do not know the costs of procuring and preparing individual dishes. This gives rise to the need for menu engineering to achieve the “magic mix of revenue and profit”.

KI/3 has adverted to the need to address gaps, particularly in a recession, for hotels to know where their profit is derived: “in the past few years, the economy was rising and while turnover was increasing, profit was not, but the hoteliers did not analyse the difference”.

KI/7, a hotel accountant working on secondment in a chain, listed the critical metrics for hotels: cash flow forecasting, revenue budgets, business on the books and clever handling of rates. As the cheapest business is contracted first, rather than holding out for the highest rates, you commit to giving rooms at lower rates (i.e. build

a base at lower rates) so you get bookings in advance which deliver volume.

Cost Control/Management is not enough..

In times of slowing growth, increasing competition and the risk of deflation, costs take on a new significance in the management of profitability. As control of price starts to slip away, retailers and distributors demand an ever greater share of margins. Companies that are ill-prepared for the consequences can slip into crisis (Moores, 2003, p. 11). However, immediate cost-cutting in practice tends to be a crude and simplistic exercise. As Moores (2003, p.11) says:-

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

In times of crisis, it pays to be analytical. Accountants must recognize, that even in the short term, cost management must never be their exclusive domain :-

Managers tend to be inward-looking when thinking about costs, yet ideas for reducing costs are as likely to come from outside the company as inside. It is vital to benchmark against competitors and study developments in the wider economy. Germs of imaginative ideas that challenge the status quo should be welcomed. *Cost management should not be an isolated exercise but should sit alongside the disciplines of value creation and revenue management.*

(Moores, 2003, p. 11, italics added)

In the longer term, companies should be more interested in spending money to create profitable products and services - premium, high-quality products and services that are profitable rather than simply just cutting costs. Thus, the business model must focus on the *net* situation.

The response therefore to the crisis involves an investment in importing "analysis" or bespoke information systems for hotels, restaurants and activity centres, that help to focus up the business model and appropriate metrics.

The response to these gaps: Business Intelligence-linking risk to key performance metrics and the business model

According to one industry analyst, business intelligence has surpassed security as the top technology priority in 2006 (White

paper on Microsoft Dynamics, p. 7). So, firms need to “mine” their own data to extract actionable, insightful metrics, rather than simply generating disparate information. If then, an IT solution can capture these critical internal and external financial metrics, then, being real-time, it can avoid the overload on the manager in a manual system (the “busy fools” idea of Harris, 1992). The main business benefit of business intelligence is that it reduces the problem of data overload, highlighting the key information required to run the business. It provides new ways to get beneath the surface of the firm’s performance to gather insights about the factors driving performance (Norton, 2009).

The need for Business Intelligence

When a business is trading in distressed conditions, Dr. Philip Smith, a profit improvement expert with ICAEW’s Finance and Management faculty says, “ in a turnaround, the key requirement is focus on the essentials, with the danger that if you try to do too much you can end up missing the wood for the trees... the timing and content of performance reports will need to focus on the critical factors underlying the turnaround plan key metrics should reflect the underlying business model and any inherent risks”

- The ability to access, capture and store data on a regular basis from the accounting and operational systems
- The ability to combine and display data from different systems when building reports and dashboards
- The ability to transform captured data to conform to common standards within the organization
- Ease of use, requiring the executive to have only the minimum of training necessary to access information
- To provide instant on-demand reporting which is up to date- additionally it should also be possible to drill down to explore the underlying data
- To view the information from different aspects known as “slice and dice”
- An ability to display information in web browser, graphic, tabular and textual formats at the same time
- Facilities to build both lagging and leading KPIs
- Tailorable applications such as analytical applications that allow the use to perform multiple “what-if” scenarios without changing the base data
- Facilities to at least export if not interact with spreadsheets

(Source: Riddell, 2009, p. 15)

Business Model

As a leading management consultant in the area of performance improvement (Cronin, 2009, p. 45, italics added) recently said : -

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. Getting the structure right for future, not past, levels of activity is the real challenge and this involves a new culture of ownership, responsibility and accountability. *Converting to an agile model* with the appropriate mix of fixed and variable cost to meet market demands is key.

In the following paragraphs, a discussion of what metrics might be suitable "to design into" these bespoke BI systems, based on the gaps seen from the research findings as well as relevant recommendations from the literature, is presented.

BI: Performance Metrics for Hotels

In the present constrained economic climate, owner-managed businesses are now recognising the *importance of timely management accounting information and detailed analysis of financial performance and of the business model* to see how profit and value are created (**KI/7**). These critical metrics can be an additional tool to the tacit knowledge of the owner-manager (**KI/5**). However, hotel managers are frequently not trained in their hotel management courses to develop proper metrics for their businesses. As **KI/7** explained: "the [accounting content of the] hotel management course may be very superficial- only cost control is taught. . . The accounting course doesn't make sense of the operations".

KI/3, a representative of the Irish Hotels Federation, considered that the indigenous hotel chains should have a business plan and as much forward looking and real time information as possible. For example, he identified as critical metrics for *larger chains*:

rate, occupancy, room yield, projected bookings and deposits taken and cash flow forecasting.
monitoring of the effectiveness of the marketing spend and scientific application of discounting of the room price and awareness of the extent of their fixed costs (which continue despite low occupancy).

In *smaller* hotels:

room yield and cash flow difficulties and management of working capital were key metrics to manage and

“they need to focus not just on top line information, but on the key drivers of profit and value”.

They also need to use the Average Room Rate (ARR) and average occupancy statistics in a meaningful way- to influence marketing strategy and pricing of packages.

He explained that the hotels which had failed in the past, were those that refused to change in line with customers and competitors, had high debt and lacked planning. For indigenous hotel chains, some of the owners could be supermarket people and in the current market where 5-star hotels were selling at 3 and 4 star rates, brand loyalty was declining. These hoteliers needed to know “how to keep the guests coming back. For example, corporate guests need dry cleaning and parking, while tour guests don’t need pay movies” (**KI/3**). However, owners may not be listening and the product can be tired as the market has moved on: –“is the hotel old and quaint or is the hotel concept dated and impractical?”.

KI/7 discussed the fact that hotel customers are very savvy and are price driven, so there is a pressure to reduce prices. Also, due to the increased bargaining power of customers in a weaker economy, the hotel might have to cut rates to get volume, but costs increase and then, the net result is not beneficial to the hotel.

BI: Performance Metrics for Activity Centres

In this type of business, time is money, so the effective utilisation of staff time in profitable activities pays dividends to the business.

Metrics here would focus on developing an understanding of the fixed costs of running a lesson in diving, riding etc so that owner-managers would have an awareness of what is the break-even number of clients in a lesson to justify holding the class. The relative profitability for example of other aspects of say a diving business need to be made explicit- for instance, the chartering of a boat to bring divers out to the site of the wreck is more profitable than the hiring out of diving equipment. The cost of providing an hour of diving instructor’s time versus the alternative uses of this time for instance in bringing them to the wreck and letting them dive unaided, needs to be made explicit.

The need to spread the season or provide some other activity in the winter months, such as educational simulations of surfing in the

local schools, or in the case of cycling, perhaps a second business in setting up short breaks such as sampling cookery, archery, kayaking could be used to derive alternative sources of revenue and to fill quiet weeks of the year.

These are some suggestions in this area. The specifics of each activity business would require that metrics are tailored, rather than being generic. Time driven Activity Based Costing models could be derived to identify the cost of the owner- manager and instructor's time in carrying out the various activities, to ensure that pricing of these activities is appropriately informed, rather than being based on "guesswork".

BI: Performance Metrics for Restaurants

According to **KI/1**, in restaurants, a knowledge of profit contributors was vital. There is a need to "manage the tension between the creativity of the chef and financial management issues of the owner". It might be possible to divide up dishes into a matrix- some dishes might have a higher margin than others, but attract a lower spend than less profitable dishes. The restaurant needs to push the top ten dishes (in terms of contribution margin) to get the magic mix of revenue and profit. This is **menu engineering**. This concept comprises an awareness of the contribution margin (and not just the more common metric of food cost percentage) on each dish and of the popularity of menu items and is excellently explained by John Nessel (2010), who runs the Restaurant Resource Consulting group:

Contribution Margins

While the concept of food cost percentage (an item's ingredient cost divided by its menu price) is the most commonly used criteria for assessing effective cost controls, the concept of contribution margin (an item's menu price less its food cost) is the basis of menu engineering. A simple question should make the distinction clear. If you could sell one more item before your restaurant closed today, would it be a sirloin steak for €20 that costs you €8 or a plate of pasta primavera for €10 that costs you €2. While the food cost percentage of the pasta is 20% versus 40% for the steak, the steak will contribute €12 to gross revenue as opposed to €8 for the pasta. I'll take the €12... thank you very much. Contribution margin then is based on the [euros] you take to the bank.

Accounting for the Popularity of Menu Items

While a menu item's contribution margin tells us how many dollars each individual sale of the item contributes to the cash register, you need to know how popular the item is to determine the total dollars it contributes to the restaurant's revenue. A popular item with a high contribution margin is a "star" while an unpopular item with a low contribution margin would fairly be called a "dog". Menu engineering therefore takes each menu item's contribution margin and its popularity into account to determine into which of four categories it falls: **star, workhorse, challenge or dog.**
http://rrgconsulting.com/menu_engineering.htm

There is a need for an analysis of the mix and volume factors in the profit earned from food sales- so in accountant's parlance, this means sales margin variances analysed into mix and volume effects. It would be helpful also to look at the elasticity of the price of each menu item and price bundling of courses. An insight into the price tolerance of the customer and what makes them spend would result from this approach. There are some dishes that are loss making but create a high spend. The factors that affect the average spend need to be investigated such as the design of the menu and the location of the table. The number of covers also is related to the throughput time, so staff need to keep a watchful eye on the turnover of tables and the spending pattern.

KI/3 concurred with this view and highlighted a need for key performance metrics (KPIs) such as number of covers, menu design and pricing, the number of offerings on the menu and the cost of putting an item on the menu and the appropriate price and contribution margin for each item, and measures of innovation in meals offered, given trends in health in tastes, and cost control through portion control. Other KPIs include payroll costs, average spend per person, sourcing of raw material costs, energy costs, location and rental costs and local authority rates, gross margin on food and beverage, minimum spend, number of sittings, waste and net profit margins earned (which are only about 2% to 5%) .

The difficulties in financial planning in restaurants were highlighted by **KI/1**. This is partly due to the fact that even if a party of 6 people are booked for a Saturday night, there is no certainty regarding what amount they will spend. This is in contrast to a hotel, where once the booking is made at a favourable price to the hoteliers, the marginal cost of letting the room is low, so revenue

per available room (RevPar) is known and the occupancy is also known, once the booking is confirmed.

As regards booking patterns, hotels can forecast demand and know whether they are going to fill say, on a forthcoming rugby weekend, so they can charge high rates. By contrast, a restaurant tends to have instant demand and cannot predict it, so the restaurateur cannot double the meal prices for a rugby weekend or cannot charge a premium if a table is required at 8pm.

KI/3 also mentioned the lack of time available to owner-managers to do the books and the lack of any real-time management accounting information provided to them by the external accountants. However, owner-managed businesses are reluctant to undertake Continuing Professional Education, because they have "no time, have no accountant working in the smaller family run hotels". These problems have already been noted by Kelliher *et al* (2009); access issues –"the bind of the workplace" (Morrison and Texeira, 2004).

Relationships with bank managers, accountants etc are very important in the early stage development of small firms, reducing the isolation and self-dependency of the owner-manager that is high during the early years of trading. The role of networks, and the embeddedness of the owner-manager in them, is an important factor that influences learning, decision-making and hence, financial management practices. To support better financial management practices in small firms, Deakins Morrison and Galloway (2002, p. 16) suggest that 'interventions must be based on helping the entrepreneur to learn, rather than imposing prescribed solutions and (top down) financial consultancy' (p. 16).

Therefore, this research (although based in Scotland) confirms the crucial role of *experiential learning for owner-managers in small firms* but suggests that there is scope for educators to intervene to ensure that such learning is efficient.

In sum, it is evident from the foregoing that current information systems in hotels, restaurants and activity centres have many gaps, which need attention. These need to be addressed in order to assist owner-managers in improving the running of their operations.

Research Objective 5

To examine the attitude of owner-managers to the support they receive from Fáilte Ireland and to establish gaps in this support

Current Business Supports

Various supports were identified by respondents:

Tourism and Learning Networks (TLNs) and Extranets

Participants in TLNs are owner-managers of small and micro tourism enterprises, particularly those employing less than 20 people. These networks also include 'associate members' such as tourism representative bodies, County Enterprise Boards, County Councils, LEADER groups and other interested parties. Currently, Kelliher *et al* (2009, p.81) report there are "35 networks throughout Ireland".

The TLNs are focused on action-based learning where participation and interaction are encouraged. Generally, they have a minimum of 25 participants on each one. The programme includes a core element, representing about 70% of the total input. The remaining 30% consists of a variable element, to meet individual Networks' specific needs. 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.

Small firm literature identifies networks as the essential support structure in any training intervention to help entrepreneurs to learn and it would appear to positively affect the quality of this experiential learning. Networks are closely followed by business mentors, with appropriate industrial and sector expertise (Kelliher *et al*, 2009, p. 81-82). International studies also support these findings, so small firm network-centred learning is vital (Morrison and Texeira, 2004).

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.

Other supports provided by Fáilte Ireland

- Marketing support
- *Biz-Check* team⁴
- *Web-check*⁵ team
- *Optimus* program
- *Business Tools* (Performance Plus) website⁶
- Fáilte Ireland consultants

Marketing:

Various marketing supports from Fáilte Ireland were identified. Product marketing was positively rated. For instance, their organisation of familiarisation trips for journalists to some of the activity centres was identified as being particularly helpful by respondents **A** and **D**. "I got eight pages of a write up [in a bicycling magazine] . . . I couldn't have bought advertising for the same value myself"(A).

Other marketing funding from Fáilte Ireland in the form of matched funding for joined-up activities in a particular area, under a particular theme, was favourably received. Effectively businesses in a particular area such as activity centres, hotels/accommodation providers and restaurants, pubs and heritage centres would cluster under a theme. This theme tried to capture the essence of the area, i.e., something that related to its history or distinguished it in some way. Frequently festivals were devised around the cluster theme (**K**). This cluster funding was found to be helpful by respondents **C**, **F** and **K**. It also facilitated cross-marketing between hotels/accommodation providers in the cluster- hotels might bring in the demand for the activity centre or *vice versa* (**B**, **E** and **K**).

BizCheck, Web-check, Optimus, Business Tools:

BizCheck is a one-to-one session with a business mentor who will give practical advice to boost the operator's business. The clinics are held nationwide and mentors will give advice on key business functions including managing your finances, cashflow, business planning, marketing and human resource. The mentoring from *BizCheck* was rated as helpful by respondent **H**, the manager of The Oaks hotel.

Web-Check is a tailored website review focussing on issues of immediate concern and an action plan of further developmental

⁴ <http://www.failteireland.ie/Business-Supports/Managing-Your-Business/Business-Mentoring>

⁵ <http://www.ija.ie/failte-ireland/>

⁶ <http://www.businessools.failteireland.ie/>

measures for consideration. The web-check facility was considered good by respondent **A**.

Optimus is an innovative, multi-tiered programme to support tourism businesses in becoming more profitable, more efficient and more competitive. Rooted in international research, which shows that companies that adopt performance excellence principles can significantly improve their income and sales, *Optimus* offers a practical approach to achieving excellence in boosting bottom line results. Comprising three distinct yet inter-related elements, *Optimus* focusses on every aspect of the business from customer service to operational management to organisational excellence. Respondent **H** also found this programme useful.

The *Business Tools website* provides access to cutting edge thinking, best practice business expertise and solid management advice. It consists of online benchmarking tools to increase competitive position and online best practice guides to improve business performance and some online solutions and specialised supports. *Performance Plus* (applicable at the time of the empirical work) was also valued by **H**.

The researcher attended a Town Hall meeting in the Grand Hotel Malahide in 2008, where owners of SME businesses from Howth and its environs were brought together face-to-face. She observed that, when information was given to them by FI presenters about the above tools and the TLNs, the seeds of a "community of practice" were sown. It was felt that significant progress was made towards joined-up thinking.

Overall, findings in relation to these Fáilte Ireland supports suggest that they were not availed of by most of the case study enterprises, with the exception of respondent **H**.

Fáilte Ireland consultants:

Respondent **L** found the Fáilte Ireland consultants helpful in relation to start-up advice, while **H** was impressed with the demonstration of a real-time cash flow forecasting tool.

Suggestions for Improvement

The suggestions for improvement were:

- Perceived approach of FI to respondent businesses;
- Perceived bureaucratic structure/culture of FI and service issues;
- Accountability;
- Marketing and Promotion;
- Web issues;

- Grants;
- Policy issues re VAT, PRSI, Capital Allowances Local Authority Rates and other charges, Subscription costs.

Perceived approach of FI to respondent businesses

Several respondents felt that FI did not view the tourism operators as their customers- they need heightened awareness that the tourist businesses they serve are *their* customers. As respondent **C** explained “they’re telling us how to deal with our customers, but they don’t know how to deal with us”. This view was re-iterated by respondent **I** who observed “FI are not serving their customers – tourist businesses”. The lack of customer focus was also expressed by **D** who suggested that “they [FI] need to look at companies with potential as *their* customers, not the other way around”(D). The woman running Rothar, (**A**), complained that “FI don’t understand activity businesses”.

Perceived bureaucratic structure/culture of FI and service issues

Some criticisms were made about the bureaucratic structure/culture of FI and the slowness of its adaptability to the challenges facing small tourism operators. It appeared that the service to small businesses was perceived to have significant shortcomings: “They’re slow and cumbersome–there’s so much red tape – do I fit into their criteria?”(D). A retired teacher, (**F**), running a guesthouse, commented that it was important for an identity to be given to an area by FI, such as through setting up festivals, which drive demand for accommodation and so bring in business. There can be a better return from the money spent by FI on organising say a walking festival in the Sliabh Bloom area, if local people could get involved, as they could make the money available “go further” and would be more accountable (**F**).

An operator of a spa, (**D**), opined that “FI offers a poor service . . . [their] bureaucratic machinery is not adaptable enough”. “They need to hand pick the projects that have potential and. . . how they can stimulate the business to expand . . . what can we do together to stimulate you to double your workforce, to double the amount of tourism?”(D). Effectively, an interaction between FI tourism “scouts” who can spot potential within a business and a co-operative rather than bureaucratic environment, was mentioned, which would stimulate growth.

If the owner-manager can double or triple the size of staff in the business, a reward from FI in the form of some type of grant aid or a simple inquiry “how can we help you stimulate your business to be even more successful” would be most welcome (**D**). For example, at present, a business might operate for six months of the

year, but FI could help the owner to work up to operating for twelve months, by helping him to spot additional opportunities within his existing business. An area might contain a number of successful businesses, which drew in tourists. These businesses need to be highlighted and helped to become bigger and more sustainable, through targeted investment by FI (**D**). "It's all different for each project, one project might take fifty grand to double [in size]. . . one project might take half a million. If 50,000 extra people come and they have an average spend of €1,000. . . so that's half a million that I'm getting returned straight away. . . . Then you build on that market every single year. You look on it as an investment. . . you don't plough money into stuff that's not working"(**D**).

Strict deadlines were often imposed on the tourism operators, but when the roles were reversed and the operators had to make a request to FI, frequently staff were unavailable to respond within the same timeframe that was imposed on the operators (**C**). The combination of bureaucratic policy making and ineffective structures and trying to provide a service can lead to a clash of cultures (**C** and **D**).

Accountability

Two participants (**D** and **F**) referred to the need for accountability by FI to local businesses. "I believe that there should be accountability. . . . It should be more on the ground level. Everything needs to be results-oriented"(**D**).

Marketing and Promotion

A number of respondents (**A**, **B** and **C**) sought more promotion of some activities (cycling, riding, and diving) to overseas markets, rather than focussing the marketing on domestic markets. "Connemara is the fifth most sought after destination for walking and cycling in Western Europe. Promotion is going to golf and fishing events-Irish people want to go to the beach" (**A**). Participant **J** highlighted the potential in bringing small groups of golfers from abroad, rating golf as "a huge, huge draw for tourists". The riding school owner-operator **B** suggested setting up linkages between activity providers and local hotels, to provide customers for both businesses. This was already happening, but in an informal way. A family owned castle, which offered specialist accommodation where the owners had been mushroom farmers before buying the castle, would value assistance from FI in identifying possible markets (**L**).

Web and related issues

Some comments were made about the FI website-*DiscoverIreland.com*. It was considered costly to advertise one's offers on this website-"very expensive, used to be free" (**F**).

Another respondent, (**K**), also mentioned that she could not find her own special offer for diving on this website. The need to improve the website, making it easier to find places, was also suggested by a rural guesthouse owner in the midlands (**F**). She suggested that a map with flags representing each accommodation establishment (similar to myhome.ie), would help tourists to identify the precise location of a guesthouse. For example, this would clear up the confusion which can arise in locating establishments in counties which are split over two regional tourist authority (RTA) areas in the guidebook (**F**). The same respondent also suggested that the description of her area was not evocative and did not highlight its historical and eco walking aspect. She suggested that FI should "get someone to see the area and then write about it . . . someone who can write good descriptive material"(**F**).

Another point raised by respondent **H** was that it was not very easy to book a room on the website. A simple message and a reduction in the number of clicks are needed. He also cautioned that no matter how effective a website is, that most of his older clientele did not make the booking through the web, preferring to use the phone. This "grey market" is and will continue to be a growing demographic segment of the overall tourist numbers using hotels. To endorse his point, as mentioned earlier, he said only ten percent of the bookings in the previous week, had been made through the web.

Grants

The need for a grant portal to enable applicants to be aware of what start-up grants are available was mentioned by respondent **K** who set up a surf school. She mentioned the huge amount of time surfing the web to no avail:"it was very hard to find details of grants ... you can go off on tangents in your search"(**K**).

The need for stimulus grants for existing businesses to make them more sustainable in the long term together with grants towards restructuring of the financing sources in the business was cited by the owner of the sea spa, (**D**), particularly when bank loans were not forthcoming. The same point about having some grants available for people who have been successful in business to make them sustainable for the long-term was mentioned by **K**.

A special issue also arose for The Cedars (**G**) – a hotel with a preservation order in the North West, which was inherited by the son of the original owner. The fact that he could not obtain any grants to re-structure the physical premises, effectively made him consider closing down the operation. An alternative use of his hotel was not obvious, so a sale of the premises was also going to be difficult, unless a new owner could inject capital to upgrade the structure, within the confines of the preservation order. Also, market conditions had driven business away from hotel accommodation towards the holiday home market, which confounded the problem of re-investment.

The owner of Rustic Lodge, (**F**), a retired teacher who had invested her lump sum to renovate the premises, needed grants to help her to convert a shed at the back of her countryhouse into a coffee shop. She was unable to afford to pay back a loan for this purpose, due to her age, so a non-repayable grant would have solved her problem. This respondent also mentioned that the stipulation of creating employment in order to avail of her start-up grant from the County Enterprise Board, was very onerous.

Policy on Local Authority Rates and Water Charges, VAT and Other Costs, and Minimum Wage

Five respondents (**C, D, E, J** and **K**) suggested that FI could address getting a reduction in high costs such as “savage rates” and VAT in relation to the tourism sector. The unfairness of the burden of water rates on businesses with no water rates on householders was highlighted by **C, E** and **K**. **KI/1** also mentioned the difference between VAT rates on sandwiches in a Spar supermarket (0% Vat as it is a cold offering) compared to 13.5% on hot soup in his restaurant.

The Tourism Renewal Group Report (2009) also re-iterates the need for minimising these costs to build sustainable businesses:-

Keep enterprises in business by minimising costs including wages, utility costs and local authority rates and by ensuring access to working capital
(Survival action 5 : Tourism Renewal Group Report, 2009, p. 35)

Keep costs as low as possible for tourism enterprises and ease the burden of regulation
(Recovery Action point 9: Tourism Renewal Group Report, 2009, p.viii)

Grease Traps and Other Charges

The cost of grease traps (at €3500 each) was of concern to **KI/1** together with the maintenance contract cost of these at about €600 per unit and then the licence fee payable to the County Council of about €370 as a once off fee and then an annual monitoring charge of about €870 (all to have a grease trap). Also, the issue of waste charges was raised by the same respondent.

Minimum Wage

The minimum wage is also a major issue in Ireland, being one of the highest in Europe, especially for restaurants, when they have to pay a Sunday premium (**I**).

Costs of subscriptions to Fáilte Ireland and other bodies

The restaurant operator (**I**) found the cost of subscription to Dublin Tourism (circa €850 p.a.) to be too high and the general issue of what value was obtained for subscriptions was raised. The costs of attending trade shows and of training were considered too high for small business (**K** and **I**) as well as the cost of time for the owner-manager who has to leave the business to attend a course.

In sum, these were the main issues raised in relation to the supports available from FI. Also, this concludes the main findings arising from the overall research. In the next and final section, conclusions and recommendations are presented.

SECTION 4

CONCLUSIONS AND RECOMMENDATIONS

This section takes a more holistic view of the findings, relating them to the up to the date wider professional and academic literature, which was searched extensively, before, during and after the empirical work. The conclusions are presented in relation to each of the objectives below, thus ensuring their relevance to the research objectives stated in Section 1. They were derived by comparing the practical reality within the case sites (as represented by the findings in Section 3) with literature based insights and distilling the two aspects to show where the sustainability of these businesses could be improved.

The objectives of the research were:-

1. To explore the training and qualifications, financial management awareness, IT literacy and prior business experience of owner-managers;
2. To examine the degree of interaction with external accountants and the satisfaction levels of the owner-managers with this support;
3. To examine the information systems which are currently available together with approaches adopted by the owner-manager in running the business.
4. To review whether there are gaps in the current information systems for the scorekeeping, control and decision-making tasks of the owner-managers;
5. To examine the attitude of owner-managers to the support they receive from Fáilte Ireland and to establish gaps in this support.

The findings for each objective are now coupled with literature-based insights to derive conclusions and recommendations referable to each of these objectives (1 to 5) above.

Objective 1

Qualifications, Training and Prior Business Experience

The aim of recent Irish research (Kearney and Lavin, 2005) was to assess the competencies owner managers believed contributed to business success and growth. A sample of six firms from diverse business sectors was chosen by the researchers. These sample firms were systematically chosen to reflect the wide diversity of firms operating in the SME sector in Ireland. The following factors were considered in choosing sample firms: type of business, duration in existence, number of employees, services offered and sectors serviced. Additionally, all interviewees were the founders of their business.

The central findings of the Kearney and Lavin (2005) study conducted on the six owner managers concluded that a number of prominent competencies were evident. Among them were:

- 1) Determination to Achieve
- 2) Analytical Decision Making
- 3) Future Oriented
- 4) Commitment to Self Development.

The most significant finding of the Kearney and Lavin (2005) study was **the centrality of the owner manager in any small business success**. All the owner managers under study were aware of their competencies and realised how these could influence the future success and growth of their organisation. The four main competencies illustrated above coupled with their realism clearly contributed to their organisational success. This reinforces the importance of talented owner managers who can develop and grow businesses successfully

Therefore this study provides support for investigating the profiles of the owner-managers in the case sites, given the central role s/he plays in the success of the SME.

The findings in this research relating to educational qualifications indicated a good level of achievement overall. Ten of the thirteen respondents had third level qualifications (**Table 1- Section 3**). Of the remaining three respondents, the duo at **K** had vocational training, leaving only one- the owner manager at **E** with no formal qualifications.

Regarding prior business experience (which included growing up in a family business), here again results were positive (**Table 1- Section 3**). Eleven of the thirteen respondents had considerable

prior business experience, while the remaining two (**B** and **F**) had converted a hobby into a business, on retirement from teaching.

In sum, results showed that the prior educational attainments and business experience of participants provided a solid foundation for the current business endeavours. A review of the overall profile of each respondent confirmed that any deficit in formal qualifications was compensated for by prior business experience or vocational training.

Financial Management Awareness and Participation in TLNs

However, when the researcher drilled down into the detail of the qualifications and business experience achieved by the respondents, results were more mixed (**Table 2- Section 3**). While four had relevant financial qualifications or job experience in this sector, of the remaining nine, four were self-taught and could “get by”, while five had little or no accounting experience. This indicates less familiarity with the financial aspects of running their businesses among the majority of respondents, thus indicating a need for improvement in this area.

Based on direction from senior management at Fáilte Ireland, the overall sample selection was to include some case sites where the owner-manager (s) had not participated in TLNs. . This was borne out in the actual results. Participation in TLNs was investigated and showed that eight of the thirteen respondents had availed of this facility. As TLNs provide a type of “top-up” financial and marketing qualification facility, they are mentioned here. Each one provided a form of distance learning for the owner- managers often in the financial and marketing aspects of their businesses. The satisfaction levels of each participant with TLNs are detailed later under Objective 5.

Objective 2

External Accountants

Findings from the study cohort strongly indicated that the input from their largely small to medium sized accountancy practices was largely confined to the preparation of year end accounts and tax payable calculations that were necessary for external compliance. 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).

In most cases, there was little evidence of using sophisticated

management accounting metrics which would assist the owner-managers in seeing the problems within the business, in fostering sustainability in the business model and in engaging in forward planning. These findings were endorsed by various key informants. For instance, **KI/2** noted the gaps in the service provided by external accountants: "they prepare year-end accounts and tax computations and that's it", while **KI/1** said that there was "not much on the business intelligence front".

The limitations of financial management expertise in the study cohort as noted earlier and the constraints on the owner-manager's time means it is unlikely that they can self-develop better systems and appropriate metrics in-house to progress the business. Therefore, this gives rise to the need for external input to help these firms develop appropriate templates. (These are discussed in more detail under Objective 4 later).

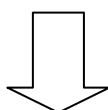
Recommendation 1:

It is suggested that the small to medium sized accountancy practices can address this gap, by adding more value to the services they provide to the small owner-managed tourism business. As the expertise of these firms seems to be confined to a generalist financial accounting/tax service provision, they need to be trained in the specific issues arising in the tourism sector (e.g., accommodation, restaurant and activity businesses as sampled in this research), in order to upgrade the basic service. However, the development of bespoke BI packages incorporating reporting templates for small guesthouses, restaurants and activity centres would be too difficult and costly for these SME accounting firms.

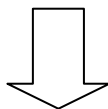
It is considered that Fáilte Ireland could prime this initiative by commissioning this development from one of the larger accountancy firms specialising in hospitality and tourism businesses - see Figure 3 below. Then, in turn, they could infuse this knowledge into their regional SME accountancy counterparts (who serve the owner-managed tourism businesses) by using some sort of Work Based Learning (WBL) to teach the owner-manager how to use the various bespoke BI packages (*by an arrangement similar to the TLNs, as further discussed in Objective 5*). The development of these packages would be the responsibility of a large specialist accountancy firm and they could be distributed and installed by the regional SME accountancy firms. Following her review, the researcher would feel that the *Business Tools website* could be incorporated into these bespoke packages and so be embedded into them, rather than be simply an online facility external to the SME business. It would also be vital that the BI packages are deemed easy to use by the owner-managers

Figure 3: Development of Business Intelligence

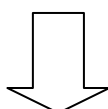
Large central specialist accountancy firm (tourism expertise) who will develop BI techniques and packages using material from *Business Tools* website and the research in this report



Large specialist accountancy firm with BI expertise will train regional SME generalist accountancy practices- using a special TLN network for these accountants



Regional SME owner-managers of tourism businesses attend special TLNs organised by local regional SME accountants, trained in BI techniques and with bespoke packages for various types of tourism businesses- activities, accommodation, heritage etc



Owner- managers find the BI packages easy to use and are embedded in the business by their external accountant, so they are likely to be used by the proprietor.

The small owner-managed tourism business might welcome this infusion of Business Intelligence (BI), if the upgraded and value-added service was available for a similar level of fee, given the recessionary times. The cost of up-skilling the service provided by the SME accountancy practices would be borne by the accountancy profession at the macro level, with perhaps some subvention from Fáilte Ireland. The SME accountancy firms would also benefit from the enhancement of their skill set.

Objective 3

Current Information Systems and approaches adopted by the owner-manager to running the business

Half of the case sites (6) used accounting packages, and the remainder used more basic accounting procedures. While all of the participants had a formal booking system in place, the information gathered varied from a basic manual booking system to more sophisticated systems providing information on patterns of demand. However, even the more advanced systems did not provide information on the *profitability* of the various activity products. The financial management systems, often based on invoices and cash records, were limited in analytical content. A number of key informants commented on this: e.g., “top line revenue and profit but little analysis in-between” (**KI/6**). Entrepreneurial flair is however, not enough in a downturn-there is a need to have diagnostic variables and the right information to make decisions.

Overall, these findings suggest that there is considerable room for the development of more sophisticated internal information systems for control, decision-making and performance evaluation (i.e., basic management accounting systems or the higher levels of business intelligence).

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. A recent research study on the restaurant sector, commissioned by Fáilte Ireland, has noted the issue of high labour costs:

Just over 30% of the price of a meal (excluding VAT) is spent on payroll and related costs. However, anecdotal evidence suggests that labour costs may be even higher than this study indicates once supervision and oversight is taken into account (HBC, 2009, Food Cost Report, p. 9)

Cost control is not confined to labour cost issues. For instance, three respondents discontinued an evening meal because of the high associated material and cooking costs and consequential lack of margin (**E**, **F** and **G**). Some of these respondents were aware of the Fáilte Ireland CD on Food Costing and were very positive towards it. Control of energy costs was seen as important by respondent **D**, a point echoed by **KI/7**. Also official recognition of the need to control costs, particularly in a recession, was made by

the Fáilte Ireland personnel at the Town Hall Meetings.

The Food cost report by HBC (2009) points out the high cost of food and labour faced by Irish restaurateurs: "Ireland has the highest excise duty on wines in Europe" and "food costs in Ireland are on average some 21% to 30% higher than the average of the 27 states in the EU, which means that Ireland ranks as having the fifth highest food costs in the EU.

In conclusion, it can be said that findings showed that participants had a good appreciation of the need to control costs. However, the lever of cost control is not sufficient on its own to generate sustainability of profits or to re-invent the business. As **KI/2**, an accountant who consults to hotels, observed: "A lot of them are very cost conscious but not as conscious of profitability".

Decision-making involving revenue and profit

Findings indicated a high reliance on the use of intuition in decision-making (DM). 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 recognised the need to supplement intuition with some form of business intelligence. Respondent **A** designed her "own client control form" which gave feedforward information on her expected margins per client. This self-designed document was highly influential in her efforts to maintain margins. In fact, using management accounting parlance, it was a "profit statement" and "job costing sheet".

At a general level, it can be said that the problems appear to be a lack of tailored real-time business intelligence and the owner-manager cannot take time out of the business to see what is needed or to self-design reports. As respondent **A** stated: "Business Intelligence 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". **KI/3** also mentioned the lack of time available to owner-managers to do the books and the lack of any real-time management accounting information provided to them by the external accountants. This deficit is an opportunity for the external accountants to step in and fill this gap, as noted under objective 2 above.

Sustainability issues-management of risk within the business

Findings indicated that some owner-managers had a fortuitous aspect such as inheriting a debt free business or good location. This

sealed in some kind of extra protection against current operating business risks.

Irrespective of the original complexion of the business, diversification of risk through growing additional revenue streams onto the core business model and planning the future development of the business were the main actions to ensure sustainability. Some respondents had income streams from rented properties or part-time jobs not connected to the main business or had lowered their risk through diversifying their revenue streams within the core of the original business. Sometimes this diversification enabled a short season from a guesthouse in a remote location (**E**) to be supplemented by a longer season from the coffee shop, the meeting room and the farm, so the cross-subsidisation was seasonal as well as monetary. Core summer surfing activity at **K** was supplemented with a winter marine education facility.

However, as these additional businesses grew from the core, the need for BI became even more apparent. The greater complexity of the enlarged businesses and the extra demands on managerial time, placed even more pressure on the owner- manager's time and inhibited his/her ability to design reports on the key metrics of the business model, going forward. This is yet another example of the need for bespoke IT-enabled packages, which would give BI to the owner-manager on a rolling basis, as noted under Objective 3.

In conclusion, the sustainability of the case sites was to some extent a question of how well the owner-manager managed his/her *risks*- both financial and operational. Risk originates in the founding circumstances of the business and as the owner-manager trades and sets up a business model, there is a process of further engagement with risk and of changing the business model to diversify against risk. This was often achieved through finding new revenue streams. The degree to which owner-managers handled this process varied, depending on their business savvy and awareness of the need for change and proactive planning. It should also be noted that cost control was the most obvious lever, which was most commonly used by the owner-manager to create long term sustainable profits. Finally, the risk of exiting from the business was mentioned by a few owner- managers, who rightly recognised that they were vital to the operation and had taken steps to prepare an exit route for themselves and their family, should they fall into ill-health.

Business development

There was evidence of pro-active planning for the future development of some of the businesses. For example, **B**, **D** and **K**, three activity centres, saw opportunities to link up with local hotels in order to create reciprocal demand for both activities and accommodation. This creates a win-win situation for both businesses. At present, it seems to be done on an ad-hoc basis. It is recommended that this joined up approach be primed, to develop the opportunities that undoubtedly exist. (This issue is discussed later in Objective 5). Other innovations included developing a manufacturing base for spa products in Ireland and availing of solar and wind power to reduce energy costs (**D**).

Life cycle issues were recognised as part of the sustainability problem. Some owner managers, concerned that their businesses were not sustainable in their current form, were planning to sell on or adapt their property to other uses. Others in well-performing businesses (**H**) were developing add-on businesses, such as beach riding, but were tying this business to their own personal assets, so that this stream became an exit route for himself and his family, should his hotel business fail.

Objective 4

Findings suggest that the current financial management systems in most of the case sites were financial-accounting oriented in design and tended to focus on the past. There was no internal information system which monitored the day to day results of the business and helped with planning, control and decision-making, i.e., a management accounting system. This arose due to the business being too small to employ an in-house accountant and the fact that the external accountants tended to focus on financial accounting/tax compliance.

Basically, the owner-manager relied on business savvy/intuition and a largely informal set of calculations later, when making decisions. This was a risky strategy when the business enlarged and the model became more complex. There was also a certain type of owner-manager who might lack both the savvy and the management accounting system and “muddled through”.

This section seeks to answer the following questions:

- ✚ “Are there differences in HTL businesses that need to be understood first, which require bespoke systems rather than a generic system? “Is management accounting the missing information system or do we need to look for higher levels of Business Intelligence systems?”

- ✚ "Is the need purely for improvement in financial literacy or are there process and service delivery issues as well?"

Re: "Are there differences in HTL businesses that need to be understood first, which require bespoke systems rather than a generic system? "Is management accounting the missing information system or do we need to look for higher levels of Business Intelligence systems?"

The results strongly suggest a need for "hard" information, to help the decision-making process. As **KI/3** explained, due to a lack of incisive financial analysis in their internal day to day information systems, many hoteliers "did not know *why*" (italics added).

Overall, the findings showed that many of the respondents hedged themselves against over-reliance on one business by building additional revenue streams onto their core business. A concern might be that, as the owner-managers nurture these additional "green shoots", the need for real-time more higher order information systems is overlooked and managers may lack time to "mind" the enlarged businesses effectively. They may lack the awareness of the need for business intelligence and currently, there is no bespoke solution available for different tourism businesses from the accountancy profession. As **A** stated: "Business intelligence 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".

The view of one of FI senior manager concurred with this: "Management time is taken up with crisis issues- for example, can we get expenses to drop by 20%, if sales drop by this amount. . . can we manage cash by effective forecasting instead of hoping to defer payments?. . . There is no time to plan forward and so reactive decision-making can lead to poor decisions.

Given that tourism is a service business, the manager is both a front office person and a back office person. There is a tension here, until the back office business intelligence can be transfused into the business. Thus external tools such as the *Business Tools* website and other Business Supports may not be as widely used as they should, simply because they are external to the business and the owner-manager may not have time to work through them. This conflict between the manager playing a front office and a back office role was very evident in all of the case sites examined, with the exception of **H**, a hotel which was part of a small indigenous chain.

The manager had employed an accounting technician and a marketing graduate, to free himself to make decisions.

BI and value creation: strategic and operational

The International Federation of Accountants -IFAC (2010) highlight the sustainable value that can be gained by improving the efficiency and effectiveness of an organisation's value creating operations. With this in mind, management accountants must recognise that looking at organisational performance solely in terms of financial accounting models is limiting. Providing high quality decision making support means supplying employees, supervisors, and managers with the information and analysis that helps them make value creating decisions.

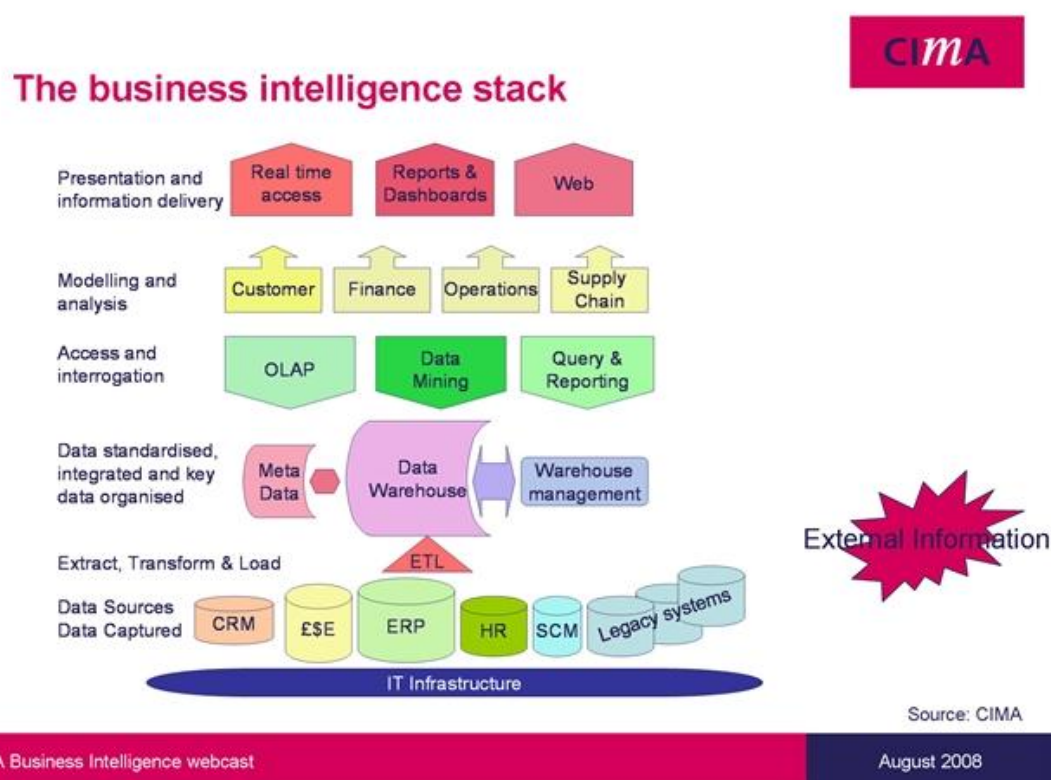
A good understanding and analysis of resource consumption and costs is essential to operational management. This includes understanding the impact of investment decisions, evaluating pricing decisions, and determining the profitability of products, services, and customers.

The tendency is to manage indicators, and not the value drivers of the business. And you don't have to be publicly traded to make some of these errors. ... And we must never forget that the ultimate source of competitive advantage in the battle for the world's capital resources is a value-driven culture, one that aims to ensure that every decision, every investment, every acquisition and divestment, is driven by the desire to increase the value of the firm.

David Young, Professor of Accounting and Control, Insead Paris, speaking at CIMA Ireland Inaugural Conference at UCD 2008

The BI stack – flexibility is the key

Business intelligence involves developing processes and systems that collect, transform, cleanse and consolidate organisation wide and external data, usually in an accessible store (a data warehouse), for presentation on users' desks as reports, analysis or displayed on screens as dashboards or scorecards. The term BI is sometimes used to describe this structure or 'stack' of software systems and applications (CIMA 2009b, p. 12). Flexibility is key, as can be seen in the BI stack in Figure 4 below.

Figure 4: The Business Intelligence Stack

The typical BI 'stack' or architecture can be represented as above, as having a series of layers. The base is usually shown as source data systems from where data is extracted, translated and loaded by extract, transform and load (ETL) software into a data warehouse. Above this is an application layer (or BI layer) and on top of this the presentation or delivery layer which can include executive dashboards, scorecards and other tools that make it easier for managers to find and understand the information and proactively use it in decision making. As Simons, 2009 says in the CIMA webcast:

At the bottom, all info sources collected within business transactions. The data is put into a repository and the next level is accessing it and the next level is creating flexibility around that data and final level is information presentation.

BI is a higher level of information provision, than simply management accounting, but the following section discusses some management accounting tools and innovations that would be useful for the SME sector, in the absence of more higher-order bespoke BI packages.

Additional Management Accounting Tools

Although costing has historically heightened awareness of an organisation's cost of operations in order to better manage them, its greater value lies in its forward-looking perspective for planning and informing decision making at strategic and operational levels (CIMA 2009c).

A costing levels maturity model

IFAC (2010) has also published a new costing levels maturity model. It is for management accountants who want to assess their organisations' existing capability for supporting internal managerial analysis and decisions, and opportunities for improving it. The model can also help organisations determine the level of costing sophistication necessary for them.

Menu engineering for restaurants

While the concept of food cost percentage (an item's ingredient cost divided by its menu price) is the most commonly used criteria for assessing effective cost controls, the concept of contribution margin (an item's menu price less its food cost) is the basis of menu engineering. This has already been outlined in Objective 4- Section 3.

Recommendation 2:

It is suggested that some management accounting tools can help, but are insufficient. A comprehensive bespoke BI package is needed for each hotel, restaurant and activity centre, which is set up by the external accountant, who has been trained in a TLN for accountants and is deemed easy to use, by the owner- manager. Thus, a higher level of BI than just some management accounting tools will be necessary- a complete IT solution with a dashboard of metrics, perhaps interlinked with booking systems, will especially be needed for restaurants and activity centres.

RE: "Is the need purely for improvement in financial literacy or are there process and service delivery issues as well?"

Note: Although the delivery of service and the processes behind that delivery were not the subject of this research, some literature was reviewed and recommendations made, to avoid an undue focus on purely additional informational systems.

Back office-Financial Literacy

In a paper based on UK hotel managers, Burgess (2007) asks "Do hotel managers have sufficient financial skills to help them manage their areas?". This question was addressed to hotel controllers in a survey. She notes that the accounting function is changing with a need for the controller to become more of a partner in the business; with systems available to process the routine accounting tasks, the generic business management aspects of their role have increased. As regards the operational managers running the unit, the views of controllers showed concern over the lack of quality financial skills at unit level. The controllers acknowledged that managers were good at customer care, but perceived a need for the managers to develop financial skills particularly in analysis and forecasting, to help them run their own departments and bring about continuous improvement in profits.

In an even more recent CIMA second quarterly survey of mid-sized businesses, almost 60% of mid-sized companies in UK and Ireland have experienced falls in turnover and net profits over the last quarter (CIMA, 2009b). Around a third of them have seen turnover and net profits decrease by more than 10%.

The companies have had a tough 12 months but have been agile and made changes quickly, concentrating on reducing costs. 59% of respondents reduced overheads, 18% managed supplier prices down, 40% cut their external training budgets and almost 55% reduced the number of full-time employees.

The availability of financial management skills was seen by just under a quarter of the companies responding to the survey as "more challenging than last year . . . addressing this skill gap is crucial for mid-sized businesses' success"(CIMA 2009b).

Back office- IT issues and Front office -service delivery issues

Internationally, the evidence suggests that smaller businesses have adapted more slowly to the use of information and communications technologies (ICT) and to marketing their businesses online than larger businesses. In Ireland, the same trend is apparent and has been noted in several studies, such as the ITIC report (2007).

Some of the specific issues for smaller businesses within the tourism sector noted from the literature in this area include:

- A lack of awareness of the value of ICT to their businesses
- Lack of IT and online marketing skills within SME tourism entities
- Unfamiliarity with the language of IT

Dependence on external experts and often poor experience of those experts

(ITIC, 2007, Executive Summary)

Morrison, A. and Thomas, R. (1999, p. 150) comment on the effective use of IT being . . . "relatively isolated among small tourism and hospitality firms".

New BSc in Small Enterprise Management and Work based learning (WBL) in Hospitality, Tourism and Leisure sector (HTL)

A recent paper by Hussey *et al* (2010) presented at the Irish Academy of Management conference, which discusses a pilot study on a proposed new three year BSc in Small Enterprise Management developed by Waterford Institute of Technology, is relevant. The paper reports positive feedback from the study cohort on problem based learning (PBL) and the need for the design team to use interdisciplinary themes in the PBL scenarios, to replicate real life problems faced by the owner-managers. A model of the proposed new three year programme is to be found on page 22 of the paper.

The Hussey *et al* (2010) study found that the major concern of the cohort was *time* to complete a degree (p. 20) and noted that some allowance or recognition would be given for prior learning (RPL) of the owner-managers (given that they are non-traditional students). The degree would involve an induction programme attracting formal credits and recognition of prior learning and experience of the participants, to ensure that the programme "helps individuals to learn rather than imposing prescribed solutions on them" and a part time delivery mode (p.21).

In a study of the learning style preferences of new entrants onto hospitality and tourism programmes in Australia and the United Kingdom, Lashley and Barron (2006, p. 552) suggest that 'typically these students prefer learning styles that are concrete, rather than abstract and active rather than reflective'. Honey and Mumford (2000) suggest that activist learners enjoy contexts where there is a great deal of variety, situations are difficult to predict, where they are working with other people and talking with other people. Many aspects of the hospitality working environment could be said to match these requirements. However, there are some drawbacks to the activist learning style- the researchers suggest that activist learners tend to rush into things, they avoid planning work in advance and tend to neglect subjects in which they are uninterested. Often, they leave things to the last minute and have difficulty in deciding on priorities, frequently having poor time

management skills and not bothering with details. As both students and managers, it is suggested that these disadvantages can lead to poor performance.

Airey and Tribe (2000) suggest that research from both industry and academia suggest “reflective practitioners” are required for effective performance, so the fact that the Lashley and Barron (2006) study showed few students having a preference for a reflective learning style, poses a problem. Therefore, the new degree should promote a more reflective style of learning and a focus on planning among the participants.

There has also been a recent FI-commissioned study to review the penetration and impact of current FI programmes with employers by Athlone Institute of Technology. This study was reported on in a recent paper from the Irish Academy of Management conference by Doyle, 2010, and is indeed very relevant. More than half of the organisations were located in the Midland counties and thirty operations in total were selected for the survey. More than half of the organisations interviewed were hotels, with the next highest category being restaurants. The aim of the study was to establish a model for WBL in the HTL sector, with a view to raising skills levels in it.

The main finding of the AIT study (Doyle 2010) was the need for a strategic dialogue between the professional bodies in the hospitality sector such as the Vintners Federation of Ireland, the Irish Tourism Industry Confederation (ITIC), Irish Hotels Federation (IHF), Restaurant Association of Ireland (RAI) and Catering Managers Association of Ireland (CMAI) with Higher Education Institutes (HEIs) to work in partnership as providers of WBL interventions. Through a Stepped approach, HTL employers would have a real say in programme design for WBL and HEIs need to include elements of e-learning capability in all WBL programmes. These new approaches should overcome the reluctance of employers to engage in training- “if I train them and they leave, I have wasted my money”. The support of HTL professional bodies is necessary to change this perception and to reinforce the use of WBL provided by HEIs to the HTL sector towards upskilling the staff with professional qualifications.

A complete integrated model to enable WBL in the HTL sector is presented on p.5 and the necessary establishment of a Workforce Development Unit (WDU) within the HEI itself to engage with industry, compile needs analysis and allocation of suitable HEI lecturers into industry for training, was also outlined.

Recommendation 3a:

WBL could be used to help with financial literacy and to augment the service provided by Fáilte Ireland's *Biz-check* and *Web-check* service. Some of the front office process delivery issues might also be addressed by the WBL mechanism, to ensure the most efficient organisation of the processes delivering the service in the SME business.

It is recommended that FI could engage with the HEIs using the model put forward in the FI-commissioned Athlone Institute of Technology study, to extend this WBL initiative for the HTL sector nationwide.

Objective 5***Current Business Supports****TLNs and Extranets*

Eight of the 13 respondents attended TLNs (Table 2). All rated them in very positive terms. This is a very significant finding, as it establishes the potential of TLNs as a conduit for developing best practice at a regional level, together with priming opportunities for joined up projects in the area.

Some of the important aspects were:

- It brought operators together at a *local* level, enabling attendance of owner- managers who found it difficult to get to more distant or central venues;

- It gave access to excellent trainers who were seen to provide "no-nonsense talk from the ground up" (E). Participants seemed to value trainers with business experience who were able to engage them, using practical hands-on examples;

- It created a *milieu* where owners of activity based businesses, accommodation providers and restaurateurs could all meet together face-to-face, creating communities of practice. This gave them the opportunity to investigate areas for co-operation and joined-up thinking, which could be primed by the course presenters. For example, a TLN was the catalyst for C to start a very successful marketing network where local businesses joined up and prepared a themed brochure of activities, accommodation and restaurants available in the area, which attracted the vitally important domestic market. This initiative provided a basis for Fáilte

Ireland to contribute matched funding for the joined-up activities which the TLN network had created in the area;

-It is a form of action learning and of CPE. This was viewed as a good alternative to doing other courses which were perceived as being oriented towards larger businesses.

-The follow-up web community after the TLN event- the Extranet, was very positively rated, although some mentioned that this facility ended too soon, because funding ran out.

Recommendation 3b:

Taking all these positive aspects of TLNs into account, it is *recommended* that this concept could possibly be adapted for use by the SME accountancy practices who, having been trained in bespoke BI packages by the larger specialist firms, could infuse this knowledge into the SME tourism businesses at a local level (see Figure 3 in Objective 2).

Other supports provided by FI

Marketing support

Marketing supports such as familiarisation trips for journalists, matched funding for joined-up activities, festivals etc and cluster funding were all rated positively. When the initiative is started at a local level and then FI top it up with matched funding, this seems to work well. As respondent **F** explained (re a walking festival in the Sliabh Bloom area) it makes the money "go further" if local people get involved. In effect, this can be seen as an empowering localised "bottom up" approach, with FI endorsing local initiatives, rather than a more centralised top down approach.

Recommendation 4:

Given the positive response to this form of marketing support, it is *recommended* that FI could build on this success to date

Biz-Check, Web-Check, Optimus, Business Tools website

Those who made use of these tools, were positive in their assessment. However, those case participants who had not used them, did not appear to be aware of them. However, they expressed interest when the researcher showed them an explanatory booklet. Also, the reaction of those owner-managers to the presentation on these tools at the Town Hall meetings was very positive.

Recommendation 5:

It is *recommended* that FI could promote better awareness of these tools, perhaps through the TLN networks and WBL mechanisms. Also, the research indicated that *Business Tools on its own*, because it is not embedded in the business, may not be as specifically useful for the owner-manager as the bespoke BI packages which have been recommended in **Figure 1 Objective 2** and **Objective 3**. However, the metrics within Business Tools could be embedded in the bespoke IT packages, so ensuring that they are visible to the owner-manager. The key is to have an embedded set of real-time metrics, which the owner-manager finds easy to use and so will use them.

FI consultants

The two respondents, **H** and **L**, who availed of the assistance of FI consultants found it helpful. However, cost was an issue. This may need to be addressed in relation to smaller operations.

Business Supports- Suggestions for Improvement

Various suggestions for improvement are now considered.

FI- operating issues

Several respondents raised concerns regarding their interaction with FI. Respondent **C** captured the essence of this complaint: "they're telling us how to deal with our customers, but they don't know how to deal with us". The tourist businesses wanted to be treated as customers by FI.

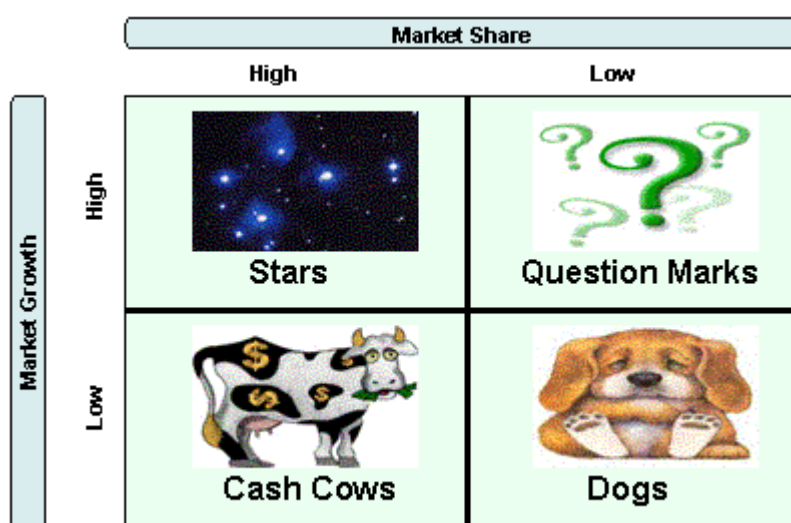
A related criticism concerned a perception that FI was too bureaucratic in its culture: "They're slow and cumbersome- there's so much red tape"**(D)**. The same respondent sketched out his view of how the bureaucratic culture should be changed to a more co-operative one. The tasks with which the middle management should be entrusted, should change towards more of an entrepreneurial agenda, including talent spotting. **D** envisaged a type of tourism "scout" who could spot potential within a business and work with this business to enable it to become bigger and more sustainable. This would involve a *performance-based grant* aiding system in that if the owner-manager could double or triple the size of staff in the business, a reward from FI in the form of some type of grant aid would be given **(D)**. This approach would reward established success, rather than ploughing money into "stuff that's not working"**(D)**.

Recommendation 6:

Given these findings, it would be *recommended* that FI should adopt a more customer service orientation in its interaction with the SME tourism sector. It might be instructive to create a database of

extant SME businesses (including activity centres, small hotels and other accommodation providers, restaurants and heritage operations etc) and evaluate them in terms of potential. The database should include not just those who have participated in the TLN, but try to identify others outside this cohort who are probably more likely to be in trouble. This could then be used to create a Boston Consulting type matrix (see **Figure 5** below) to show those businesses which are "stars" and "cash cows". These could be fostered into further growth, using a type of "Fáilte Ireland talent scout", who has solid prior business experience.

Figure 5 : Database of SME businesses



Source: http://tutor2u.net/business/strategy/bcg_box.htm

Key:

On the horizontal axis: relative market share - this serves as a measure of SBU strength in the market

On the vertical axis: market growth rate - this provides a measure of market attractiveness

By dividing the matrix into four areas, four types of SBU can be distinguished:

Stars - Stars are high growth businesses where they are relatively strong compared with the competition. Often they need heavy investment to sustain their growth. Eventually their growth will slow and, assuming they maintain their relative market share, will become cash cows.

Cash Cows - Cash cows are low-growth businesses with a relatively high market share. These are mature, successful businesses with

relatively little need for investment. They need to be managed for continued profit - so that they continue to generate the strong cash flows that the company needs for its Stars.

Question marks - Question marks are businesses which operate in higher growth markets. This suggests that they have potential, but may require substantial investment in order to grow market share at the expense of more powerful competitors. Management have to think hard about "question marks" - which ones should they invest in? Which ones should they allow to fail or shrink?

Dogs - Unsurprisingly, the term "dogs" refers to businesses that have low relative share in unattractive, low-growth markets. Dogs may generate enough cash to break-even, but they are rarely, if ever, worth investing in.

Marketing and Web Issues

Promotion of activities (cycling, riding, and diving) to *overseas* markets, rather than focussing the marketing on domestic markets was sought by a number of respondents. "Connemara is the fifth most sought after destination for walking and cycling in Western Europe" (A). As it would be cost-prohibitive for individual SME activity-based enterprises to engage in overseas marketing on an individual basis, FI would have to undertake this type of promotion in international markets. If this was underpinned by clustering of activities and accommodation in specific areas, (using the TLNs as detailed above), it would help to address demand for activity based holidays.

Grants

Several issues arose in relation to grants. The need for a user friendly grant portal, i.e., a directory of available grants indexed in a manner that helped to distinguish start-up and business expansion grants etc, was mentioned (K). This would save time for owner-managers when seeking grants and also help them to identify the correct grant. Also, stimulus grants to grow the business were seen as important in making a business more sustainable in the long term.

Constraints on qualifying for grants, such as having to create employment (in the case of the County Enterprise Boards) were seen as unhelpful.

The funding restriction on grants limited the time period for which *Extranets* continued after the TLN formally ended. This could dilute the impact of the TLN.

Recommendation 7:

Overall, grants are most useful when easily identified by the applicants and represent a good match to the needs of the business. An opportunity cost does arise, if the owner-manager is not aware of a suitable grant or does not fit somewhat limiting criteria. It is recommended that a grant portal be established on the FI website, which would act as a single collation point for all grants referable to setting up and continuing an SME business in the HTL sector. Additional grants to help keep a successful business going, such as stimulus grants or indeed grants to facilitate extension of the extranets would also be welcome. However, it is noted that perhaps a new BSc in Small Enterprise Management might if rolled out nationally, be a suitable follow-up to the TLNs.

Policy on Local Authority Rates and Water Charges, VAT and Other Costs, and Minimum Wage

Many of the respondents expressed concern about the level of charges on the tourism sector. These included Local Authority water charges, "savage" rates on business premises and VAT.

Local Authority Rates and Water Charges

Many professional bodies and economic think-tanks have commented on the adverse effects of such charges. These issues affect the profit margins of operators and the prices charged to the consumer and have been noted to affect competitiveness:

Three items which contribute significantly to Ireland's competitive weakness in comparison to the rest of the EU countries: are the high VAT rates in the hotel / restaurant sector, the non-recoverability of VAT as a business expense in restaurants and the increasing local government charges.

.. (World Economic Competitiveness Report, p. 3)

Another report on Food Cost Preparation by Horwath Bastow Charleton (HBC) (2009), which has been commissioned by Fáilte Ireland, also noted that the high fixed cost element of their total cost often comprises local authority imposed costs such as rates and water charges, which have increased at a considerably faster rate than general prices (HBC, 2009, p. 21)

This point has been re-iterated by ISME:-

Ironically, with inflation at historically low levels businesses continue to suffer from increases in local charges and other costs, which can be directly attributed to the public sector.

The reality is that we are now operating in a 'parallel universe' with state controlled costs continue to increase as the private sector reduces its prices, just to survive. This needs to be urgently addressed, with a reduction in state sponsored costs.
(ISME, 2009, p. 7)

Other Charges

The issue of other Local Authority charges is also addressed by the RAI (2009) in its pre-budget submission and are viewing them as a type of stealth tax on small businesses. As they see it:

. . . the local authorities are moving to bridge the gap left by development levies and National Exchequer funding by increasing fees & charges to small businesses; for example a waste licence fee has increased from €1200 to €4000, with no justification. Another example is the introduction of a monitoring charge by local authorities of fat oils and grease trap licences of €870 per restaurant.

(RAI, 2009, p. 17)

VAT

The Restaurants Association of Ireland (RAI) also expressed concern about VAT rates in their sector. It is calling for VAT on beverages served as part of a meal to be reduced from 21.5% to 13.5% (RAI, 2009, p. 15). Alternatively, where the food element of a meal is over- two-thirds of the value of a meal, a composite rate of 13.5% be applied to the total bill, by way of VAT (RAI, 2009, p. 14).

In particular, in the restaurant sector, as noted below, the margin is on average 13.1% on a standard meal, but nets out at a lower return for the proprietor, when other costs such as rent and taxation are deducted.

After taking into account the raw materials, labour costs, utility costs, fixed and overhead costs and VAT, a restaurant is left with a return of 13.1% on a standard meal. .

(HBC, 2009, Food Cost Report, p. 15)

Recommendation 8:

As all of these are policy issues which affect the tourism industry as a whole, they need to be addressed at *industry level*, to effect change.

Minimum Wage

The high minimum wage issue in Ireland has been noted by many commentators. This puts Irish SME tourism businesses at a disadvantage relative to their foreign counterparts, who have lower

minimum wage and so, can charge significantly lower prices to customers:

France, Ireland and the UK have some of the highest minimum wages in the EU. Ireland has the second highest minimum wage in Europe, on the basis of gross hourly pay, ahead of both France and the UK.

(HBC, 2009, p. 27)

In relation to restaurants, RAI also is advocating a reduction of the minimum wage from €8.65 per hour to €7.65 and an abolition of the Catering JLC minimum rates (8% higher than the minimum wage) and the Sunday Premium scheme⁷ in its pre-budget submission (RAI, 2009, p. 3). This has been re-iterated by the HBC Consulting report regarding the minimum hourly catering wage rate in Ireland in stand-alone restaurants being €9.32, is the second highest in Europe (HBC, Food Cost Report, 2009, p.25).

(RAI, 2009, p. 17)

Subscription costs to FI and other bodies

Several respondents felt that subscription costs to various tourism-related organisations, together with expense in attending trade shows, were considered too high for small businesses.

Recommendation 9:

Perhaps it might be possible to research the levels of renewal of these subscriptions and to devise a sliding scale of subscription, based on the size of the SME business.

Once again, these are industry-wide issues, requiring policy change at a macro level

Summary

Fragility of smallness can be overcome by agility in financial management techniques and in the adaptation of the business model employed by the owner-manager. In short, good business intelligence (BI), can move these owner-managed businesses into outcome-based companies. "Business intelligence is not just about finance issues and is not just for finance people ... it is about leveraging information throughout the organization (Simpson, 2008, p. 64). However, more information can bring its own problems, as Simpson (2008, p. 64) says "when more information is available

⁷ Minimum wage, minimum catering wage and Sunday premium : €8.65, €9.32 and €12.42 (RAI, 2009, p. 7)

there is a risk of data blindness- lots of data, little information". Thus, it must be the right information at the right time.

It is hoped that with the implementation of these recommendations, that the HTL sector can aspire to *self-improving practitioners*.

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APPENDIX 1
Sample of one Interview Guide
(Activity Business)

- History of your business- training and experience. What was the reason to set up the business? Had they both worked in other jobs before? Have you run your own business before?
- Can you talk about your training and qualifications and what skills you feel you lack?
- Key Success Factors=can you explain them?
- Planning- do they budget? How do they cope with recession?
- Do they run the business from cash basis?
- What are the key reports you use to run your business?
- What costing information do you have?
- Where does profit come from? Does she analyse profitability from different segments? Is there a sustainable level of profit?
- Borrowing, any grants?
- Do you have any accommodation offered with your activity?
- Do you sell products or have a retail element as well as giving lessons in the activity?
- What were the initial conditions of the business? Would there be any fortuitous aspects to these conditions, in your opinion?
- Staff costs-how are these controlled? Any issues with sourcing of staff?
- Tourists- what percentage are repeat? What patterns are appearing?
- The home market- parents and children-and what other markets have you accessed and how? How do you create business over the winter months?

- Costs- are you aware of the percentage of fixed and variable costs in the total cost structure? How does that knowledge affect the way you run your business?
- Revenue sources –what are they? Have you diversified your revenue streams?
- Competition from other activity businesses?.
- Pricing of lessons and hire of equipment.
- Marketing- how do customers find about you; do you market yourself? How do they know their target markets? Do you try to link with local hotels to generate mutual demand?
- Support from Failte Ireland Business Supports- have you participated in the Tourism and Learning Networks?
- Are you familiar with the Business Tools website, with BizCheck and with WebCheck? Do you use them?
- What about the support from the external accountant if any? Do they help with providing business intelligence- or do they just prepare the accounts and do the tax?
- What reports/information you might need to cast more light on the drivers of profitability within the business?
- Do you know what it costs to serve different groups- is hire of equipment more profitable than other revenue streams? Do you know the unit cost of the instructor’s time and how to make the best use of his time?
- Have you any issues with exiting the business?
- How do you hope to make the business sustainable in the long-term?

END OF GUIDE

APPENDIX 2

Prior Research by Bitici- Challenges in SMEs

Extract from Prof. Umit S Bitici's presentation at Irish Academy of Management Conference, September 2008

What makes SMEs different?



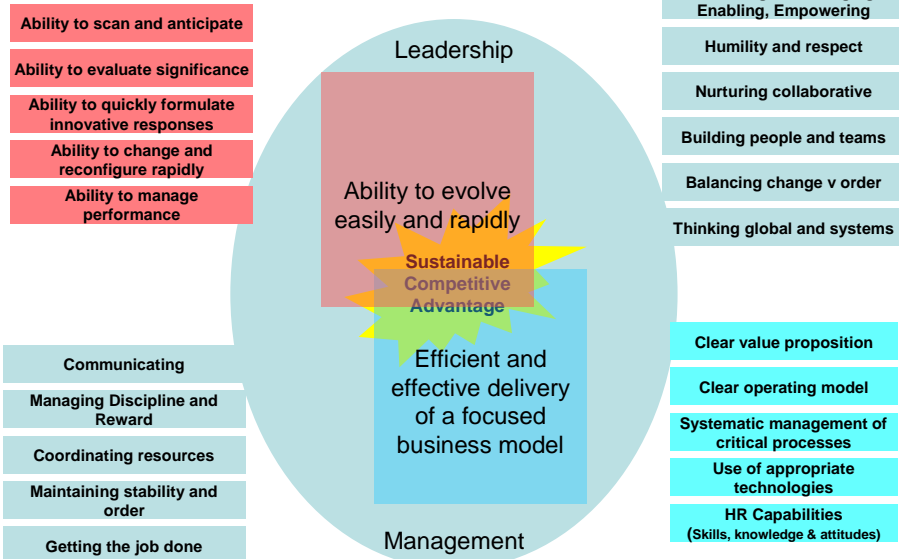
- Lack of strategic long-term planning and short-termism
- Fire fighting approach and a focus to day-to-day problems
- Greater focus on operational and technical issues
- Command and control culture
- Reacting to external changes
- Tacit knowledge and informal decision making
- Poor management skills as the SME grows
- Entrepreneurial orientation and opportunity seeking
- Limited resources, i.e. time, financial, human
- Impatient
- Avoid complexity and complex talk
- Short attention span
- Little attention to people and cultural aspects of change
- Change is primarily externally driven
- More doing less planning when it comes to change

Literature on SMEs

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The research in this report explores further the clear value proposition, clear operating model and use of appropriate technologies listed below- the efficient and effective delivery of a focused business model aspect.

Sustainable Enterprises?



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