

**Trade Credit Management within Small
Professional Firms:
Practice, Agency and Structure**

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This research surfaces the complex process of managing trade credit within small professional firms, exploring drivers of idiosyncratic practice within particular contexts. Despite the acknowledged macro-economic significance of trade credit, little is known of its management at firm-level. The well documented susceptibility of small and medium sized enterprises (SMEs) to liquidity problems implies the importance of the management of internal resources for such firms. Small professional firms provided the opportunity to explore trade credit management where the length of the work in progress cycle can be pronounced, and where amounts receivable represent a crucial element.

Current research is dominated by deductive approaches that assume a normative paradigm and have identified 'poor' financial management practices. Inductive, qualitative research regarding financial management within small firms is scarce, but has shown that insights into informal practice are crucial to understanding the nuances of small firm operations, and that normative practice does not necessarily provide an appropriate benchmark. This dualism has been observed within the SME literature as resulting from the adoption of an objectivist or subjectivist position. Utilising the richness of multiple case studies this research has sought to move beyond the subjective/objective divide, exploring the role of neglected informal processes whilst recognising the existence and influence of social structures. Structuration theory provided a useful lens through which to view reciprocal interactions between practitioners, the firm, and structures within society, and a means of avoiding the dichotomy between subjectivist and objectivist research.

Trade credit management was explored within sixteen firms selected to represent four professional areas: accountancy, solicitors, architects and surveyors. Each case represented an account of practice within the context of the firm, and the wider environment. Practice was surfaced through interviews and other documentary sources. Causal maps were used to analyse interview transcripts and other evidence, enabling the display of factors, and relationships between them. These grounded portrayals of practice were aggregated intra-profession to create four diagrams that displayed key areas of firm practice, and the influence of emergent causal axial codes. An inter-profession diagram summarised cross case analysis.

Inter profession analysis revealed an overarching narrative framework of organising, meta-level constructs that highlighted the complexity of practitioner decision making and reflected informal and formal dimensions of practice. The role of practitioners as reflexive agents in their interactions with social structures within their environments was highlighted. Responses at different environmental levels reflected practitioner's interpretations of their structural context, demonstrating idiosyncratic practice alongside shared behaviours. This research contributes to knowledge in the presentation of cross case analysis, framed using structuration theory to consider the nature of agency and structure within the trade credit management practice of small professional firms. Cross case analysis surfaced multi-dimensional features of trade credit management practice and the nature and location of the influence of causal axial codes upon firm practice, summarised in a final cross case network of causation. This research therefore provides new insight for policy makers and small firm advisors in highlighting limitations with normative practice and affirms the need to recognise trade credit management as an integrated aspect of business management that reflects the diverse objectives and motivations of practitioners.

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Candidate's Declaration:

Declaration

I declare that the research contained in this thesis, unless otherwise formally indicated within the text is the original work of the author. The thesis has not been previously submitted to this or any other university for a degree, and does not incorporate any material already submitted for a degree.

Signed:

Date:

Chapter 1: Introduction

1.1 Introduction

This research seeks to address two central research questions:

- How is trade credit managed within small professional firms?
- Why are particular practices used?

This introductory discussion therefore seeks to serve several functions. Firstly, the rationale for the area of research will be established with an explanation of the importance of the study within the SME (Small and Medium sized Enterprises) field. Secondly, an overview of previous research will be provided in order to map current understanding of the area. Thirdly, and grounded within discussion of existing literature, the research problem will be defined and the contribution to knowledge that this research makes identified. Fourthly and finally, this chapter will introduce the approach of this research, outlining the methodology and research strategy; discussing the analytical process; summarising the purpose of the research; and finally identifying the progression and structure of chapters. The proceeding discussion will therefore explain how and why the research questions stated above were determined, and what approaches were adopted for their investigation. This chapter therefore begins with consideration of why trade credit management within small professional firms comprises an important area for research.

1.2 Research rationale: Relevance and context

1.2.1 Small firm financing

Small firms have long been acknowledged for their important macroeconomic contributions, particularly in terms of employment, productivity and innovation, and their role in recovery from recessionary conditions (Bank of England, 2004; Fraser 2004). Statistical data collected at the beginning of 2011 by the Department of Business, Innovation and Skills identified that SMEs accounted for; 99.9% of all private sector

businesses; 58.8% of private sector employment; and 48.8% of private sector turnover (Department of Business Innovation and Skills, 2011). The performance of SMEs therefore has significant consequences for the UK economy. Subsequently, the availability of finance for the inception and growth of small firms has received much attention, with investigations tending to focus upon potential finance gaps for both debt and equity (for example, The Wilson Committee, 1980; Binks et al, 1992; Cosh and Hughes, 1994; Keasey and Watson 1994; Harris, 1995; Binks and Ennew; 1996; Berry et al, 2003).

Finance gaps have been explored for debt and equity from demand and supply side perspectives; supply side issues concern the inability of small firms to raise finance for feasible investments (Fraser, 2004) whilst demand side issues focus upon the owner-managers desire to avoid dilution of control of their business (Cosh and Hughes, 2003), implying a preference for internal funds and an aversion to equity. Supply side issues tend to be assessed within a framework derived from agency theory (Jensen and Meckling, 1976), with the provider of finance the principal, the small firm the agent, and problems associated with information asymmetries, adverse selection and moral hazard conceived to be creating barriers to small firm access to finance.

1.2.2 Small firm finance: Supply side issues

For providers of debt finance, information asymmetries imply high risk and disproportionate monitoring costs that cause the adaptation of terms of lending with the result that banks may increase interest rates and demand high levels of collateral. Issues of information asymmetry will be particularly pronounced where viable projects exist but firms lack collateral (Binks et al, 1992; Berry et al 1993), or in the case of a new business venture that lacks a trading history (Fraser, 2004). During the recession of the 1990's the finance gap became particularly pronounced (Bank of England, 2004) however in the years prior to the recent financial crisis that began in 2008 there was evidence of improvement in the relationships between banks and small firms with survey evidence indicating that cost and access to debt finance were no longer major problems for most small firms (NatWest SBRT, 2003; Fraser, 2004; Wilson, 2004; Berry 2006).

Despite evidence of improved access to debt finance for small firms and a reduction in short term financial exposure (Bank of England, 2004), set within the context of a prosperous and stable macro economy, some issues persisted. The competitiveness of the

UK banking sector was singled out for criticism by the Competitions Commission (2002), whilst further evidence emerged of low bank switching rates amongst SMEs (Fraser, 2004; Berry, 2006). Bank rejection rates for new business start ups remained problematic (Graham, 2004b), as did the availability of financing alternatives for both new and young small firms (Graham, 2004b). Indeed, where problems with information asymmetries remained pronounced, firms were likely to experience difficulties raising the levels of collateral required (Fraser, 2004; Graham, 2004b; Berry 2006). Prior to the financial crisis of 2008 therefore supply side issues regarding the provision of debt finance to small firms appeared to have diminished, yet ‘gaps’ remained; for new firms, growing firms, and firms with a high proportion of intangible assets difficulties remained in accessing debt finance. In addition, the size of the firm appeared related to wider use of sources of finance. An ACCA briefing paper published in 2006 also identified access to finance issues for women setting up new businesses; ethnic minority businesses; entrepreneurs from deprived backgrounds; and high technology businesses (ACCA, 2006). Even in times of macro-economic prosperity supply side issues therefore lingered, whilst overdrafts and credit cards increased in use (Graham, 2004a; Graham, 2004b).

The recent financial crisis has unsurprisingly exacerbated supply side issues regarding the provision of debt to SMEs. Fraser (2009) provides initial survey evidence of the impact upon SME financing of the credit crisis, identifying increased rejection rates for overdrafts and term loans, higher loan margins, and a decline particularly in the supply of credit for higher risk firms without collateral. Indeed the available survey data highlights increased rejection rates of a range of forms of credit (Fraser, 2009; Cowling and Liu, 2011; FSB, 2012b) and a disproportionate impact upon innovative firms and those unable to provide collateral (Lee et al 2013; Fraser, 2009). The number of credit rationed firms increased as a result of the diminished supply of finance and the process of securing sources of credit became more onerous (Cowling and Liu, 2011; Cowling et al, 2012). The constriction of credit within the banking system instigated several coalition government responses to facilitating access to finance for small firms including the launch of the Enterprise Finance Guarantee Scheme and the Business Bank, whose main purpose is intended to facilitate lending to viable businesses otherwise unable to secure finance as the result of a lack of collateral or the inability to provide a track record.

The provision of equity finance to SMEs is particularly beset with supply side issues that severely restrict its role in the funding of small firms. High arrangement costs relative to the size of the investment, information asymmetries, lack of an exit route and unattractive risk-return characteristics have resulted in private equity being used in only 3% of small firms, with 25% of this provided by directors (Fraser, 2004). Banks therefore are the dominant providers of external finance (Fraser, 2004; Bank of England, 2004), yet the capital structures of small firms are characterised by a reliance upon internal funds (Chittenden et al, 1996), and the continued popularity of credit cards and overdrafts (Fraser, 2009). The capital structures of SMEs cannot, however, be fully explained without reference to demand side factors.

1.2.3 Small firm finance: Demand side issues

The most persuasive demand side factor is the desire of owner-managers to maintain and avoid dilution of control (Robson Rhodes, 1984; Cosh and Hughes, 2003; Wilson, 2004), implying an aversion to the use of equity and a preference for internal funds (Hamilton and Fox, 1998; Michaelas et al, 1998). Equity is avoided, debt will be used where necessary but short term sources such as overdrafts and credit cards which provide finance with minimal levels of intrusion are preferred. Furthermore, owner-manager attitudes to risk, their beliefs and attitudes, entrepreneurial attributes, and personal goals may limit demand for debt finance and increase reliance upon internal resources (Kotey and Meredith, 1997; Michaelas et al 1998; Kotey, 1999; Cosh and Hughes, 2003). Finally with regards to demand side factors, for both debt and equity a 'knowledge gap' (Hutchinson, 1999) has been identified as potentially limiting firm access to finance. Skills shortages have been partly blamed for the poor presentation of business plans (Fraser, 2004), whilst a lack of investment readiness has been reported by potential equity investors (Global Entrepreneurship Monitor, 2003).

1.2.4 The implications of supply and demand side issues

The interplay of demand and supply side factors can be seen to shape the capital structures of SMEs (Michaelas et al, 1998), with a subsequent reliance upon internal funds (Chittenden et al 1996), short term sources, and debt when external funding is required. The result is that small firms suffer from undercapitalisation and are left exposed to liquidity problems (Michaelas et al, 1998; Kotey, 1999). Given the financial characteristics of small firms, that some supply side issues remained apparent prior to the

financial crisis, and the dramatic impact of the constriction of credit as a result of the 2008 financial collapse, efficient internal management of financial resources is therefore vital in order to ease liquidity problems and help firms who find it difficult to access funds.

1.2.5 Working capital management and SMEs

Working capital management is concerned with the short term financial position of a business, and the management of current assets and liabilities; effective management of working capital enables firms to minimise liquidity problems and ensure efficient use of internal funds. Working capital management could therefore be regarded as a particularly important element of a small firm's financial management (Chittenden et al, 1998).

The provision of trade credit forms a particularly important component of working capital (Chittenden et al, 1998). Chittenden et al (1998) identified that trade debtors (accounts receivable) represented 28% of total assets in UK SMEs and that 96% of their respondent firms provided credit to their customers. In addition, Wilson and Summers (2002) identified that trade credit represents an important funding source for smaller companies, with the stock and flow of trade credit double the size of bank credit. Indeed, Chittenden et al (1998, p.9) state that 'the management of accounts receivable is paramount to the survival and success of every business'.

However the management of accounts receivable (trade debtors) has proved problematic. Peel et al (2000) identify the following issues; cash flow difficulties; asymmetric bargaining positions between buyer and supplier; difficulty enforcing credit terms; and late payment, which prompted the introduction of legislation in 1998 that provides a statutory right to claim interest on the late payment of commercial debt. Evidence regarding the effectiveness of the legislation has subsequently found little improvement in the time taken to pay trade creditors (amounts payable) (Barclays Bank, 1998; Federation of Small Businesses, 2000; Wilson, 2008), with late payment appearing to have increased as a problem for small firms in 2011 (Federation of Small Businesses, 2012). Furthermore, cash flow is consistently identified within survey evidence as a significant business problem (for example, Natwest/SERTeam, 2005; Federation of Small Businesses, 2012).

The importance for small firms of effective working capital management is clear; firms characterised by reliance upon internal funding and the likelihood of cash flow and

liquidity problems should manage current assets and liabilities carefully in order to ease their experience of these issues and reduce usage of short term funds. Trade credit management is a particularly problematic element of working capital for small firms with direct implications for cash flow and liquidity which therefore warrants further investigation. The rationale for the investigation of trade credit management is therefore established within the context of the SME arena.

1.2.6 Small professional firms

The research questions stated at the outset of this chapter capture the focus of this research upon small, professional firms. Earlier discussion highlighted the macro-economic significance of SMEs however there are specific macro-economic benefits that can be associated with the small business service firms sector within which, according to Keeble et al's (1992) definition, small professional firms fit. Small business service firms have been identified by Glancey et al (1998) as contributing to economic development through wealth creation and high quality employment, survivability of recession, the beneficial impact of their services, and finally their contribution to the knowledge base of local economies. However, existing SME research has been criticised for an over emphasis upon manufacturing firms (Woods et al, 1995; Ram, 1999); indeed within existing research concerning financial management within SMEs, with the exception of Perren et al (1998) who consider management information, control and decision making, there are few in-depth investigations of small business service firms.

For small professional firms, intangible, knowledge based assets are particularly important (Keeble et al 1992; Glancey et al, 1998; Ram, 1999), which poses potential supply side issues when raising finance and the provision of collateral. The relationship between firm and client is highly interactive, bespoke and personalised (Keeble et al, 1991; Proudlock et al 1999; Ram, 1999; Masurel and van Montfort, 2006). For small professional firms there will also be no stock (inventory) in the traditional sense; the major component of their working capital cycles will be managing amounts owed by clients. Small professional firms therefore provide an interesting sector of macro-economic importance within which to consider trade credit management for the following reasons; firms characterised by high levels of intangible, knowledge based assets potentially find it difficult to raise finance or use alternative forms of credit and hence their internal financial management is particularly important; amounts owed will represent the major element of small professional firms

working capital cycles; and finally the nature of the relationship between client and firm provides a rich, complex social encounter within which to consider amounts owed. This research is therefore concerned with an investigation of the trade credit management of small professional firms.

1.3 Previous work

Trade credit is a component of working capital, which could be positioned under the wider umbrella of financial management. In reviewing previous work and establishing the position of this research, financial management within SMEs was firstly considered which surfaced relevant methodological issues. These methodological issues reflect broader discussions within SME research which will be outlined at the beginning to establish the back drop to the subsequent discussion of financial management and trade credit management.

Within discussions of SME research the dominance of quantitative, positivist approaches has been identified (Curran and Blackburn, 2001; Grant and Perren, 2002), and partly explained as resulting from the demands of ‘practical audiences’, and in particular government policy makers (Blackburn and Kovalainen, 2009, p.133). Whilst the benefits of both qualitative and quantitative research paradigms are recognised, issues arise where understanding of a subject is informed from one position, with a danger that debate is confined to a particular paradigmatic perspective (Grant and Perren, 2002). Indeed, Blackburn and Kovalainen (2009, p.136) call for a broadening of methodological perspectives, particularly where aspects of SME research could be considered to be ‘mined out’.

Numerous research studies have identified the financial management of SMEs as being poor (for example, Bolton, 1971; Storey et al, 1987; Nayak and Greenfield, 1994), but the dominant, deductive, quantitative paradigm upon which this research has largely been based has been criticised, particularly by Jarvis et al (1996) who argue that normative practice does not provide an appropriate gauge for small firms, and Deakins et al (2002) who identify the limited insights provided by such approaches into the actual practices of

owner managers. Research concerned primarily with the use of normative practice, which may be inappropriate for small firms, does little to reveal informal dimensions.

Qualitative, inductive research studies that have investigated financial and management decision making within SMEs have reported contradictory findings, highlighting sophisticated understanding and appropriate practice (Jarvis et al, 1996; Curran et al, 1997; Perren et al, 1998). Perren and Grant (2000) identify that these apparent contradictions in findings occurred as a result of the different paradigmatic positions of the researchers; objectivist positions characterised by quantitative, deductive approaches assessed firm practice against normative ideals, whilst subjectivist qualitative, inductive approaches investigated firm practice at the micro-level, interested in revealing informal aspects of practice, yet not recognising the potential influence of macro-level knowledge.

A need to extend paradigmatic positions and methodological approaches has been identified; given the discussion above a case can be established for adopting an ontological position that facilitates investigation of the owner-managers micro-world, revealing the role of informal practice whilst allowing recognition of the potential macro-level influence of formalised, normative practice.

1.3.1 Normative practice and working capital management

Within the existing body of research that considers specifically working capital management within SMEs there is a focus upon deductive, quantitative, positivist methodologies concerned primarily with normative practices that are derived from a neo classical economic profit maximising perspective and are representative of what might be considered 'best practice' for large firms. However, Jarvis et al (1996) identify that small firms have particular characteristics and environments that imply normative practice might not be appropriate or effective, and that to understand practice an alternative perspective should be adopted.

In particular research has questioned the assumption that profit maximisation is a suitable representation of owner-managers rationality, arguing that other forms of rationality that reflect a wider range of complex goals should be considered (Jarvis et al, 1996; Curran et al, 1997; Jarvis et al, 2000). The environmental conditions for small firms are also in stark contrast to those that prevail for larger firms; earlier discussion identified the

characteristics of SME capital structures implying higher levels of firm exposure to macro-economic risks.

1.3.2 Working capital management within SMEs

As identified above existing understanding of working capital management within SMEs is largely informed by descriptive empirical research concerned with normative practice (for example, Peel and Wilson, 1996; Peel et al, 2000; Wilson and Summers, 2002). Much of the survey data collected assesses working capital management of small firms on the basis of normative techniques adopted, and the frequency of their review. Findings imply that smaller firms review working capital management less frequently. Chittenden et al (1998) provide enlightening empirical findings regarding working capital practices within SMEs and the emphasis upon back and front end trade credit management, finding that small firms do not proactively front end manage trade credit, and that overall credit management in the smaller firms is similarly behind standards of ‘best practice’.

Howorth and Wilson (1999) used quantitative and qualitative data to explore late payment from demand and supply side perspectives, considering whether late payment arose from dominant suppliers, poor financial management or the firms financing strategy, and finding that small firms who suffered most from late payment were characterised by undercapitalisation and poor credit management. Howorth and Reber (2003) utilised survey data alongside case studies to explore late payment from a demand side perspective, providing hypothesised explanations of late payment, with unexpected results investigated further with case studies. The macro-economic impact of late payment was investigated by Chittenden and Bragg (1997), who developed explanations for granting trade credit from a theoretical perspective, finding evidence of a detrimental late payment multiplier effect.

As well as investigating working capital management practices, the existing research has been concerned with deductive hypotheses testing in order to explain why small firms extend credit, and the credit terms offered. Petersen and Rajan (1997, p.689) found evidence of an information advantage to the supplier of trade credit over financial institutions in the form of built in ‘trip wires’ that provided early signals regarding the financial distress of a customer. In addition, the opportunity for price discrimination was identified as providing a further incentive. Wilson and Summers (2002) undertook similar research concerned with credit granting behaviour, but with smaller firms finding that firm

size affected credit policy, both directly and indirectly, as did industry norms, lack of access to finance and the nature of the relationship with the client.

Howorth and Westhead (2003, p.107) developed testable hypotheses to assess whether there were different types of firms with regards to the take up of working capital management routines, identifying four different types of firms from a cluster analysis and concluding that small firms 'are not a homogenous group with regard to the take up of working capital management routines'. Howorth and Westhead (2003, p.108) found that the size of the firm was not related to uptake of working capital management routines, stating:

'that the perceived marginal return on committing resources may be a major influence on the extent and focus of working capital management'.

Howorth and Westhead (2003) highlight how qualitative studies could provide further insight into working capital management and causality.

Whilst this research provides interesting and illuminating findings in terms of normative practice, there is little revealed of informal dimensions of working capital management practice, or in particular of trade credit management. The issues with restricted paradigmatic perspectives within the SME literature are reflected within the existing research concerning SMEs and their working capital management. These approaches have tended to identify a lack of financial management skill within small firms but have been criticised for assuming that normative practice as prescribed for large firms is appropriate for SMEs. Existing understanding of working capital management practices in small firms appears to emphasise a paradigmatic position towards normative practice that is difficult to justify. In order to address this imbalance and deepen understanding of trade credit management within SMEs it is therefore necessary to undertake research that avoids the assumption of normative prescriptions of practice, explores informal practice and yet recognises the potential influence of macro-level knowledge and formalised management approaches.

1.4 The research questions and contribution to knowledge

The previous discussion builds the rationale this research, the essence of which will be drawn together within this section. Existing understanding of working capital management is derived from quantitative, positivist research primarily concerned with the uptake of normative practice, the appropriateness of which for SMEs has been questioned (Jarvis et al, 1996). Research that has adopted alternative research paradigms has reported evidence of appropriate and sophisticated firm practice (Jarvis et al, 1996; Curran et al 1997; Perren et al, 1998) in contradiction to findings from quantitative studies. The apparent contradictions have been explained with reference to differences in ontological position, with subjectivists focused upon the micro-world of the owner-manager, potentially neglecting the influence of macro-level knowledge, and objectivists focused upon objectified, macro-level knowledge rather than consideration of informal dimensions of practice (Perren and Grant, 2000).

Quantitative, positivist approaches by design will reveal little of informal dimensions of practice and idiosyncratic approaches that may prove effective and appropriate. Indeed reliance upon hypo-deductive, positivist approaches to understand small firms has been criticised from an interpretivist perspective (Shaw, 1999) yet, as Perren and Grant (2000) have highlighted, interpretivists might well fail instead to recognise the influence of externally situated knowledge.

In order to avoid paradigmatic constriction (Grant and Perren, 2002) and rebalance understanding of working capital management and in particular trade credit management, it is therefore necessary to; address the lack of emphasis upon informal dimensions of practice; consider practice within context; and avoid imposing normative practice. An ontological position will therefore be established that embraces owner's micro-worlds, but without neglecting the influence and role of externally generated knowledge (Perren and Grant, 2000). An approach is required that enables the surfacing of embedded, informal practice, recognises the potential for macro-level influences, and facilitates the development of grounded, causal explanations. Structuration theory (Giddens, 1984) will be shown to provide an approach that accommodates paradigmatic tensions, providing a

broad theoretical lens through which to view trade credit management in small professional firms.

This research has therefore identified an empirical gap in existing understanding of small firm's working capital management that it proposes to fill by adopting a qualitative, inductive research methodology with an approach broadly informed by structuration theory (Giddens, 1984), and will be focused upon an investigation of trade credit management. Trade credit management will be conceptualised from the perspective of a duality, with firm practice positioned as a complex, social interaction, constructed and reconstructed through the actions of practitioners that are both enabled and constrained by structural properties. Within structuration theory it is the interplay of agency, the micro-world of practitioners, and social structures, which enshrine macro-level knowledge and therefore capture normative practice, that is significant; neither structure nor agency are privileged. Giddens' (1984) structuration theory approach therefore provides an enabling framework through which to view trade credit management and avoid paradigmatic issues associated with positions at extreme ends of the ontological continuum.

The following research questions are posed, as identified at the outset of the chapter:

- How is trade credit managed within small professional firms?
- Why are particular practices used?

In addressing these questions inductively through the collection and analysis of qualitative data this research therefore aims to contribute to knowledge by revealing previously overlooked and potentially under-represented dimensions of firm practice through the adoption of an alternative methodological approach. In addition, the research will seek to provide grounded, causal explanations as to why particular practices are adopted, allowing relationships between firm practice and causal influences to be surfaced, mapped and consolidated to provide causal explanations for trade credit management within small professional firms.

1.5 The research approach

1.5.1 Research strategy

A compatible research strategy was therefore required for an inductive, qualitative study, with a structuration theory perspective. A case study approach provides a strategy suited to answering ‘how’ and ‘why’ questions inductively, and accommodating of a range of ontological positions (Yin, 1994). This research is concerned with the collection of qualitative accounts of practice situated within rich and complex conditions in order to build theory, rather than test it; establishing a rich understanding of practice would not be achieved with research strategies that separated accounts of practice from their context. A multiple case study design in accordance with Eisenhardt’s (1991) roadmap provides a structured approach compatible with the ontological orientation of this research when positioned upon Perren and Ram’s (2004) paradigmatic map of small business and entrepreneurship case study research.

1.5.2 Selection of cases

The unit of analysis, and hence the case, is represented by practitioner’s accounts of practice (Yin, 1994; Miles and Huberman, 1994). Data will be collected that provides evidence of trade credit management practices and the contextual conditions within which practice occurs. Eisenhardt (1989) argues that cases should be selected for their ability to illuminate and extend relationships. There are a number of reasons why trade credit management within small professional firms has the capacity to be particularly illuminating; the key assets of small professional firms are likely to be knowledge based, presenting potential difficulties to the raising of finance; accounts receivable represent a crucial aspect of working capital and the relationship between the small professional firm and client provides a rich social encounter, characterised by the provision of highly customised, bespoke advice. Theoretical sampling was therefore used to select cases.

Issues with defining size are discussed by Burrows and Curran (1989) and Curran and Blackburn (2001), and Torr s and Julien (2005), with the limitations of quantitative definitions identified, and use of grounded notions of size suggested as alternatives. This research attempted to operationalise definitions of ‘small’ for business services firms that stipulate employee numbers of roughly twenty five full time staff, with private ownership

and no outside control (Keeble et al, 1992; Glancey et al, 1998; Proudlock et al, 1999). All of the firms within this research fulfil the criteria regarding private ownership and no outside control. However, as a result of responses received and availability of access, the number of employees for some of the cases selected was above twenty five. Yet none of the case firms employed more than fifty employees, which is within the much-used quantitative criteria of the EU (European Union). It is therefore recognised that the firms included within this research range from the 'small' to potentially 'medium' given the grounded criteria, yet fall comfortably within the EU's quantitative definition for small for the number of employees. Furthermore, Curran and Blackburn (2001) identify that the number of employees should not necessarily be ruled out as a measure of size due to its ease of use and popularity, and that within a single sector study such as this the problems are mitigated.

A total of sixteen firms were selected, with four firms populating four professions; accountancy, architecture, surveying and law. Accountants and solicitors represented information-intensive services whilst architects and surveyors represented technical consultancy (Glancey et al, 1998). This provided sixteen accounts of practice, and thus sixteen case studies.

1.5.3 Data collection

An inductive, qualitative approach was required for the collection of data that would facilitate the surfacing of firm practice both formal and informal, without assuming normative practice. Interviews orientated towards the unstructured end of the interview continuum (Hughes, 2002) were selected as the primary method of data collection in order to gather practitioner's rich narratives. An interview protocol was developed to generate conversational accounts in the following areas; a general background to the firm; an overview of credit management with the firm; and finally examples of dealing with clients. In addition to interview data, documentary evidence was gathered to provide additional contextual detail. Field notes of visits to premises were kept and firm websites accessed.

1.5.4 Data analysis

1.5.4.1 Analysis of cases

Data analysis began at case level with each account of practice analysed using causal mapping, which enabled the display of data and identification of important variables and

relationships between them, in accordance with the techniques of Miles and Huberman (1994). The causal maps provided grounded depictions of firm practice that surfaced both formal and informal practice, and the causal influences upon practice that emerged from different environmental levels. Data was open coded using processes discussed by both Strauss and Corbin (1990) and Miles and Huberman (1994). The process of data analysis was therefore compatible with a structuration approach; depictions of firm practice emerged that enabled the representation of agency (micro-level) and social structures (macro-level), and their interaction.

All interviews were recorded and fully transcribed, verbatim. Interviews lasted between one to two hours and yielded a large volume of qualitative data. Each interview transcript was formatted with line numbers to enable referencing for coding. Case specific causal maps display the coding procedures with line references back to transcripts and provided an analytical tool that recognised the complexity of each case.

1.5.4.2 Intra-profession analysis

Eisenhardt (1989, p.541) advises that looking across cases in order to build theory is necessary to establish emergent ‘themes, concepts and...relationships between variables’. Data analysis therefore progressed, intra-profession, to explore difference and similarities within the professions represented, and identify axial codes. The influences upon practice were analysed intra-profession to identify causal axial codes that created more powerful explanations of causal influences usable in other cases (Miles and Huberman, 1994). Firm practice was also consolidated, intra-profession in order to identify axial codes. This facilitated the observation of common intra-profession approaches to trade credit management, the dominant causal influences, but also idiosyncratic practice. The audit trail to the intra-profession analysis is captured within four, profession specific spreadsheets, and within four intra profession diagrams that represent firm practice and causal influences within each of the professions. The four diagrams therefore represent intra-profession analysis for each profession detailing the following; key areas of practice; the causal influence of axial codes; and the causal interaction of axial codes.

1.5.4.3 Inter-profession analysis

The final level of analysis involved inter-profession analysis represented within a cross profession summary diagram that consolidated intra profession analysis. As with intra

profession analysis, causal axial codes are mapped around axial codes that capture firm practice. The cross profession summary diagram depicts firm practice only at a general level, with causal axial codes mapped to illustrate their influence upon firm practice from differing environmental levels. Emergent from inter profession analytical discussion are organising, meta-level constructs that provide a cross cutting narrative framework which enabled a final level of synthesis of empirical findings. This discussion is presented within the conclusions chapter with organising constructs, discussed within the context of structuration theory, providing conceptual explanations that cut across causal axial codes and deepen understanding of trade credit management within small professional firms. Accompanying this discussion is a cross case network of causation that depicts the influence of causal axial codes upon firm practice within the final level of abstraction.

1.5.5 Organisation of the analytical chapters and enfolding the literature

The analytical chapters within this research are therefore organised as follows. Firstly, chapter 4 provides an explanation of how the analysis was undertaken, focusing particularly upon intra-profession analysis and inter-profession analysis, and detailing the audit trail. This discussion therefore underpins the following analytical chapters. Chapter 5 presents intra-profession analysis in-depth for one of the professions, namely solicitors. The intention is to provide a detailed discussion that demonstrates the analytical process undertaken for each profession, and the subsequent production of the intra-profession diagrams. The chapter acts as an ‘exemplar’ of the analysis undertaken within each of the four professions considered. This approach to the write up of the analysis was adopted in order to avoid repetitive discussion.

Chapters 6, 7 and 8 discuss inter-profession analysis and chapter 9 provides a synthesis of empirical findings from a broadly structuration theory perspective. In accordance with the inductive position of this research, it is within these chapters that the literature is folded, with findings compared to current understanding of, and explanations for, trade credit management within small firms. Within inter profession analysis organising meta-level constructs emerge that form the basis of the cross cutting narrative framework discussed within chapter 10 and that provides a useful mechanism for a final synthesis of findings. The process of consolidating analysis and enfolding of literature for sixteen cases across four professions highlighted that little new was being added and that a level of saturation had been reached.

1.6 Purpose of this research

The purpose of this research is therefore to investigate the trade credit management of small professional firms by adopting a multiple case study research strategy and an inductive, qualitative approach to data collection and analysis. This methodological approach is compatible with the ontological positioning of this research, facilitating a structuration theory approach that avoids paradigmatic issues and extends understanding of trade credit management from an alternative and underrepresented perspective. An empirical gap regarding the financial management practices of small firms has been identified; current understanding is mainly informed by deductive, positivist research primarily concerned with normative practice that pays little attention to the potential role of informal approaches, implicitly undertaken. It is the intention of this research therefore to investigate both the informal, micro-world of the owner-manager and the influence of external knowledge existent at a macro-level and represented within formal practice. Considerations of agency and structure, and the interaction between them, inform analysis and discussion providing an alternative lens that conceptualises trade credit management practice as emergent from this engagement.

Findings discussed within the thesis provide evidence of the significance of informal dimensions and implicit decision making that are revealed through the richness and complexity of the qualitative data. Analysis of firm practice highlights the significance of causal axial codes, and their influence upon trade credit management within small professional firms. A structuration theory perspective highlights both enabling and constraining aspects of social structures and the agency of practitioners in their engagement with them. The organising meta-level constructs provided a narrative framework with which to synthesise findings within the context of structuration theory and that therefore highlights the role and interaction of both agency and structure, informal and formal practice, in shaping the trade credit management of small professional firms. This discussion is accompanied by a cross case network of causation that consolidates the influence of causal axial codes upon practice and represents the final level of abstraction. The findings demonstrate the significance of complex causal influences in creating idiosyncratic and nuanced dimensions of firm practice. As a result, practice is largely

characterised by informal and implicit evaluations and assessments perceived by practitioners to provide effective mechanisms for the management of trade credit.

1.7 Structure of this research

Following this introductory chapter is the literature review, chapter 2, which provides a discussion of trade credit management within the context of SMEs, setting the scene generally before proceeding to consider specifically financial and trade credit management within small firms. The function and purpose of the literature review within this inductive research is twofold. Firstly, the literature has been used to establish the paradigmatic gap and the relevance of the methodological approach. Secondly, the literature has been enfolded within inter profession analysis in an inductive manner. Chapter 3, the methodology chapter, follows the literature review, initially extending discussion of the paradigmatic issues identified in order to establish the ontological position of this research. Once this has been established the chapter proceeds with identification and discussion of the research strategy and implications for operationalisation and data collection.

The following five chapters are concerned with data analysis, details of which were given previously. To re-cap; chapter 4 details the analytical process and audit trail; chapter 5 presents discussion and analysis intra-profession of solicitors as an ‘exemplar’; chapters 6, 7 and 8 present inter profession analysis, organised in accordance with firm practice. Chapter 9 presents a synthesis of inter-profession findings, and finally chapter 10 concludes on the thesis.

1.8 Conclusions

This chapter has sought to introduce the research, initially setting out the key aims and building discussion subsequently to establish the rationale and significance of the study. The existing literature reveals one dimensional understanding of working capital management within small firms as the result of a preoccupation with normative practice and the dominance of positivist, quantitative methodologies. It is the intention of this research to address this imbalance and adopt an alternative paradigmatic position informed by structuration theory. This research will therefore contribute to knowledge by filling the

existing empirical gap, revealing hidden informal dimensions of practice previously overlooked and underrepresented. A multiple case study research strategy has been used and qualitative accounts of practice collected inductively. The subsequent analysis chapters set out answers, grounded in practitioner's accounts of practice, to the two questions identified at the beginning of this chapter: How is trade credit managed within small professional firms? Why are particular practices used?

Chapter 2: Literature Review

2.1 Introduction

This chapter provides a critical review of literature relevant to a consideration of trade credit management within small firms, whilst constructing a rationale for; the research focus; the approach adopted; and the small firm sector considered. Initially, general issues concerned with small firm financing are considered, with the identification of the dominant financial characteristics of small firms, and the significance of these for the management of working capital. Once working capital management is established as an area of financial management particularly pertinent to small firms, the discussion concentrates upon an especially problematic aspect for SMEs; the management of accounts receivable.

Discussion regarding financial management and specifically working capital management, within small firms highlights issues with methodological approaches and subsequent findings. From this evaluation, the rationale for the methodological approach of this research is established, to be developed further within the methodology chapter. Finally, this chapter outlines the justification for the selection of small professional firms as the focus of the research, identifying the economic significance of the small business service sector and their distinctive characteristics that determine the importance of trade credit management.

2.2 Finance and small firms

The financing and financial management of small and medium sized firms has been an issue of concern for both policy makers and researchers for a considerable time. The Macmillan Committee of 1931 identified the existence of a financing gap for small firms, whilst further evidence of gaps in finance emerged from subsequent government commissioned reports, for example the Bolton Committee (1971) and the Wilson Committee (1979). As the economic importance of SMEs also became more fully recognised (for example; Bolton (1971) and Wilson (1979)), the availability of finance for the inception and growth of small firms received increased attention. Central to much of the research concerning finance and small firms has therefore been the investigation of the

nature and extent of the 'finance gap' for both equity and debt (for example, The Wilson Committee, 1980; Binks et al, 1992; Cosh and Hughes, 1994; Keasey and Watson 1994; Harris, 1995; Binks and Ennew; 1996; Berry et al, 2003).

2.2.1 Supply side issues: Debt finance and SMEs

The existence of a finance gap has been evaluated with reference to both supply and demand side factors. On the supply side, it has been argued that some small firms with sound investment propositions may be unable to raise finance as a result of information asymmetry between the providers of finance (the principal) and the small firm (the agent), (Binks et al, 1992). As Fraser (2004, p.27) identifies in the recent publication of a large and unique survey regarding small firm financing, 'fundamentally the problem arises because lenders are imperfectly informed about the characteristics of potential borrowers'. For the providers of debt finance to small, private firms' problems of information asymmetry are particularly pronounced due to the costs and difficulties associated with the selection, appraising and monitoring of 'appropriate' borrowers.

Agency theory (Jensen and Meckling, 1976) has therefore been used to explain supply side issues in the provision of debt finance to small firms, with lenders to small firms identified as being exposed to both adverse selection and moral hazard. Adverse selection occurs as a result of lenders inability to rely upon the price mechanism to identify viable projects; increasing the interest rate simply results in low risk borrowers, with viable projects, leaving the market, with only high risk borrowers remaining (Binks et al, 1992; Fraser, 2004). This situation is further compounded by the moral hazard problem, which results from difficulties in monitoring borrowers, with lenders unable to ensure that small firms will behave in a manner consistent with the contract. Borrowers may exploit information asymmetries by investing the funds in projects with higher risk profiles than those presented to the lender. The borrower alone reaps the higher rewards associated with successful, higher risk projects, whilst the lender receives fixed interest payments regardless of project performance, and is exposed to default on the loan where projects fail (Hamilton and Fox, 1998; Paul et al, 2007).

Information asymmetries therefore imply that lenders to small firms are exposed to high risk and will incur disproportionate monitoring costs, independent of the size of the loan. In order to mitigate conditions of information asymmetry lenders may adapt their terms for

smaller firms by requiring higher levels of collateral, and charging higher interest rates. Banks may attempt to 'bond' borrowers by requiring high levels of collateral to secure lending against which can be onerous, particularly if personal collateral is used where business collateral may not be sufficient (Binks and Ennew, 1992). Assuming access to collateral, it has also been argued that borrowers themselves can signal the strength and viability of a project by selecting a secured loan from a 'menu' of terms (Bester, 1985). Borrowers with riskier, 'weaker' projects would be more inclined to select higher interest payments on an unsecured loan, through fear of losing their collateral (Bester, 1985). Evidence of the role of collateral in signalling information to the lender is provided by Berry et al (1993) who found that bankers considered the provision of personal collateral by small firm owners signalled their strength of commitment. Information asymmetry for lenders will also be lower where a track record can be observed by the lender (Paul et al, 2007).

The implications for small firm financing are that banks may rely heavily upon the provision of collateral, and charge interest rate premiums. As monitoring costs are unrelated to the size of the loan, agency costs will be at their highest for smaller loans to new ventures (Hamilton and Fox, 1998). Finance gaps for unsecured debt could therefore potentially occur where there is a viable project, but a lack of collateral (Binks et al 1992), or where the business venture is new and lacks a trading history (Fraser, 2004). For growing firms the provision of collateral can also be problematic where security is already committed to existing borrowing, with none available against which to raise additional finance (Berry et al, 1993). Binks et al (1992, p.38) also discuss the problems that growing firms potentially face in providing collateral where the acquisition of assets grows faster 'than the value of assets which can be provided as collateral due to the impact of carcass valuation procedures'. Therefore, the debt finance gap for small firms within a supply side analysis will, in theory, be most pronounced for start up businesses without a trading history and with a high proportion of intangible assets, and for established, but growing, businesses. In order to address these debt finance gaps, and in response to the findings of Wilson (1979), who identified that banks expected a gearing ratio of 1:1 and a net asset to borrowing ratio of between 2:1 to 4:1, the government introduced the Small Firms Loan Guarantee (SFLG) in 1981 (Graham, 2004a). The SFLG provided a guarantee intended to encourage debt providers to lend 'where small firms are unable to raise conventional finance for viable projects because of a lack of collateral' (Graham, 2004a, p.4).

Developments within financial markets led to a perceived need to undertake a review of the scheme, with the final report published in 2004. Graham (2004b, p.1) found that ‘the principal gap in the UK debt market remains the need for collateral’ and that therefore the SFLG was still required. However, SFLG was criticised for its bureaucratic nature with Graham (2004b) stressing the need for an updated version that focused upon the start up and young businesses most likely to experience difficulties in providing collateral.

The extent of the debt finance gap was particularly pronounced during the 1990’s, when a recession within the UK created particularly unfavourable operating conditions. Against this economic climate, evidence emerged of problems between small firms and their lenders, reflecting issues of agency and information asymmetry. The relationships between small firms and lenders were characterised by a ‘breakdown of both communication and confidence’ (Bank of England, 2004, p.33), leading to fears of a ‘credit crunch’ for small firms (Bank of England, 2004). Small firms accused banks of failing to pass on reductions in base rates and pushing viable businesses into receivership through the premature withdrawal of funds, whilst the banking sector experienced bad debts approximating £3 billion in relation to SME loans (Bank of England, 2004). Evidence of the financing of small firms at this time revealed reliance upon short term sources of finance, and in particular overdrafts, leaving small firms particularly exposed to macro-economic fluctuations (Bank of England, 1994).

However, in the years prior to the recent financial crisis that began in 2008, there was evidence of improvements in the relationships between banks and small firms, and subsequent changes in the financing of small firms. Surveys suggested that both cost and access were no longer major problems for most small firms when seeking debt finance. For example, the Nat West SBRT (Small Business Research Trust) survey (2003) found that only 1% of small firms reported either access to finance or the level of interest rates as a major business problem. Similarly, the Institute of Directors (Wilson, 2004) reported that 71% of businesses had no difficulty in accessing finance, a marginal increase on 69% in 2003.

Fraser (2004) asked small firms to rate the severity of business problems within production, sales, staffing, finance and red tape; respondents rated the cost and access to finance the second-least problematic. When asked about bank charges Fraser (2004) found

that 61% of respondents were satisfied to some extent, but also that 1 in 3 were dissatisfied with bank charges. The rejection or 'discouragement' of applications for finance by small firms is also considered by Fraser (2004). 'Discouragement' of small firm applications for finance is defined by Fraser (2004, p.64) as occurring where businesses 'believe it is not worth applying in the first place because they expect to be turned down'. The results indicate that 11% of businesses were rejected outright when applying for new finance, whilst 8% experienced 'discouragement' and 19% received less finance than they had applied for. Wilson (2004), in a survey of members of the Institute of Directors, also found that 87% of business reported that they had never had a request for finance turned down by their bank. This compares to Berry's (2006, p.41) findings from an international study of SMEs banking relationships, that '84% of SMEs were wholly or partially successful in raising finance'.

Small firms also appeared to have reduced short term financial exposure, and begun to utilise a wider range of sources of finance. The reduction in small firm reliance upon the overdraft can be illustrated if the ratio of overdraft to term lending is considered. The Bank of England (2004) found that this ratio had fallen from 48:52 in 1992 to 23:77 in 2003, highlighting a shift in the capital structures of small firms. However, overdrafts remained a very popular form of debt finance for small firms with Fraser (2004) identifying that 53% of small firms used overdrafts, and that when considered across employee bands, overdrafts represented the most popular form of finance. The use of asset and asset based forms of finance (HP, leasing and invoice discounting and factoring, respectively) had also increased, with the Bank of England (2004) reporting a marginal increase in the use of factoring by small firms, rising from 4% during 1991-1993 to 6% during 2000-2002, and an increase in HP-Leasing for the same years rising from 16% to 25%. Similar results were found by Fraser (2004) who identified that 27% of small firms use HP and leasing, whilst 3% use invoice finance.

The apparent improved access to sources of finance for small firms may, in part, be explained by changes in their relationships with banks, albeit set against a more prosperous and stable macro economy, where GDP had continued to grow (Wilson, 2004). Banks increased understanding of the diverse financing requirements of small firms was recognised as influential in directing small firms to use alternative forms of finance, particularly through the banks invoice discounting and leasing subsidiaries (Bank of

England, 2004). In addition, the Bank of England (2004) report that the range of SME products offered by banks had been enhanced, in an attempt to increase market share.

Changes in the credit assessment techniques of banks were also identified as a key factor in the increased availability of finance to small firms, the speed of the response time, and the consistency of decision making (Bank of England, 2003, Graham, 2004a). Quantitative, credit scoring approaches were being increasingly adopted by banks, in place of qualitative techniques more dependent upon bankers' judgement (Fraser, 2004). Graham (2004a, p.12) argues that the use of credit scoring has the 'advantage of correcting information asymmetries traditionally associated with lending to this market', as developments in credit scoring provide the banker with knowledge of the likelihood of default that is superior to that of the applicant. Quantitative credit scoring techniques have also been associated with a reduced reliance upon collateral by banks, particularly for loans below £25,000, but have also been acknowledged to favour those small firms with a 'proven track record and good credit history' (Graham, 2004a, p.14), whilst disadvantaging those small firms where 'non standard' but relevant information may be ignored (Bank of England, 2004). This is particularly pertinent for start up businesses which, by definition, lack a track record. Indeed, the Bank of England (2004, p.36) report that quantitative credit scoring techniques may be considered 'as remote and difficult to influence', creating 'some tensions in the relationship between banks and their small business customers'.

Despite evidence of improved relationships between banks and small firm's issues remained, particularly with regards to the competitiveness of the banking sector, and the profits made from SME banking services. In 2002 the Competitions Commission reported that the four major banks (Royal Bank of Scotland, Barclays, Lloyds TSB and HSBC) were making abnormal profits through their SME banking services, and that there was considerable concentration of market share. As a result of the Competitions Commissions investigation price controls were introduced to reduce excess profits and, to improve competitive conditions, it was recommended that small firms should be able to compare prices and switch banks more easily.

Issues of banking competitiveness are exacerbated by the existence of information asymmetries; small businesses may be unwilling to switch banks as an established track record mitigates information asymmetries, providing improved access to finance. This is

borne out by low rates of switching amongst SMEs, identified as between 3-4% by Cruickshank (2000), and 2.5% by Fraser (2004). Fraser (2004) also identifies relationships between small businesses and banks as being long (15 years on average) and monogamous (59% of businesses have only one provider), with the switching of banks the result of dissatisfaction with service, rather than prices. Perhaps unsurprisingly given their age, Fraser (2004) also reports that start ups are three times less likely to have switched banks than established firms. International differences in small firms propensity to change banks are highlighted by Berry (2006) who found that in the UK, US and Hong Kong approximately 20% of respondents would consider changing, whilst in Spain and Germany 40% and 34% respectively would consider changing, if approached by another bank. This is explained with reference to the number of banking relationships, levels of satisfaction and competition.

Whilst in general for small firms difficulties in accessing debt finance appeared to have diminished, the evidence regarding bank rejection rates for new or start up firms remained mixed, indicating that these particular small firms still experienced obstacles in raising debt finance. This is perhaps unsurprising as, for start up firms', the lack of trading history accentuates problems of information asymmetry between the lender and the business. Paul et al (2007, p.10) describe start ups as typically 'informationally opaque' with assets that are 'intangible and knowledge based', creating particularly difficult lending conditions. As Graham (2004a, p.9) identified, for pre start up businesses and very young businesses 'greater barriers to accessing finance' existed, than for established businesses. Graham (2004a, p.9) refers to the findings of the Global Entrepreneurship Monitor (Harding, 2003) who reported rejection rates 'among a sample of new and young enterprises seeking finance of 22% for an unsecured bank loan and 17% for a secured bank loan'. These rejection rates are higher than those identified by Wilson (2004, 13%) and Fraser (2004, 11%) that included all sizes of small businesses. When analysing the reasons for the rejection of applications for overdrafts or loans, Fraser (2004) also found that 15% of small business are denied because they did not have a credit history. The higher rejection rates for start up businesses may also be compounded by the changes in credit assessment by banks. As discussed above, start up small businesses that lacked a trading history were disadvantaged by quantitative credit scoring techniques that required this information, and did not have the flexibility to recognise other 'non standard', but relevant, information.

Start up firms, growing firms, and firms with non standard characteristics, also experienced problems raising debt finance because of the collateral requirements of banks. It has been argued that the banks use of quantitative credit scoring techniques reduced reliance upon collateral particularly for loans under £25,000 (Graham, 2004a). However, collateral has continued to play an important role in signalling to the lender the commitment of the small firm owner. Indeed, Berry (2006, p.42) found that the ‘main reason for refusal of finance from the accountants perspective in all countries except Germany, was a ‘lack of security/collateral’. The importance of collateral is amplified in the case of start up firms, whom cannot provide evidence to lenders of a trading history. Fraser (2004) found that 34% of rejected small firm applications for overdrafts and term loans occurred because of the insufficiency, or lack of, security. Both Fraser (2004) and Graham (2004b) concluded that the availability of collateral and absence of a trading history could continue to restrict access to finance for some small businesses. Graham (2004a, p.14) identified that for amounts over £25,000 collateral is a requirement of most lenders, and that ‘start up businesses, businesses with non standard characteristics and those businesses seeking to expand beyond their asset base’ will continue to face difficulties in accessing debt finance.

Although there was some evidence that small firms were making wider use of a range of short term sources of finance, again this was more mixed when considered in conjunction with the age and size of small businesses. Indeed, as Graham (2004a, p.10) points out factoring and invoice discounting ‘are suitable for businesses that are generating revenue and have existing creditors’ implying, perhaps obviously, that for start up firms these sources of finance are not appropriate. Graham (2004a, p.10) further discusses the uptake of alternative sources of finance by small firms by referring to the findings of Cosh and Hughes (2003), who found that:

‘medium sized firms use of bank finance...has declined in favour of hire purchase, leasing and invoice financing whilst micro firms in 2002 returned to their 1991 levels of dependence on bank finance’.

Graham (2004a, p.10) identified that the implication of medium sized firms having better access to finance is both ‘intuitively attractive’ and ‘consistent with anecdotal evidence provided to the review’. Fraser (2004, p.55) provided further evidence of this, identifying that medium sized small firms were mainly responsible for the use of both asset finance and asset based finance, with asset financing ‘the most popular financial product amongst SMEs with a turnover of £5 million or more’. In addition, the growth in the number of

SMEs using invoice finance for 2003 was reported by the Bank of England (2004) as being 5.3%, yet in small firms with an annual turnover of less than £1 million the growth rate was just 1.7%.

The survey evidence reviewed thus far would seem to suggest that supply side issues regarding the provision of debt finance to small businesses ameliorated in the years prior to the recent financial crisis; banking relationships generally improved, small firms were no longer as reliant upon overdrafts for funding, and the use of alternative sources of finance had increased. However, some aspects of the provision of debt finance to small firms remained problematic. The previous discussion has highlighted how information asymmetries determined that for start up firms, finance gaps persisted where potentially viable businesses could not secure funding, due mainly to their inability to demonstrate a trading history or to provide adequate collateral. For firms with a high proportion of intangible, knowledge based assets, and growing firms, particularly those expanding beyond their asset base, the collateral requirements of lenders again posed difficulties for these businesses when seeking to raise debt finance (Graham, 2004a; Graham, 2004b). In addition, evidence of the wider use of sources of finance is associated with the size of the small firm (Fraser 2004); for micro and start up firms access to financial products was more limited (Graham, 2004a) and credit cards and overdrafts remained the most dominant financial products across employee bands and levels of turnover (Fraser, 2004). Indeed, overdrafts persisted as the ‘most popular form of financial product across employee size bands’, with credit cards the most popular form of financial product across turnover bands (Fraser, 2004, p.55), whilst only 3% of all small businesses use factoring and invoice discounting (Fraser, 2004). A more recent change in the financing of small firms, as observed by Graham (2004a, p.20), has been the growth in the use of personal sources of finance, such as credit cards and consumer loans, which were driven by the previously buoyant macro-economy and provided ‘quicker and more straightforward financing options than other bank finance’. However, as Graham (2004a, p.9) identified ‘credit cards and unsecured personal loans are likely to be relatively expensive means of financing a business when compared to term loans’.

Therefore, whilst evidence that a lack of access to debt finance presented major problems for the majority of small firms had subsided, the potential for debt finance gaps to exist within a prosperous macro economy as the result of supply side issues remained for a

minority of SMEs in particular circumstances. The competitiveness of the UK banking sector was singled out for criticism by the Competitions Commission (2002), and evidence emerged of low bank switching rates amongst SMEs (Fraser, 2004; Berry, 2006). Bank rejection rates for new business start ups remained problematic (Graham, 2004a), as did the availability of financing alternatives for both new and young small firms (Graham, 2004a). Indeed, where problems with information asymmetries remained pronounced, firms were likely to experience difficulties raising the levels of collateral required (Fraser, 2004; Graham, 2004b; Berry 2006). For new firms, growing firms, and firms with a high proportion of intangible assets, difficulties therefore remained in accessing debt finance. In addition, the size of the firm appeared related to wider use of sources of finance. An ACCA policy briefing paper published in 2006 also identified access to finance issues for the following; women setting up new businesses; ethnic minority businesses; entrepreneurs from deprived backgrounds; and high technology businesses (ACCA, 2006). Therefore, even in times of macro-economic prosperity, supply side issues lingered, whilst the use of shorter sources of finance such as overdrafts and credit cards remained significant (Graham, 2004a; Graham, 2004b; Fraser, 2004).

In 2007/2008, the world experienced a financial crisis of unprecedented scale, leading to a massive constriction in the availability of credit and bank lending (Buckley, 2011). The impact of this financial turbulence has unsurprisingly created further supply side issues regarding the provision of debt finance to SMEs. Fraser (2009) has provided comprehensive survey evidence of the impact upon SME financing of the credit crisis, highlighting increased rejection rates for overdrafts and term loans, higher loan margins, and a decline particularly in the supply of credit for higher risk firms without collateral. Fraser (2009) addresses an interesting contradiction identifying that small businesses reported a fall in the provision of finance in 2008, corresponding with increased rejection rates, whilst banks reported loan amounts had increased; larger amounts were lent to low risk borrowers who could provide collateral whilst those without were refused. Lack of collateral and industry sector have been identified as increasing as reasons for denying finance, and Fraser (2009) identifies the need for banks to adapt risk assessments to focus upon the business itself, rather than place disproportionate emphasis upon the particular sector or availability of security.

Survey data from additional sources accordingly highlights increased rejection rates of a range of forms of credit (Fraser, 2009; Cowling and Liu, 2011; FSB, 2012b). Cowling and Liu (2011, p.19) state that the:

‘supply of finance has diminished significantly and even those who were successful in securing funding found the process and outcomes more difficult and onerous’.

The number of credit rationed firms during a three month period in 2009 was estimated by Cowling and Liu (2011) as being 119,000, with the main reason cited for attempting to access finance reported as working capital/cash-flow requirements. Cowling et al (2012) also report that micro firms were particularly restricted access to credit, with funding targeted at larger firms. The FSB’s 2011 member’s survey published in 2012, similarly reports that the use of external sources of finance had fallen 19% from 2009, and that ensuring cash flow was the main reason for attempting to secure financial help (FSB, 2012a). A further FSB report concerning small firms and access to finance highlighted a fall in successful loan applications in the UK during 2007 to 2010 of 24%, compared to a corresponding 9% fall observed in Germany (FSB, 2012b). As a result the FSB (2012b) has called for banking reform, increased competition, and encouragement of community development and the use of a broader range of alternative sources of finance.

In addition, Lee et al (2013) identify a disproportionate impact upon innovative firms and those unable to provide collateral, stating that although the financial crisis has made it harder for all firms to access finance innovative firms were most likely to fail. The role of information asymmetries is again apparent and has been aggravated by the financial crisis; collateral requirements and the intangible nature of knowledge based assets important to innovative firms appear to have created particular problems for SMEs in accessing finance. Funding that has been provided appears to have been targeted at larger SMEs more likely to be able to provide security (Cowling et al, 2012; Fraser, 2009). The constriction of credit within the banking system thus instigated several coalition government responses to facilitating access to finance for small firms including project Merlin, the launch of the Enterprise Finance Guarantee Scheme, and the Business Bank, whose main purpose is intended to facilitate lending to viable businesses otherwise unable to secure finance as the result of a lack of collateral or the inability to provide a track record. However, it is clearly evident that supply-side issues associated with the provision of external finance have moved back up the agenda of SME problems.

2.2.2 Supply side issues: Equity finance and SMEs

As access to debt finance generally improved for small firms prior to 2007/8 (HM Treasury and Small Business Service, 2003) the financing gap became characterised, within a supply side perspective, as an 'equity gap' (Harris, 1995). As discussed, small start up businesses, businesses with growth aspirations, and those with knowledge based, intangible assets may find it difficult to raise funds. For businesses with these characteristics, debt will not necessarily provide a suitable form of finance; equity, however, could provide an appropriate source of risk capital, whereby the provider of funds could participate in capital appreciation, growth and a share of the profits, whilst being exposed to higher risk.

Evidence of private equity investment in the financing of start ups and early stage investments however clearly demonstrates limited involvement; only 3% of total private equity is invested at start up stage and only 5% in early stage development (HMSO, 2003). Furthermore, HMSO (2003, p.15) presents research identifying that firms' with 'good growth potential' were unable to 'attract equity investors'. Harris (1995, p.64) also comments that:

'since the mid 1980s...UK private sector venture capital companies have not been active in providing long term risk finance for small and young businesses in the way that many earlier commentators had hoped'.

A number of key supply side issues could explain the lack of provision of equity finance to these types of small firms. The provision of small amounts of equity (below £1 million) are seen as unprofitable; there are high costs regarding arrangement, monitoring and on-going management that are fixed regardless of the size of investment (Harris, 1995; HM Treasury and Small Business Service, 2003). These costs are accentuated by the existence of information asymmetries, as potential equity providers will only undertake investment following a thorough investigation of the business. Risk for the equity provider is high, and rewards are generally related to the size of the investment. Lack of an exit route implies the equity investor is tied to, under certain economic conditions, an illiquid investment. As a result of these supply side issues and the apparent existence of an equity gap the UK government has introduced schemes over the years to encourage and support the provision of small amounts of equity, these include; the Enterprise Investment Scheme, Venture Capital Trusts and the Regional Venture Capital Funds.

However, survey evidence from Fraser (2004) indicates that private equity continues to play only a minor role in the financing of small firms, with only 3% of small firms using equity finance from any source in the past 3 years, and 25% of this being provided by directors. Observations of small firms capital structures also reveal that whilst banks remain the dominant provider of external funds to SMEs (Competitions Commission 2002; Fraser 2004; Bank of England 2004), small firms continue to exhibit heavy reliance upon internally generated funds, with only 40% of small firms using external finance during the period 1997-1999, compared with 65% during the period 1987-1990 (Wilson, 2004). Chittenden et al (1996, p.67) have also identified 'a heavy reliance upon internally generated funds' as being a key feature of small firms capital structures. Similarly, the Bank of England (2004) reports that during 2000-2002 only 39% of small firms sought external finance compared with 65% during the late 1980's. In addition, Wilson (2004) reports that when asked what sources of finance they used, 48% of respondents reported using an overdraft, and 34% reported being self financed, whilst another 5% and 8% respectively reported using retained profits and internally generated cash flows.

Owner managers appear to be averse to using external sources of finance, exhibiting a preference for internal funding, using debt finance only when needed, whilst avoiding equity almost entirely. Small firms continued reliance upon overdrafts and other short term financing options, despite improvements in access to other sources, remains prevalent. These defining characteristics of the capital structures of small firms, however, cannot be solely explained with reference to supply side issues of access and provision alone. Indeed, Hutchinson (1995, p.238) argues that:

'factors limiting the demand for finance have often been neglected by an over reliance on arguments which attempt to explain small firm financing problems solely in terms of a lack of access to the supply of debt and equity'.

Demand side factors therefore need to be considered in respect of financing decisions for small firms regarding both debt and equity, and their subsequent impact upon the financing preferences of SMEs.

2.2.3 Demand side issues: Debt and equity finance

The most prominent and influential demand side factor is the desire of owner managers to maintain, and avoid dilution of, control of their business (Robson Rhodes, 1984, Cosh and Hughes, 2003). This implies a preference for owner/managers for internal funds, and an

aversion to equity. This strongly resonates with research concerning the capital structure of small firms; for example Hamilton and Fox (1998, p.246) found that small firms preferred to use internal funds as they did 'least to inhibit the independence of the owner', similarly Michaelas et al (1998, p.256) found that small firms:

'preference to rely more heavily on internally generated funds as opposed to external debt finance or equity is driven by their desire to maintain control'.

Wilson (2004) asked respondents to identify the factors determining their choice of external finance; 93% replied that the maintenance of control was either important or very important. This is reflected in the capital structures of small firms as discussed above; equity is avoided and other sources of finance that offer minimum levels of intrusion to the business are preferred. Indeed, the desire to maintain control has been identified within the research as a key factor in establishing a 'pecking order' (Myers, 1984) of sources of finance for SMEs (for example, Hamilton and Fox, 1998, Michaelas et al, 1998). Small firms will firstly use internally generated funds, next they will turn to debt finance and only as a last resort will they chose equity. This helps to explain the dominance of internal funds as a source of finance, the popularity of debt for small firms when compared to equity, and their reliance upon short term sources, such as overdrafts and credit cards, rather than secured debt.

Attitudes to risk and personal goals have also been identified as characteristics of owner managers that may influence their demand for debt finance (for example, Michaelas et al, 1998, Kotey, 1999). Cosh and Hughes (2003) identified that the second most important reason given by SMEs for not seeking additional finance was that the borrowing risk was too great. Michaelas et al (1998, p.256) identify that the risk propensity and 'the belief and attitudes towards debt' of the small business owner/manager will, amongst other factors, influence their attitude towards the use of debt finance. Kotey (1999) explores the impact of entrepreneurial attributes upon the use of debt finance, hypothesising that if an owner manager exhibits entrepreneurial values they are more likely to use debt financing than 'conservative' managers whom Kotey and Meredith (1997) characterise as being risk averse. The findings of Kotey (1998) broadly support the notion that users of debt finance will rate higher on entrepreneurial values. Therefore, the 'type' of owner/manager, their personal goals and their attitude to risk, may also limit demand for debt financing, acting as an additional influence upon their reliance on internal funds.

What has been characterised as a ‘knowledge gap’ (Hutchinson, 1999) has also been identified as a possible demand side factor effecting small firms access to both debt and equity. Fraser (2004) identifies that SMEs may suffer from skills shortages that could impact upon the quality of their business plans, and thus inhibit their access to finance, finding that of business loan applications that were rejected, 15% resulted from inadequate business plans. Fraser (2004, p.70) concludes that

‘having a suitably qualified individual in charge of the business finances is the single most important factor in reducing the likelihood of rejection’.

Similarly, the ‘poor quality and presentation of business plans’ (HM Treasury and Small Business Service, 2003, p.12) has been attributed to reducing the access of potentially high growth SMEs to equity finance. The Bank of England (2004, p.24) discusses a ‘lack of investment readiness’ referring to the findings of the Global Entrepreneurship Monitor (Harding, 2003, p.43) that found equity investors complained, ‘there is not a supply of equity problem as such, but there is a problem in the supply of decent investor-ready propositions’, when questioned regarding the lack of investment in the lower end of the market. Equity investors ‘cited the inadequacy of investment propositions...as the predominant reason’ why they chose not to invest in SMEs (Bank of England, 2004, p.25).

2.3 The financial characteristics of small firms

The interplay of both demand and supply side factors can be seen as determining the financing decisions of small firm owner/managers. The relative dominance of one side over the other, and the influence of the factors within each side, remains subject to debate, but aspects of both have been incorporated within explanations of the capital structures of small firms, as discussed above. The implications of these demand and supply side factors for small firms’ management of financial resources are extremely important. As Michaelas et al (1998, p.256) identify ‘management preferences and market conditions will work together in shaping the capital structure of a small firm’. For small firms, internal resources emerge as the most significant form of finance, mainly as a consequence of the desire of the owner/manager to retain and maintain control. This, and the existence of information asymmetries particularly apparent in small scale investments, limits considerably the use of equity finance by SMEs. Issues of control and intrusion to the business also imply that some SMEs will be reluctant to use secured debt, whilst owner/manager characteristics,

attitudes to risk and personal goals may also affect the level of debt small firms are willing to take on.

As previous discussion identified, poor business planning due to a lack of financial management skills and/or lack of investment readiness have been observed as factors that can restrict access to both debt and equity (Hutchinson 1999; Fraser 2004). For debt finance, prior to the financial crisis of 2007/08, supply side restrictions for the majority of small firms appeared to have diminished implying that decisions regarding debt financing reflected more significantly the influence of demand side factors. As a result of the interaction of these supply and demand factors small firms relied heavily upon internal funds, with debt the dominant source of external finance, where external finance was sought (Chittenden et al, 1996; Michaelas et al, 1998). This reliance upon internal sources can result in the undercapitalisation of small firms (Michaelas et al, 1998) and cause potential financial problems, as Kotey (1999, p.11) identifies

‘there are...limitations to the use of personal equity and short term debt...because inflation erodes the equity base of the business over time and owner managers may not be able to provide additional funds to meet increases in working capital requirements even where growth is curtailed’.

Changes in the reliance upon short term finance and in particular overdrafts, were observed yet recent evidence (Fraser, 2009) suggests that overdrafts and credit cards remain the most popular forms of finance available to small firms. A preference for finance that has both minimal implications for control and intrusion to the business, could again explain demand side influences on the financing choices of owner/managers. A rise in the use of personal finance, and in particular credit cards, could in part be explained by the desire of the owner/manager to use funds with perceived low levels of interference with the business. Shifts in the use of financial products have also been observed with more small businesses making use of asset finance, and asset based finance. However, the uptake of these financing alternatives is closely related to the size of the firm, with micro firms still exhibiting the same levels of indebtedness to banks. Similarly, the use of factoring and invoice discounting will be more appropriate for established businesses and, although there had been marginal growth in the use of asset based finance by SMEs, this fell from only 3% of small firms between 2001-2004 to 2.2% of small firms between 2005-2008 (Fraser, 2009). SMEs demonstrated continued reliance upon short term sources of credit with implications for their liquidity and financial exposure.

Even prior to the financial crisis, potential supply side gaps in debt finance persisted for start ups, growing firms and firms with non standard characteristics, whereby viable businesses could not secure funding due to an inability to provide sufficient collateral, or evidence of a trading history (Fraser, 2004; Graham, 2004b). Changes in the credit assessment techniques of banks, although reported to have reduced emphasis upon collateral, may disadvantage non standard businesses, if applied inflexibly and without consideration of ‘non standard’, but relevant, information (Bank of England, 2004; Graham, 2004b). Additionally, the lack of competition within the banking sector, and the need for small firms to establish relationships with lenders in order to reduce information asymmetries, can also create inertia within small firm banking relationships (Fraser, 2004; Berry 2006). Therefore, SMEs experiencing high growth rates may have found it difficult to fund expansion whilst some start ups with viable projects, but characterised by a high level of knowledge based intangible assets, may have been unable to access finance (Fraser, 2004). The recent macroeconomic turbulence has put SME finance and supply side related issues back under the microscope; banking relationships and lending decisions are once more under scrutiny and the evidence suggests that small firms are facing conditions of credit constriction with banks ‘more risk averse in 2005-8 being less willing to lend to businesses without collateral or those that are considered to be in risky industries’ (Fraser, 2009, p.8).

The above discussion highlights that as a result of the financial characteristics of small firms and their funding environment the effective financial management of internal resources is of vital importance. Small firms reliance upon internal funds and short term sources of finance increases their vulnerability to liquidity problems and their exposure to external factors, such as changes within the macro economy (Michaelas, 1998; Kotey, 1999). Undercapitalisation will exacerbate these problems and present particular difficulties for businesses wishing to grow (Michaelas, 1998). Efficient internal management of financial resources eases reliance upon short term sources of finance, and aids those small firms who find it difficult to access funds. When considering the motivations of small businesses in using external finance, 50% of businesses reported using overdrafts to fund working capital (Fraser, 2004), whilst 16% of small businesses raised their largest term loan to finance working capital (Fraser, 2004). For 2011, the FSB survey reported that the second greatest barrier to success from members was cash flow,

with 43% of respondents reporting that their reason for attempting to secure financial help was to ensure cash flow (FSB, 2012a). With the low take up of invoice finance and factoring, it could therefore be concluded that the management of short term financial resources is particularly pertinent for small firms.

2.4 The importance of working capital management within small firms

Working capital management refers to the management of current assets and current liabilities and is therefore concerned with the short term financial position of a business (Arnold, 2013). As can be identified in any generic finance text (for example, Arnold, 2013; Mclaney, 2011; Watson and Head, 2010) the key components of working capital are; trade creditors (amounts payable), stock (inventory), trade debtors (amounts receivable) and cash. Effective management of these short term assets and liabilities, as established within the discussion above, is particularly crucial to ensure that cash continues to flow within a business, minimising liquidity problems and ensuring efficient use of internal resources. Due to the financial characteristics of small firms, working capital management could be considered an important aspect of their financial management and one that is linked directly to the expansion, success, or failure of a business (Chittenden, et al 1998).

One component of working capital that has proved especially problematic for small firms is trade debtors (accounts receivable). For small firms, the supply of trade credit is important in both attracting new customers, and retaining existing ones (Petersen and Rajan 1997; Wilson and Summers 2002). Although it is important for SMEs to supply trade credit, this can cause small businesses problems. Peel et al (2000) identify the following issues; cash flow/financing difficulties, contracts established between buyer and suppliers with asymmetric bargaining positions, difficulty enforcing credit terms and the subsequent late payment of debt. The late payment of debt, and the impact upon cash flows for small firms, has long been recognized as a particular problem for SMEs in the UK. In 1991 The Cork Gully Committee for the CBI discovered that almost 60% of businesses regarded late payment as a significant problem (The Cork Gully Report, 1991). The Forum of Private Business found in 1995 that 43.6% of small businesses were still concerned with late payment.

In response to the late payment problem the government introduced legislation in 1998 that provides a statutory right to claim interest on the late payment of commercial debt. The right to claim was phased in over three stages, beginning with rights exercisable only by small firms, and extending to all enterprises and the public sector after a period of two years. However, evidence from the Federation of Small Businesses (FSB) (2000) suggests that the introduction of the SRI has not led to improvement in the time it takes companies to pay their trade creditors. Private sector payment performance league tables for the year 2000 showed that the average length of time it takes a plc to pay its bills is still 46 days - the same as in 1999 (FSB, 2000). A fifth of the companies listed still take more than 60 days to pay. Research from Barclays Bank (1998) found that despite two thirds of small businesses (with a turnover of less than a million) stating they had problems with late payment only one in four was planning to use the legislation. The research also discloses that one of the main reasons that small businesses are not planning to use the legislation is concern about relationships with customers.

More recently, Wilson (2008) undertook a comprehensive review of payment trends and behaviour within the UK, identifying that the impact of the late payment legislation upon reducing average payment times was negligible and that evidence from 2007 indicated the increased occurrence of late payment being cited as a problem. The consequences for the commercial relationship with customers were also identified by Wilson (2008) as an important factor for firms when considering use of the late payment legislation. The government's decision to legislate indicates their recognition that this is an issue of particular concern; however, the subsequent failure of the SRI to significantly improve late payment demonstrates the complicated nature of the area, and the impact of other considerations for small firms.

Cash flow and payments from customers have been consistently cited by small firms as important business problems. Survey evidence demonstrates that late payment persists as an issue for SMEs, with Wilson (2008) identifying that 50% of invoices are paid late on average, and that small firms' experience the longest payment delays. Other survey evidence also indicates that cash flow/late payment continues to feature within the top four business problems identified by SMEs (for example, NatWest/SERTeam, 2005). The FSB survey of 2011, published in 2012, similarly reported that 41% of respondents identified cash flow as their greatest barrier to success ranking it second overall, and that 57% of

firms supplying the private sector identified that their business has suffered from clients paying late; up 23% from 2009 (FSB, 2012a).

The discussion above has established the importance of effective management of working capital for SMEs (Chittenden et al, 1998) and highlighted the impact upon cash flow and internal resources, which are particularly significant for small firms. Managing accounts receivable would appear to be a particularly problematic component of working capital for small firms, with subsequent implications for cash flow, liquidity and the availability of internal resources. Indeed, Chittenden and Bragg (1997) identify the macro-economic impact of late payment, arguing that the existence of a late payment multiplier could threaten the financial position of European businesses and that the issue of prompt payment warrants further investigation. Therefore, working capital management within small firms, and in particular the management of accounts receivable and the supply of trade credit by SMEs, forms the focus of this research.

2.5 Paradigmatic debates and financial management within small firms

The discussion above has established the rationale for the focus of this research upon trade credit management within small firms. This section of the literature review aims to discuss the existing research that has focused upon financial management within SMEs, and that has in particular considered working capital management. Within this discussion methodological issues surface that have important implications for both the ontological stance of this research and subsequently the research strategy adopted. Hence the following discussion both explores research findings with regards to financial management within SMEs broadly, and with specific reference to working capital management, whilst informing the paradigmatic positioning and methodological approach, that will be discussed fully within the methodology chapter.

Effective financial management of small firms is recognised as essential for survival and growth, and has been the subject of numerous research studies, dating from the Macmillan Committee of 1931. The majority of this research has concluded that financial management within small firms is poor (for example, Bolton, 1971, Storey et al, 1987,

Nayak and Greenfield, 1994). However, discussion of methodological approaches and underpinning assumptions has revealed issues with these findings that reflect wider paradigmatic debates within the SME research field, and that are relevant to evaluating the findings of existing research concerning financial management in SMEs. Broad methodological issues identified within SME research will therefore firstly be considered in order to provide the context and backdrop for the following discussion that will identify and evaluate similar themes within the specific context of financial and trade credit management.

Within a discussion of the issues involved with undertaking research into small enterprises, Curran and Blackburn (2001) discuss qualitative and quantitative research paradigms and identify the dominance of quantitative, positivist small business research. Whilst highlighting the appropriateness and value of quantitative research for particular purposes, Curran and Blackburn (2001, p.124) also discuss difficulties in establishing causality, particularly when considering decision making and actions, and a 'need to engage more positively with the epistemological principles underlying qualitative research'. Similarly, Blackburn and Kovalainen (2009, p.133), who discuss the impact upon the quality of SME research of the methodology used, argue that as the result of attempts to 'satisfy practical audiences' that ontological and epistemological issues are often ignored, and that SME research suffers from a limited range of paradigmatic perspectives.

Indeed such issues of paradigmatic constriction were identified by Grant and Perren (2002, p.185), who used 'Burrell and Morgan's (1979) paradigmatic taxonomy to conduct a systematic meta-theoretical analysis of articles published in 2000', within selected SME journals. Their findings highlighted the dominance of research with a functionalist ontology and called for 'paradigmatic experimentation and debate rather than existence in a paradigmatic cage' (Grant and Perren, 2002, p.210). The dominance of positivist, quantitative research is partly explained by Blackburn and Kovalainen (2009, p.139) as being driven by government policy makers preferences and thus resulting in research with an emphasis upon 'reporting rather than analysing, and describing rather than explaining'. In addition to identifying a need to broaden methodological perspectives, Blackburn and Kovalainen (2009, p.136) identify the increased significance of this where particular aspects of SME research might be considered as 'mined out'; where this is the case

researchers are encouraged to, amongst other things, consider in-depth ‘existing methodological approaches’.

The following review will therefore consider existing research in light of these wider paradigmatic debates, and will explore the implications of differing research paradigms and ontological positions for both an evaluation of research findings, and for the methodological approach subsequently adopted within this research. Discussion will begin with a broad review of financial management within small firms, before considering specifically working capital and trade credit management, and the implications of wider methodological issues for research findings.

2.5.1 Financial management and SMEs

Reflecting wider methodological issues within the SME arena, research concerning the financial management practices of small firms has similarly been dominated by research implementing a hypothetical deductive approach, with a positivist ontology. As Jarvis et al (1996, p.3) identify that:

‘many of the studies of financial management practices of small business owner managers have been based on over simplistic approaches based on structured interviews or mail questionnaires with closed questions’.

However, the uniqueness of small firms and the characteristics that distinguish them from their larger counterparts have been identified as generating different types of financial problems (Ang, 1991). The assumption that small firms should be assessed against normative, large firm practice underpins much of the survey based research, for which it has been criticised. Three key arguments as to why the above assumption is inappropriate for small firms are laid out by Jarvis et al (1996). Firstly it is identified that what is currently accepted as ‘best practice’ is in itself a fluid concept, with consensus shifting with favoured practices. Secondly, it is highlighted that many larger enterprises do not adhere strictly to the techniques and methods identified as ‘best practice’, and that several well publicised failings in financial management have occurred within expertly staffed treasury departments. Finally, the environmental conditions that small firms operate under are recognised to be substantially different from those of larger enterprises (Shutt and Whittington, 1987; Rainnie, 1989; Curran, 1990). The widely disparate operating conditions of small firms will have implications for the type of financial management that is appropriate.

In addition, as Deakins et al (2002, p.9) identify:

‘such research studies will give limited insights into the actual attitudes and approaches of small firm owner managers’.

Research based upon deductive, survey questionnaires will be particularly limited in exploring the informal dimensions and complexities of financial management practices. Such an approach will identify whether small firm owner managers adopt normative practices but are not intended to reveal informal practices that could prove effective.

Utilising a different methodological approach, qualitative research studies have reported different findings with regards to financial management and decision making within small firms. For example, Curran et al (1997) consider the factors taken into account by small firms when setting prices, and similarities across firms, products and customers. Their approach is markedly different from survey based research strategies, which are characterised by testing hypotheses from existing theory against the data collected. Instead, Curran et al (1997) adopt a grounded theory approach, drawing hypothesis inductively from the data and concluding that different forms of rationality are incorporated within owner managers’ practices, and that these practices demonstrate sophisticated understanding of their markets.

Similarly, Jarvis et al (1996) adopted a qualitative, grounded approach to the investigation of financial management practices within small firms. They found that small business owners are motivated by a range of factors and pursue a variety of objectives in the financial management of their business. In addition, Jarvis et al (2000) considered the business performance measures used by owner/managers, again using a grounded theory research approach. Jarvis et al (2000, p.131) found that:

‘small firm owner managers appear to be centring on objectives currently being highlighted in discussions of accounting practice in recent developments in management theory’

Jarvis et al (1996) concluded that the research offered a contrasting take to:

‘the dominant view which stresses the lack of financial skills and sophistication of small business owners as compared with idealisation of large enterprise financial and business performance and practices’.

Using a comparative case study methodology, Perren et al (1998) found that in the early history of a business, owner managers used informal mechanisms of information and control, appropriate and effective for the scale of the business. As growth occurred, formal systems evolved, dependant upon the ‘dynamic interplay of factors’ (Perren et al, 1998, p.359). Interestingly the same data analysed by Perren et al (1998) was later analysed from a social construction perspective, with Perren and Grant (2000, p.407) finding that ‘owner managers do not need generic training programmes or sophisticated techniques that are inappropriate for their circumstances’. Deakins et al (2002, p.7) also use a case study approach to investigating financial management in small firms, focusing upon

‘the factors that influence an owner managers approach and the processes involved in the evolution of strategy and associated learning in this area’.

The research findings support Jarvis et al (1996) regarding small firm owner/manager's rationality, and Perren et al (1998), regarding the evolutionary development of formal systems in small firm development.

Ekanem (2005) provides an interesting account of investment appraisal within small firms using a qualitative research methodology to collect ‘insider accounts’. The rationale for the approach details much of the arguments outlined above, with discussion highlighting the limitations of research underpinned with the assumption that small firm practice should mirror that of large firms. Ekanem (2005, p.315) concludes that ‘none of the case study firms employed any conventional methods in their investment decision-making process’ but that they did demonstrate ‘systematic and logical thought’ that resulted in benchmarking. The findings contradict results from positivist, survey research that did find evidence of the use of payback, for example Peel and Wilson (1996). The research methodology adopted allowed Ekanem (2005, p.315) to consider the reality of firm practice and identify how owner managers were approaching investment appraisal

decisions; crucially the research identifies the use of informal routines that provided 'satisficing solutions' and were conceptualised as 'bootstrapping'.

Differences in methodological approach have led to different conclusions. Understanding of financial management practices from an objectivist position is focused upon the 'extent that external objectified management accounting ideas are employed within small businesses' (Perren and Grant, 2000, p.393). Researchers orientated within this paradigm have tended to identify poor financial management practices and control within SMEs. Perren et al (1998, p.358) discuss these 'apparent contradictions' in light of their own research, and explain these differences as resulting from the 'researchers paradigm rather than any real contradiction'.

This is further explored by Perren and Grant (2000, p.406), who identify these contradictions as the result of:

'researchers focusing upon different levels (social life worlds) that exist at the same time and interact together but are very different in nature'.

Within discussion of the evolution of management accounting routines in small businesses, Perren and Grant (2000) distinguish between research that adopts a subjective perspective, focusing upon the micro world of the owner-manager, and research focused upon macro-level, objectified management accounting procedures, arguing that differences in perspective account for differences in findings. The focus for researchers at a macro-level is upon the adoption of formalised, objectified, management accounting practices, with little consideration of informal, unconventional practice, whilst subjective approaches reveal informal aspects of practice, but 'do not appear to have considered the potential influence of conventional models and knowledge from outside the micro world of the owner-managers' (Perren and Grant, 2000, p.394). In adopting a social construction perspective, Perren and Grant (2000, p.392) argued that the contradictions between objectivists and subjectivists could be addressed, with recognition of both the owner-managers micro world and the 'possible influence of macro-level, objectified management accounting ideas'.

The above discussion has highlighted how the choice of methodological paradigm implies differences in research findings with regards to the financial management practices of small firms. Objectivist perspectives have tended to identify poor financial management practices and control within SMEs, but have been criticised for assuming that small firms should necessarily adopt normative practices, and for failing to recognise the diverse objectives of small firm owner-managers (for example, Jarvis et al, 2000, Curran et al, 1997). Inductive, qualitative research however has provided evidence to suggest informal aspects of practice are particularly relevant to owner-managers in small firms and can support sophisticated decision making. Perren and Grant (2000) discussed how the adoption of a social construction perspective allowed consideration of the owner-managers micro world, and recognition of the potential influence of what might be regarded as normative practice. However, as Deakins et al (2002) identified, with the exception of Jarvis et al (1996) and Perren et al (1998), research regarding financial management within small firms has been dominated by survey driven approaches, arguably resulting in a constrained understanding of financial management practices.

Given the previous discussion of SME research that identified the need to extend paradigmatic positions and utilise appropriate methodologies, it could be argued that there is a case for the adoption of ontological positions and corresponding research strategies that facilitate investigation of the owner-manager's micro world and the role of informal practice, whilst not ignoring the potential influence of formal practice that exists at a macro level. As a result, research findings should extend beyond reporting and describing. Indeed, as Jarvis et al (1996, p.43) conclude:

‘understanding small business owners’ financial management behaviour needs to be situated in approaches of the kind adopted if much progress is to be made in explaining clearly how small enterprises function’.

Discussion will now consider research specifically concerned with working capital management within small firms, eventually narrowing to a consideration of trade credit management, and will firstly explore the dominant methodological underpinning of this research, and the subsequent implications.

2.5.2 Normative practice and working capital management

A large proportion of the existing body of research has investigated working capital management within small firms by either considering their adherence to normative practices, or by testing theoretically derived explanations for working capital management practices. Normative working capital management practices are derived from neo classical economic theory that assumes profit maximisation is the objective of the firm. This is clearly demonstrated within educational texts representative of 'best practice' (for example; Arnold, 2013; Mclaney, 2011; Watson and Head 2010) for large companies, and within the 'how to' literature specifically aimed at small firms (for example, Barrow, 2006). For example, the level of investment in working capital management is discussed as a trade off between risk and return, whilst the management of the components of working capital are approached in a similar fashion, with management techniques based upon balancing costs and benefits, risk and profitability. Specifically, theory relating to trade credit, as identified by Jarvis et al (1996, p.36), is characterised by management techniques for credit control and credit decisions that require an assessment of costs and benefits, and are derived from 'a given objective to maximise profits'. Whilst potentially representing 'best practice' for large companies, there are a number of characteristics of small firms that imply normative practices may not be effective, or appropriate for SMEs and therefore actual practice might be better understood from an alternative perspective (Jarvis et al, 1996).

One of the key assumptions that under-pins the appropriateness of normative working capital management practices for small firms is that the owner/manager behaves 'rationally' and is a profit maximiser. Rationality in this context is defined as 'instrumental rationality' and implies that actions are undertaken 'in relation to some clearly specified criteria which will best satisfy an actor's objectives' (Curran et al 1997, p.18). However, as identified by Jarvis et al (2000, p.125) owner/managers have been characterised as having 'a range of goals as well as profit maximisation', including, for example, business survival and stability. Curran et al (1997, p.18) identify that 'simple models of instrumental rationality ignore social aspects of human action' and that other forms of rationality, such as procedural and expressive rationality, reflect 'non economic' factors that influence owner/manager behaviour.

Furthermore, Curran et al (1997, p.17) argue that:

‘the application of formal rationality models of financial ‘good practice’ to the interpretation of small business owner decisions with observed departure seen as evidence of poor management skills constitutes a failure to understand human action in economic situations’.

Normative working capital management practices assume that behaviour is determined solely by instrumental rationality, with actors pursuing profit maximisation. However, Jarvis et al (1996, p.43) have found evidence of both procedural and expressive rationality within credit decisions taken by owner/managers, establishing ‘the importance of the forms of rationality other than the instrumental forms which characterise the prescriptive accounting textbooks’.

The issues of gaps between theory and practice do not exist only for SMEs; indeed Ryan et al (1992) identify progression within management accounting literature, tracing the development of research from normative, prescriptive approaches derived from a neo classical economic framework, through to positive accounting research and wider use of a range of methodologies. Ryan et al (1992, p.47) discuss the issues associated with neo classical economic theory and the usefulness of profit maximisation in explaining an individual’s decisions, highlighting that critics of such approaches eventually questioned methodological approaches that involved ‘deductive reasoning’ from such a position, heralding shifts in management accounting research. Descriptive research intended to investigate the practiced reality of management accounting emerged, often using a case study approach. Ryan et al (1992, p.53) highlight the contribution of such approaches in providing rich descriptions and ‘increasing awareness of management accounting in practice’. Interestingly, Ryan et al (1992) also comment that the insight into practice provided does not fit well with the text books; management accounting techniques are used flexibly with little adoption of complex, quantitative approaches.

Normative practice has been derived from economic theory, with profit maximising, large firms in mind. As Jarvis et al (1996, p.43) discuss:

‘the financial management practices of large firms have been used as a template and benchmark for small businesses, but it is apparent that small businesses have different goals’.

In addition, small firms also operate within an environment that is very different to large firms. For example, the capital structures of small firms are dominated by short term

sources of finance, exposing SMEs to macro-economic fluctuations and potential liquidity problems. As identified earlier, the widely different financial and operating environments for small firms imply that financial management practices should suit the conditions; these practices may not be those deemed suitable for large firms. Indeed, as Ryan et al (1992) suggest, normative prescriptions of practice might not prove appropriate nor widely used, even for large firms.

2.5.3 Working capital management and SMEs

Descriptive empirical research concerning working capital management in small firms has tended to emphasise the characteristics of small firms and the adoption of working capital management practices, as identified from normative practice. For example, Peel and Wilson (1996) conducted a postal survey which asked respondents to indicate on a scale of 1-5 the frequency with which they reviewed aspects of working capital management. Participants were asked about aspects of working capital that reflected normative practice, including discount policy, bad debts, and factoring. This type of research strategy therefore imposes upon participants a normative view of practice, doing little to reveal actual behaviour, or acknowledge the owner/managers own motivations. Additionally, results could be affected by the respondent's perception that they *should* be reviewing these aspects of practice frequently.

The potential problems with such a research approach are recognised by the authors (Peel and Wilson, 1996, p. 64) who quote Keasey and Watson (1993, p.14) as stating:

‘that the development of many abstract mathematical models, seems to have ruled out asking people what they do! Instead of a subject that is based upon understanding and improving what people do in practice, we have a subject built around formal models so heavily dependent upon strict rationality conditions that the descriptive and policy relevance of their conclusions are open to considerable doubt’.

Despite the recognition of the potential limitations of such a research approach, Peel et al (2000) undertook further survey based research that considered the credit management practices of small UK manufacturing firms, and factors perceived to be impediments to improving business performance. Creditor and debtor characteristics of small firms were identified, with micro firms appearing to be suffering less from problems of late payment, in comparison to the ‘larger’ small firms. Wilson and Summers (2002) also support these findings, identifying that small firms experiencing growth use the extension of trade credit

to signal financial strength. With regards to credit management, owner/managers were surveyed as to which credit management procedures were used (for example, whether they categorised customer accounts according to solvency risk, or offered discounts for early payment), whilst working capital management is again assessed according to the frequency of review of particular components. Findings identify that smaller firms review working capital less frequently. Although providing empirical evidence of credit management within small firms, this is again assessed against normative practices, doing little to reveal the informal complexities of working capital management in small firms.

Howorth and Wilson (1999) extended the 1996 survey referred to above, using both quantitative and qualitative data to consider late payment and the small firm. This aspect of working capital management has been the particular subject of research due to the recognition of the problem caused to small firms by late payment, and the subsequent ineffectual legislation. Howorth and Wilson (1999) identify that surveys have documented the extent of the late payment problem, but there has been little research considering the payment behaviours of small firms. Survey data established the extent of the late payment problem for small firms, from both the demand and supply side. Multivariate techniques identified factors that were 'shown to impact on firms perceptions of the late payment problem' (Howorth and Wilson, 1999, p.310).

The case studies were used to explore whether late payment arises from dominant suppliers, poor financial management, or the firms financing strategy. Dominance of customers did not appear to be a major problem, whilst the small firms that suffered most from late payment were characterised by under capitalisation and poor credit management. This research offers a more in depth view of working capital management practices within small firms than purely quantitative studies. However, the case studies are only used to explore the importance of the three explanations offered for the problem of late payment. Although this provides some interesting findings when credit management is discussed, for example, descriptions of 'apologetic credit management', this in itself provides evidence of owner/managers behaviour being influenced by factors other than the pursuit of profit maximisation.

Assessment of working capital management practices however continues to occur against a back drop of normative practice. The case ordered matrix analysis of credit management

was carried out by assigning scores for each piece of 'good practice', with good practices identified as; terms in writing prior to sale, credit policy, checks prior to sale, credit references, computerised system, classification of customers by risk of late payment and early payment discounts offered. Despite the case studies identifying interesting aspects of practice, the focus remains upon formalised manifestations of practice revealing little with regards to potentially significant informal dimensions.

Using a combination of case studies and a large postal survey Chittenden et al (1998) undertook a detailed review of the financial management practices of SMEs that included consideration of particular aspects of working capital management. The research included consideration of respondents' perceptions regarding the importance of front end and back end trade credit management, and factors determining credit decisions. Chittenden et al (1998) concluded that despite the significance of managing trade credit, practice tended to be poor, with efforts directed at back end activities but that where a proactive focus upon front end trade credit management existed, that the problem of late payment was reduced. This research recognised that motivational drivers of practice for owner-managers are often ignored, and that 'best practice' might not be appropriate, concluding that proactive credit management and systematic benchmarking should be encouraged by business support agencies.

Howorth and Reber (2003) again utilised the 1996 postal survey, alongside qualitative case studies, to explore the habitual late payment of trade credit by small firms, taking a demand side position. The case studies were used to 'investigate unexpected results' (Howorth and Reber, 2003, p.480) from a multivariate analysis that considered the hypothetical positive relationship between small firm late payment and bank financing, relationships with suppliers, firm size and growth, with a negative association expected between 'habitual late paying firms and use of long term sources of finance, customers paying on time and take up of early payment discounts' (Howorth and Reber, 2003, p.474), concluding that there is 'strong evidence of a financing demand for late payment'(p.480).

The findings therefore are generated from hypothesised explanations of late payment, whereby unexpected results are investigated further with the use of case studies. However, Howorth and Reber (2003, p.480) recognise the potential limitations of a research strategy that is reliant upon proxy variables to operationalise hypothesised explanations, stating that

the 'number of customers/suppliers is a poor proxy for the quality or closeness of the relationship between suppliers and customers'. Similarly it could be argued that asking owner/managers how often they review working capital management practices is a poor proxy for identifying 'active' working capital management in small firms. This research provides interesting findings regarding late payment in SMEs but the research strategy relies upon testing hypothetical explanations for trade credit demand derived from large firms.

Late payment and small firms was also the subject of Chittenden and Bragg's (1997) research that considered the impact from a macro economic perspective. In particular, the research considers the reasons for granting credit; the importance of payment practices; and the impact that late payment has upon SME's and the economy. Analysis of 500 company accounts was conducted to determine the impact on working capital. However, the reasons for granting trade credit are explored from a top down position whereby the extension of trade credit is considered with reference to theoretical, conceptual explanations. Chittenden and Bragg (1997) find from their discussion of the impact of economic motivations, administrative reasons, and the influence of dominant customers, that economically beneficial motivations for extending trade credit have declined, concluding that dominant customers are imposing payment terms. The focus of Chittenden and Bragg's (1997, p.33) research was to consider the potential economic impact of the late payment problem; they found that a late payment multiplier effect existed and that 'well drafted legislation' for a statutory right to interest would be effective. This research explores the issue of late payment and its economic effects, but is not intended to increase understanding of credit management practices within small firms. Explanation of the provision of trade credit is generated from a theoretical perspective; for small firms alternative motivations may be more influential.

Indeed, much of the research undertaken into working capital management within small firms has been concerned with a deductive research strategy and testing theory. Petersen and Rajan (1997, p.689) used a national database of small business finance to test finance advantage theories, price discrimination theories and transaction cost theories, finding evidence of an information advantage to the supplier of trade credit over financial institutions in the form of built in 'trip wires' that provided early signals regarding the

financial distress of a customer. In addition, the opportunity for price discrimination was identified as a further incentive.

Theories of trade credit extension were also tested by Wilson and Summers (2002), but with firms of a smaller size than Petersen and Rajan (1997). Wilson and Summers (2002) consider the different influences upon credit granting for firms with an average of 10 employees. Survey data from a postal questionnaire was used to model small firms' choices of credit terms and credit period as a function of transaction costs, economies of scale, marketing objectives and the use of trade credit to provide finance. Findings suggested that firm size affected credit policy, both directly and indirectly, as did industry norms, lack of access to finance and the nature of the relationship with the client. Wilson and Summers (2002) identify that industry norms influence the credit period, but that this is limited by access to resources and finance. Additionally, relationships with clients can reduce problems with monitoring leading to longer credit periods for repeat customers.

Summers and Wilson (2003) extend their investigation of explanatory theories for trade credit, considering the role of trade credit as a strategic tool in supporting corporate objectives. The theories of trade credit extension and credit terms offered that are tested include; marketing motivations; financial motivations; transaction costs; contract compliance and the impact of specific investments. The FAME (Financial Analysis Made Easy) database provided the random sample of manufacturing companies with a single primary product category used as a means of excluding holding companies and large companies. The credit granting decision was tested using multivariate models. Summers and Wilson (2003) find that trade credit management is an important means of developing relationships with clients and encouraging repeat business, in spite of the influence of industry norms. Firms were found to vary their terms primarily for marketing related rationales that enabled them to secure business.

Howorth and Westhead (2003, p.95) criticise the exploration of working capital management techniques using univariate statistical frameworks for 'failing to appreciate that firm demographics can overwhelm comparative univariate studies'. Their research therefore also offers a multivariate approach, developing testable hypotheses from a resource based view of the firm, agency theory and transaction cost theory, in order to address whether there are different 'types' of small firms with regards to the take up of

working capital management routines. Howorth and Westhead (2003, p.107) identify four different 'types' of firms from a cluster analysis, concluding that 'small firms are not a homogenous group with regard to the take up of working capital management routines', and that due to time constraints working capital management practice may well reflect assessment of marginal returns; owner managers undertake to proactively manage working capital only when it is considered worthwhile. However, the focus of this research remains upon the take up of working capital management routines representative of normative practice; again this is determined by the frequency of review of different aspects of working capital, for example, customer credit risk, customer discounts. These routines are then modelled against independent firm variables, which themselves consist of some questionable dummy variables; the use of discounted cash flow methods of investment appraisal acts as a dummy variable for the level of sophistication of financial skills.

Whilst providing interesting empirical findings, these approaches do not offer any insights into the informal practices of small firms owner managers, with the theoretical explanations being tested derived from neo classical economics and observations of large firm practice. As Curran et al (1997, p.20) identify:

'the methodology of accounting and economics is primarily hypothetico-deductive, that is hypothesis are drawn from existing theory and tested against data, usually quantitatively collected'.

The dominance of positivist, quantitative methodological approaches is problematic if the aim of research is considered to be concerned with uncovering and understanding the management practices within small firms. Indeed as Curran et al (1997, p.20) comment:

'the focus upon variable centred enquiry excludes the economic actor as a legitimate area of research precluding investigation and understanding of phenomena that can only be gained by speaking with these actors'.

The discussion of financial management within small firms highlighted current methodological debates that reflect wider concerns of paradigmatic constriction within the SME research arena. Similarly, research concerned specifically with both financial management and working capital management practices of SMEs is dominated by quantitative, positivist approaches focused upon the adoption of normative practices, or upon the testing of hypotheses derived from neo classical economic theory. Such research has tended to identify a lack of financial management skill in small firms. In contrast,

research underpinned with a qualitative research methodology has surfaced evidence of sophisticated and effective decision making.

The dominant, positivist approaches have been questioned in terms of their appropriateness; as Jarvis et al (1996, p.43) highlight the:

‘financial management practices of large firms are used as a template and benchmark for small businesses but it is apparent that small businesses have different goals and cost structures’.

Furthermore, small firms are different from each other, and their larger counterparts, with varying aspects of environmental exposure, and distinct financial structures. Perhaps more fundamentally, small firm owner/managers have also been shown to have complex motivations for their actions and behaviour, extending beyond simple profit maximisation.

Research regarding working capital management has tended to assess small firms against ‘best practice’ and provide explanations of behaviour based upon testing theoretical concepts generally derived from neo classical economics. As a result, very little research has been undertaken that explores the informal practices of owner/managers, or recognises fully the owner-managers micro world. Subsequently, existing understanding of working capital management practices within SMEs is derived from a positivist paradigm (Grant and Perren, 2000) that has particular associated limitations. In order to deepen understanding of working capital management within small firms it is therefore necessary to undertake research that addresses the lack of emphasis upon informal decision making and practices, and avoids normative assumptions of best practice whilst allowing for recognition of the influence of macro-level, objectified practice.

In consideration of concerns with existing methodological approaches, this research has therefore sought to address the tension between formal and informal firm practice, recognising the potential influence upon practice of formal structures whilst fully exploring the role and significance of the owner-managers micro world and the emergence of idiosyncratic, informal mechanisms. Structuration theory (Giddens, 1984) emerged as a useful, broad paradigmatic lens through which to view trade credit management, compatible with the concerns discussed above. From this perspective normative, formal practice is represented within macro-level knowledge and conceptualised as existing within social structures, whilst informal dimensions of practice are apparent within the reflexive

agency of practitioners. This will be discussed more fully within the methodology chapter. The final section of the literature review chapter will consider why the management of trade credit within small professional firms has formed the focus of this research.

2.6 Small professional firms and working capital management

The economic importance of SMEs to the UK is well established, with small firms recognised as accounting for ‘52% of aggregate business turnover and 56% of private sector employment’ (Bank of England, 2004, p.7). Indeed, as Fraser (2004, p.23) identifies ‘between 1999 and 2003, employment in private sector SMEs grew by 4.7%, set against a 4% fall in private sector large firm employment’. Central to recent government policy has been the narrowing of the UK productivity gap (Atkinson and Hurstfield, 2004), within which small firms and enterprise are identified as having key roles. The Bank of England (2003, p.8) highlights the important contributions of SMEs to improvements in productivity reporting that:

‘small firms make a major contribution to GVA (Gross Value Added) and their productivity can exceed that of large firms’.

The Bank of England (2003, p.5) provide the following definition of GVA:

‘Gross Value Added represents income generated by business out of which wages, salaries and the cost of capital investment and finance charges are paid before arriving at a figure for profits’.

Statistical data collected at the beginning of 2011 by the Department of Business, Innovation and Skills identified that SMEs accounted for; 99.9% of all private sector businesses; 58.8% of private sector employment; and 48.8% of private sector turnover (Department of Business Innovation and Skills, 2011). Fraser (2004, p.23) also reports that ‘numerous studies have identified enterprise as leading to higher rates of productivity growth and innovation’, concluding that ‘the performance of this sector of the economy is therefore integral to the overall performance of the UK economy’. Woods et al (1995) similarly discussed the economic importance of small businesses, making particular reference to their role in the UK’s recovery from the recessionary conditions that were prevalent during the early 1990’s. However, Woods et al (1995, p.116) also identified that aggregate data concealed:

‘large inter-sector variations’, highlighting that ‘the 1980’s saw a continued shift towards the service sector so that by 1992 manufacturing industries...constituted around 10 per cent of businesses and services...around 66 per cent (Business Monitor 1992)’.

Woods et al (1995, p.116) conclude that:

‘small firms, in the main, are in the service sector and so the relatively superior performance of small firms is partly a reflection of this sectors performance’.

The particular macro-economic contributions of small business service firms have been clearly documented by Keeble et al (1991, p.440), who define ‘business services’ as:

‘a term which can be used to cover a wide range of activities providing expertise and services to other organisations and businesses. These include service activities concerned both with handling tangible products...and with providing intangible expertise’.

Keeble et al (1992) report the rapid growth of UK, small business service firms, identifying growth rates in the stock of businesses between 1985-1990 of 114% for management consultancy, 106% for personnel recruitment and employment agencies, and 37% for advertising and market research. In addition, Keeble et al (1991) compare the growth rate of 122% between 1981-1990 for overall employment in ‘other business services’, with a decline in manufacturing employment of 17.5%, over the same period. Glancey et al (1998, p.250) refer to research that considers small business service firms from a ‘macro perspective’ and summarise the following contributions of the sector to economic development:

- ‘the creation of wealth and high quality employment in a high growth area of economic activity;
- their survivability in periods of recession;
- the beneficial impact of their services on the performance of their clients (which are typically other small and medium sized firms) which can lead to significant local income and employment multiplier effects;
- their contribution to the development of the knowledge base of local economies, which can lead to sustained local economic development’.

Despite the acknowledged economic contributions of small business service firms, small business research has tended to exhibit, according to Ram (1999, p.2) a:

‘persistent tendency to focus upon the low skill manufacturing sector, rather than the high skill services characteristic of the business service sector’.

Similarly, Woods et al (1995, p.116) highlight an ‘over concentration on manufacturing firms’ as a commonly identified weakness of small business research. Given the economic importance of the sector, further research concerning small business service firms could be argued worthwhile.

Research concerning working capital management within small firms is dominated by surveys that, in general, cover a broad range of industries, for example, Wilson and Summers (2002); Peel et al (2000); Howorth and Wilson (1999). Other qualitative research, for example Jarvis et al (1996), has considered a sample of firms that has an equal proportion of manufacturing and service sector firms. There are few examples of research studies that have undertaken in-depth investigations of working capital management solely within small business service firms. Perhaps the closest example of such a study is provided by Perren et al (1998). Whilst not directly considering working capital management, Perren et al (1998) offer a consideration of management information, control and decision making within service sector businesses. Their rationale for focusing upon this sector is clearly identified, with Perren et al (1998) pointing to the prevalence of service sector firms amongst SMEs, and their associated high growth rate.

Keeble et al (1991) define small business service sector firms broadly, encompassing, as identified by Glancey et al (1998, p.249):

‘a wide range of activities from basic services such as catering and cleaning to intangible expertise such as accountancy, legal advice and management consultancy’.

However, Keeble et al’s (1992) research focuses upon those small business service firms that O’Farrell and Hitchens (1990) distinguish as offering expert, strategic advice. Keeble et al (1992, p.12) describe these particular small business service firms as:

‘information intensive services which exist to provide their clients with strategic information and expertise which is both relatively intangible, durable in its effects and concerned with problem solving and policy making rather than routine administration’.

Glancey et al (1998, p.249) identify that the ‘defining feature of all business services firms is that they are fundamentally information intensive and they trade knowledge’, but this

can be seen considered particularly true of the small business service firms focused upon by Keeble et al (1992, p.12), and identified as providing ‘white collar expertise’. Small, professional firms offering highly skilled services, fit within the scope of Keeble et al’s (1992) definition of small business service firms that provide strategic information and expertise, and to which intangible, knowledge based assets are particularly important. Ram (1999), echoes the importance of knowledge and information to small professional firms, describing their characteristic high skill base and information intensive nature. In addition, Proudlock et al (1999) highlight a defining feature of professional SMEs is their information intensity. Therefore, the most significant asset to small professional firms could be argued to be their intangible knowledge base.

The relationship between the small professional firm and client has also been identified as a defining characteristic of this sector. As Keeble et al (1991, p.440) discuss, small professional firms must ‘work and interact very closely with their clients’, whilst Proudlock et al (1999, p.245) identify small professional firms as ‘dependant upon the capture of clients and provision of an acceptable level of service thereafter’. A high level of interaction with the client is demanded through the small professional firms provision of often bespoke advice or services, as Ram (1999, p.23) discusses ‘furthermore, in professional service environments much of the work requires specialised interaction with clients whose problems can be unique’. Masurel and van Montfort (2006, p.467), in a consideration of the life cycle characteristics of architectural firms, also highlight that small professional firms ‘provide highly customized and highly personalised services’. As a result, the small professional firms’ relationship with clients can be seen to be especially important to this sector, requiring a high level of interaction and the provision of tailor made expertise.

For small professional firms, whose key assets are intangible and knowledge based, potential problems may therefore exist if they seek to raise finance, and are required to provide collateral. As previously discussed, recent survey evidence suggests that small firms exhibiting these characteristics may face difficulties in raising start up capital, or in securing funds for expansion. In addition, alternative, asset based sources of finance, such as factoring, have been found by Summers and Wilson (2000) to be less accessible to firms with highly customised products, products that are complex and technical and therefore susceptible to dispute, and complex goods and services that use staged payment

terms. Small professional firms offer bespoke, complex and/or technical services, and may well adopt the use of staged payment terms; clearly factoring is therefore unlikely to be widely available, or appropriate, for this sector. The internal management of short term financial resources could therefore be considered as particularly pertinent, given the potential for access to external finance to be restricted.

Small professional firms close involvement with their clients also provides a rich, social encounter within which to consider the management of accounts receivable. Practitioners in small professional services firms provide advice and services that through requiring a high degree of interaction between the client and the firm, engenders the development of an inter-personal relationship. The services provided are characterised as being highly customised and highly personalised (Masurel and van Montfort, 2006), thus offering a rich and complex area for the investigation of dealing with clients. Additionally, the service to the client is generally provided in the form of information, advice and expertise. Therefore, in terms of the working capital cycle, for small professional firms, there is no stock in the traditional sense, with the major inputs being the professionals' time and knowledge base. The key element of the working capital cycle for cash flow within small professional firms' will be the management of amounts owed by the client.

The importance of small business service firms to economic development has been established above (Woods et al, 1995; Glancey et al 1998), yet it has been observed that SME research in general tends to focus upon the manufacturing sector (Ram, 1999). A consideration of small professional firms therefore offers the opportunity to research a sector of economic significance. The distinctive characteristics of small professional firms determine the importance of working capital management, and in particular the management of amounts owed, however few studies of working capital management within small professional firms have been undertaken. Firms characterised by a high level of intangible, knowledge based assets will potentially find it more difficult to raise finance, whilst alternative forms of asset based finance are unlikely to be available (Fraser, 2004; Graham, 2004a; Paul et al, 2007). Under such circumstances, the importance of internal management of financial resources is accentuated; as the management of amounts owed within small professional firms has a particularly major and direct impact upon the cash flow of a business, it can therefore be considered an especially pertinent aspect of financial management. In addition, the personalised and highly interactive relationships between

small professional firms and clients (Ram, 1999; Masurel and van Montfort, 2006) offer the opportunity to consider the management of amounts owed within a rich, complex, social context. This research will therefore provide an in-depth, qualitative investigation of the management of accounts receivable, within small professional firms.

This research focuses upon small professional firms, distinguished from small business service firms in general by their provision of expert, strategic advice and services (Keeble et al, 1992). However, concepts of ‘smallness’, and definitions of size, have not been fully addressed. There are numerous quantitative definitions of ‘small’ that could be operationalised however there are problems associated with the adoption and imposition of such definitions (Curran and Blackburn, 2001; Torr s and Julien, 2005). Alternative qualitative definitions have also been developed, of which Curran and Blackburn (2001) provide critical discussion, before considering approaches that combine both quantitative and qualitative elements. Discussion of how to appropriately define what can be considered as a small, professional firm, and the operational realities encountered will be returned to in more depth within the methodology chapter.

2.7 Conclusions

Small firm financing has long been of interest to both researchers and policy makers alike. In recent years, the economic importance of the small firm has come to be more fully recognised and celebrated, drawing attention to issues regarding the inception and development of SMEs, including small firm access to finance.

Finance ‘gaps’ have featured strongly within research concerning small firm financing but over time issues of access appeared to have diminished for the majority of small firms; debt finance was more widely available and there were observed changes in the capital structures of small firms as short term financing was replaced to some extent with longer term options. However, the interaction of both demand and supply side factors continued to generate potential barriers to finance for some small firms, particularly start ups and firms pursuing expansion, whilst the capital structures of SMEs remained characterised by reliance upon internal resources, and a continued preference for short term, non intrusive finance options. However the global financial events that began during 2007/08 have

resulted in a subsequent contraction of credit, with supply side issues with regards to the provision of finance to SMEs reasserting themselves as significant problems.

Small firms, therefore, are more likely to be exposed to under capitalisation and liquidity problems. These financial features of small firms, coupled with the needs of firms wishing to expand but perhaps unable to access finance imply that the management of internal financial resources for SMEs could be regarded as extremely important. The management of short term assets and liabilities, working capital management, can therefore be considered particularly relevant for small firms. Accounts receivable and managing payment is an area of working capital that poses distinct issues for small firms and the management of their cash flow, mainly as a result of late payment. The provision of trade credit by small firms therefore forms the focus of this research.

The majority of research regarding financial management within small firms has concluded that financial management is poor, but this may in part be explained by the paradigmatic methodological position of the research. These dominant, quantitative strategies have been questioned particularly in terms of their underpinning assumptions, and the appropriateness of these for SMEs. Other research, adopting alternative qualitative approaches, has found contradictory evidence of effective and appropriate practices. Current understanding of working capital management in SMEs is dominated by deductive, quantitative research studies focused upon normative practice that by design offer little insight into informal dimensions of practice.

Small business service sector firms are widely recognised as a particularly important, growth sector of SMEs that contribute to economic development in a number of ways.

Small professional firms offer a rich context within which to consider the management of amounts owed. With intangible, knowledge based assets likely to constitute those of most value within small professional firms, the raising of external finance may be problematic where collateral is required. The internal management of financial resources has therefore been argued to be of particular relevance to this sector. In addition, the highly interactive relationships with clients, and the significance of amounts owed to the cash flow of the firm, imply that the management of amounts receivable is an aspect of financial management of considerable importance to small professional firms.

Given the demonstrated importance of working capital management to SMEs, and in particular the issues of late payment, it is the intention of this research to adopt an inductive, qualitative approach to the investigation of trade credit management in small professional firms. This research will address a lack of emphasis upon informal dimensions of firm practice, and a lack of emphasis upon small service sector firms. A grounded, inductive, approach will facilitate the surfacing of informal decision making and practices, and the influences upon them, rather than focusing primarily upon the role of normative practice.

It is hoped therefore that this research will directly contribute to our understanding of small firm practice in an important aspect of their financial management, and within a sector of increasing economic significance, by revealing previously hidden dimensions of informal practice. A structuration approach will enable the trade credit management of small professional firms to be considered as emergent from the interaction of agency and structure, with the research positioned so as to avoid privileging either the owner managers micro world, or the role of macro-level knowledge. The following chapter discusses and justifies the ontological position of this research and the methodological approach, and provides an overview of the analytical techniques employed.

Chapter 3: Methodology

3.1 Introduction

The aim of this chapter is to discuss the ontological position of this investigation of trade credit management within small professional firms, and qualify the approach and research strategy employed. This chapter will therefore discuss the methodological underpinning of the research, providing a rationale for the philosophical position and a thorough evaluation of the research strategy adopted.

Specifically, this research seeks to address the following central research questions, located within the contextual environment of the small professional firm:

- How is trade credit managed within small professional firms?
- Why are particular practices used?

Discussion of a case study research strategy will demonstrate compatibility with the ontological stance of the research, whilst a multiple case study approach is found to offer a comprehensive and suitable research design. Once the type of case study has been justified in terms of its appropriateness for this research, a thorough account of the research design is provided, covering broadly; how cases were defined and selected; the collection of data and undertaking of field work; and the approach to data analysis, both within and across cases. The complex nature of the qualitative data analysis undertaken has necessitated the inclusion of a separate chapter that details the steps and processes involved. Chapter 4 therefore provides a full discussion of data analysis and follows directly; this chapter provides an overview of the approach only.

3.2 The ontological approach to the investigation of trade credit management within small professional firms

As discussed within Chapter 2, the majority of the existing research regarding financial management within small firms is underpinned by a positivist ontology, within a quantitative research paradigm. The dominance of this particular paradigmatic perspective reflects similar methodological concerns within SME research more generally (Blackburn and Kovalainen, 2009) and highlights the need for a range of perspectives to avoid constricting research findings to a particular paradigm (Grant and Perren, 2002). Positivist investigations of financial management within SMEs tend to be associated with the assumption that small firms should adopt normative practices and often ignore the diverse objectives of owner-managers (Jarvis et al, 2000; Curran et al 1997). Discussion within the literature review highlighted a resultant need to rebalance existing understanding of financial management practices from the current focus upon the ‘extent that objectified management accounting ideas are employed within small businesses’ (Perren and Grant, 2000, p.393). Such approaches are unlikely to reveal informal, idiosyncratic dimensions of firm practice that reflect the owner-managers micro-world, and that may prove both effective and appropriate.

There is, therefore, within the research concerning financial management within small firms, an emphasis upon deductive, quantitative research strategies with objectivist ontology’s, that consider, at a macro level, the adoption of formal, normative, practices. These approaches are generally typified by the view that the role of research is to ‘test theories and to provide material for the development of laws’, (Bryman and Bell, 2003, p.14), and apply the methods of natural science to the study of social reality. However, as Shaw (1999) identifies, the infancy of small business research has implications for paradigmatic positions that pose particular problems for hypo-deductive, positivist approaches. Shaw (1999, p.60) quotes Bygrave (1989) as arguing that:

‘emphasis in an emerging paradigm should be on empirical observations with exploratory, or preferably grounded research, rather than testing hypotheses developed from flimsy terms’.

Indeed, Shaw (1999) further argues that reliance upon hypo-deductive approaches in such circumstances can inhibit our understanding of small firm processes and activities.

Furthermore, Shaw (1999, p.60) identifies that small firm research is concerned with the study of 'human action and behaviour', and, therefore, the nature of reality in the social world. Bryman and Bell (2003, p.17) refer to the work of Schutz (1962), who argued that:

'there is a fundamental difference between the subject matter of the natural sciences and the social sciences and that an epistemology is required that will reflect and capitalise upon that difference'.

As Shaw (1999, p.60) identifies:

'the human subjects of the social world possess the ability to think for themselves, comprehend their own behaviour and have an opinion about the social world of which they are a part'.

Shaw (1999, p.60) concludes from this that 'the study of small firms cannot be approached from the exterior standpoint demanded by the positivist approach', highlighting that:

'by stripping small firm problems of the context within which they occur naturally, the findings produced by positivist approaches are generalisable only to the extent that the conditions under which the data are collected exist in the social world'.

Shaw's (1999) interpretivist position reflects that of Schutz (1962), who emphasised the importance of gaining access to peoples 'common sense thinking' in order to interpret their actions and social world from their point of view. As Curran and Blackburn (2001) identify, an interpretivist perspective acknowledges that subjects are conscious of their environment, which has important implications for understanding human action. Critically, interpretivists would argue that:

'while the subject matter of the natural sciences can be studied and understood by imposing an external logic or theory on it, the subject matter of the social sciences cannot be understood in this way: the meanings interpretations, intentions and world views of the subject matter (human beings) must also be incorporated' (Curran and Blackburn, 2001, p.44).

However, as Perren and Grant (2000) highlighted, research concerned primarily with examining the micro world of the owner-manager may also neglect the influence of externally generated knowledge.

Current understanding of working capital management within SMEs has therefore been mainly informed by approaches that do not address the role of informal practice, which has proven in other areas of small business management to be an important dimension, exhibiting both sophistication and appropriateness. In addition the complex, contextual conditions within which practice occurs have not been fully considered, or explored. In

order to deepen understanding of working capital management practices within small firms it is therefore necessary to undertake research that will; address the lack of emphasis upon informal dimensions of decision making and practice; consider practice within the contextual conditions of occurrence; and avoid the imposition of best practice. In addition this research seeks to shed light on practice at all levels, allowing recognition of the influence ‘of conventional models and knowledge from outside the micro world of the owner-manager’ (Perren and Grant, 2000, p.384). Therefore, this research has sought to adopt an ontological position that embraces the micro-world of the owner manager without neglecting the influence and role of externally generated knowledge (Perren and Grant, 2000).

This research therefore requires an approach that; enables the surfacing of informal practices embedded in rich, complex, contextual conditions; recognises the potential for macro level influences, and allows development of well grounded, causal explanations. As identified within the literature review, structuration theory (Giddens, 1984) provides a broad theoretical lens through which to view trade credit management within small professional firms that accommodates the tensions between existing paradigmatic approaches with regards to privileging either the micro-world of the owner-manager or the macro-level where externalised, normative practice is situated. Indeed, the sociological debate between the role of structure and agency is well worn and Giddens’ (1984) initial intent with the development of structuration theory was to incorporate both subjective and objectivist ontologies, and in doing so address the prevailing dichotomy between the two perspectives. The following section presents a discussion of structuration theory that outlines key aspects and links the approach to the research strategy selected.

3.3 A Structuration theory approach to the investigation of trade credit management

3.3.1 Introduction

Structuration theory has been previously used as lens through which to view aspects of entrepreneurship (for example, Sarason et al, 2006) and accounting (Macintosh and Scapens, 1990). For this research, structuration theory (Giddens, 1984) similarly provides a broad theoretical lens through which to view firm practice, offering an approach that allows the conceptualisation of trade credit management practice as emergent from the complex interaction of practitioner agency and social structures. This section of the methodology chapter will therefore discuss structuration theory and identify the compatibility with the research strategy adopted. The main components of structuration theory will therefore be discussed, followed by consideration of how such an approach fits with this research.

3.3.2 The issues of agency and structure: Structuration theory

The active making and remaking of social structure is referred to by Giddens (2006) as 'structuration'. Giddens (2006, p.108) explains that:

'societies, communities or groups only have structure in so far as people behave in regular and fairly predictable ways. On the other hand action is only possible because each of us, as an individual, possesses an enormous amount of socially structured knowledge'.

The primacy of social structure versus individual capacity with regards to a person's actions has been long debated within sociology, with differing perspectives regarding the reflexivity of an individual. Giddens (2006, p.108) argues that structuration theory provides an opportunity to reconcile these perspectives and:

'bridge the gap between 'structure' and 'action' approaches' by recognising that we 'actively make and remake social structure during the course of our everyday activities'.

Structuration is therefore a reciprocal process, with social structures emerging as the result of individuals regular and predictable patterns of behaviour, but with the behaviour of an individual enabled through their socially structured knowledge (Giddens, 2006). Social structures and action are conceived as interconnected; social structures emerge from the regularity of individual's behaviour, yet an individual's behaviour presumes the existence

of structure. Structuration theory therefore highlights the significance of both structure and agency, and in doing so addresses the debate within sociology regarding the reflexivity of an individual, and the opposing positions of objectivist, structuralists, and subjective, humanists (Macintosh and Scapens, 1990). As Giddens (1984,p.2) states:

‘the basic domain of the study of the social sciences according to the theory of structuration is neither the experience of the individual actor nor the existence of any form of societal totality, but social practices, ordered across space and time’.

Central to structuration theory is the presumption of the ‘duality of structure’. For Giddens (2006, p.108):

‘this means that all social action presumes the existence of structure but at the same time structure presumes action because ‘structure’ depends on regularities of human behaviour’.

The concept of duality is discussed by Sarason et al (2010) metaphorically using a W.B. Yeats poem (used before within previous entrepreneurial research by Gartner, 1989) that poses the question, how can we know the dancer from the dance? For Sarason et al (2010, p.241) a structuration perspective implies that you cannot; structure and agency are inseparable from one another, but this also allows for a closer consideration of their interaction and is therefore capable of portraying complex activities where ‘we continue to struggle with understanding the dancer apart from the dance’.

Within structuration theory, structure and agency are therefore both important notions. The meaning of ‘structure’ for Giddens (1984, p.16) is distinct from the conceptions of functionalists, who are characterised as viewing structure as ‘the ‘patterning’ of social relations’ that exist externally to human action, and act as constraints upon the individual, reflecting the ‘dualism of subject and social object’. For Giddens (1984, p.17), structure refers to ‘the structuring properties allowing the

‘binding’ of time-space in social systems, the properties which make it possible for discernibly similar social practices to exist across varying spans of time and space and which lend them ‘systemic’ form’.

Structure is defined as ‘recursively organised sets of rules and resources’ (Giddens, 1984, p.25) that ‘individuals draw on and reconstitute in their day to day activities’ (Sarason, et al, 2006, p.291). Therefore, structures exist in a virtual capacity as the result of human action that both draws upon and reconstitutes them; structures are instantiated by agents

but can change dynamically both radically and gradually. As Sarason et al (2006, p.292) states

‘thus structures are both the medium and the outcome of the situated practices that make up a social system’.

Giddens (1984) identifies three dimensions of social structure that are intrinsically linked and considered separable only for analytical purposes; signification, legitimation and domination. Signification structures convey meaning within social interaction. Macintosh and Scapens (1990, p.460) identify that ‘interpretative schemes are the cognitive means by which each actor makes sense of what others say and do’, mediating between the ‘(virtual) structure and the (situated) interaction’, in procedures referred to by Giddens (1984) as ‘modalities of structuration’. Therefore signification structures convey meaning, accessed via interpretative schemes, and yet the signification structures have meaning ‘prior to the interpretative scheme’ (Macintosh and Scapens, 1990, p.460) as there will exist ‘shared understandings of meaning...presupposed by the interpretative scheme’ (Macintosh and Scapens, 1990, p.460). For Macintosh and Scapens (1990), a management accounting system acts as an interpretative scheme positioned between the signification structure and communication, acting as a mediator in the social interaction of managers. In this context the signification structure is considered to be made up of the

‘shared rules, concepts and theories which are drawn upon to make sense of organisational activities’ (Macintosh and Scapens, 1990, p.460).

Legitimation structures are concerned with the normative rules and moral obligations of a social system and represent a shared set of values (Macintosh, 1994). According to Macintosh, (1994, p.174) legitimation structures:

‘constitute the shared set of values and ideals about what is regarded as virtue, what is to count as important and what ought to happen in social settings’.

Similarly, legitimation structures determine what should not happen. Normative rules of conduct therefore mediate the legitimation structure, sanctioning or otherwise agent’s social interactions (Macintosh and Scapens, 1990). As Macintosh (1994, p.174) states:

‘the norms specify how to operationalise the values, while sanctions make agents morally accountable for their actions. The legitimation dimension institutionalises the reciprocal rights and obligations of the members of a social order’.

Macintosh and Scapens (1990, p.461) consider accounting systems as follows, with the structuration perspective adopted highlighting the role of accounting in conferring legitimacy upon the actions of managers:

‘a medium through which the legitimation structure can be drawn upon in social interaction within organisations’.

Domination structures are intrinsically associated with the exercise of power over resources. For Giddens (1984), there are two types of resources; allocative resources, that refer to the ability to hold command over material objects, and authoritative resources, which refer to the ability of agents to command others. Macintosh (1994, p.175) discusses how ‘domination structures are drawn on by means of allocative and authoritative resources’ and that ‘both power resources provide for the coordination and control of things and people within social systems’. Macintosh and Scapens (1990, p.461) discuss how Giddens (1984) differentiates between power in its broad sense as the ‘ability to get things done and to make a difference in the world’ and power in the narrow sense as ‘simply domination’, highlighting that social relations involve power in both senses. However, the capacity to exercise power within structuration theory must be viewed as a two way social process, available to all agents through what is referred to by Giddens as the ‘dialectic of control’. Agents that might be categorised as ‘subordinate’ still have access to resources that can be leveraged in order to exercise power. Management accounting and control systems are considered by Macintosh and Scapens (1990, p.461) as:

‘a key element in the process of accountability in organisations and consequently a major facility for the mediation of the domination structure in relations of power’.

Within structuration theory, agency is associated with power, and the capability of the agent to act (Giddens, 1984). Agents, or actors, are regarded as purposive within their social interactions; agents are knowledgeable, responding flexibly based upon implicit stores of knowledge and social rules (Sarason et al, 2006). An agent has the ability to intervene so that social structures are not merely adhered to in a passive sense, but can be modified and altered, an important aspect that sets structuration theory ‘into motion’ (Macintosh and Scapens, 1990, p.458). Giddens (1984, p.14) views the connection between action and power as primarily concerned with the ability of agents to be able to ‘act otherwise’, implying that agents can intervene in the world, or not; to be an agent requires the ability to ‘make a difference’ and thus exercise power.

Giddens (1984, p.5) further states that the:

‘reflexive monitoring of activity is a chronic feature of everyday action and involves the conduct of not just the individual but also of others’.

Sarason et al (2006, p.291) define reflexivity as ‘the capacity of humans to routinely observe and understand what they are doing while they are doing it’, whilst Macintosh and Scapens (1990, p.458) highlight the implicit, routine nature of reflexive monitoring, whereby agents

‘reflexively monitor social settings and respond in terms of implicit stocks of knowledge which are not directly accessible to the consciousness of the individual agent’.

In rationalising their actions, actors routinely maintain a ‘‘theoretical understanding’ of the grounds of their activity’ (Giddens, 1984, p.5). Giddens (1984, p.6) highlights that this rationalisation might not necessarily be articulated, but that ‘actors will usually be able to explain most of what they do, if asked’. As Macintosh and Scapens (1990, p.458) summarise:

‘individuals are not just social dupes, but existential beings who reflexively monitor and provide rationales for the character of the ongoing flow of their social life’.

Within structuration theory, reflexivity is enacted at both a discursive and a practical level of consciousness. At the discursive level of consciousness purposive agents can rationalise and articulate their actions. At the practical level of consciousness reflexive monitoring still occurs but relies upon implicitly held stocks of knowledge that are not easily expressed or explicitly referenced during an interaction (Macintosh and Scapens, 1990). Macintosh and Scapens (1990) identify how Giddens (1984) draws upon the notion of ontological security, established through regular and reliable social interactions, to explain the routine reproduction of social terms. Discursive and practical levels of consciousness are influenced by an agent’s desire for ontological security, which is situated within their unconscious.

3.3.3 Structuration theory and trade credit management

Issues concerning agency and structure are apparent within the SME arena and reflect wider debates (Blackburn and Kovalainen, 2009; Grant and Perren, 2002), with research tending to focus upon either agency (micro-worlds) or structure (macro-level) and empirical studies exploring their interaction and mutual dependency rare (Perren and Grant, 2000). Previous research concerning trade credit management, or more broadly

financial management, within SMEs has been shown within the literature review to focus primarily upon externally determined, formal aspects of firm practice and is largely concerned with the uptake of normative practices, with positivism the dominant paradigmatic position.

Within their examination of the entrepreneurial process, Sarason et al (2006, p.300) identify that:

‘a structuration perspective offers a contrast to the positivist or post positivist ontological perspective that dominates entrepreneurial, and indeed management research’.

For Sarason et al (2006, p.300), a structuration theory perspective implies an approach that views agents as reflexive and who through their observations therefore have the ability to potentially change ‘what is to be observed’. Entrepreneurship is described by Sarason et al (2006, p.287) as a ‘social undertaking’ that must be understood ‘within the context of social systems’. A structuration theory perspective of entrepreneurship is therefore argued to provide ‘unique insights to the traditional view’ that the ‘entrepreneur fills market gaps’ and designs entrepreneurial ventures ex ante (Sarason et al, 2006, p.288). Entrepreneurship ventures are instead conceptualised as evolving from ‘recursive processes’, with the entrepreneur and opportunity situated within a duality, with each interdependent upon the other. Sarason et al (2006, p.303) are concerned with the nexus of entrepreneur and opportunity, arguing that in order to understand the nexus an approach is required that ‘accounts for both individual and structural elements’ and that furthermore ‘applies a comprehensive conceptualization of the nature of the nexus’. Structuration theory is proposed as an approach that achieves these requirements and that ‘provides a conceptual foundation useful in the study of entrepreneurship’ (Sarason et al, 2006, p.303).

Parallel arguments can be identified with regards to the investigation of trade credit management within small firms. Trade credit management can be viewed as a social interaction that is contextually embedded. However, as previously discussed, much small firm financial management research is primarily concerned with the influence of macro-level knowledge that is structurally enshrined and manifested within normative practice; such approaches view firm practice as distinct from the practitioner. Research positioned within the dominant paradigmatic perspective does not therefore explore the potential recursive interaction between social structures and firm practice, nor fully recognise the

role of practitioner agency in shaping trade credit management. The approach of this research is to explore practice as a recursive, evolving process that recognises the significance of practitioner's interactions within their environment, privileging neither agency nor structure. Firm practice within this research is thus viewed as emergent from the dynamic interplay of structure and agency in a manner informed by structuration theory (Giddens, 1984).

This research draws broadly upon the work of Giddens (1984) with the notion of structuration providing an enabling framework through which to view trade credit management and avoid the dichotomy between subjective and objective perspectives. Firm practice is considered from the perspective of a duality; trade credit management is a complex social interaction, constructed and reconstructed through the actions of practitioners that are potentially both enabled and constrained by structural properties. Trade credit management could therefore be considered as emergent from the recursive process between practitioner and social system whereby practitioners create trade credit management practice, whilst in addition practising in a manner that anticipates the existence of structures that are, in turn, dependent upon the regularities of the practitioner's behaviour.

Sociological debate surrounds the adoption of any ontological position and indeed there has been nuanced discussion regarding the relative virtue of structuration theory and critical realism within the entrepreneurship arena (see Mole and Mole (2010) and Sarason et al (2010)). However, the previous work of Macintosh and Scapens (1990) in the accounting field, and Sarason et al (2006) within entrepreneurship, highlights how the meta-theory of structuration can be applied to offer new insights whilst the previous discussion has demonstrated the potential of a structuration theory approach to address empirical gaps with regards to understanding trade credit management in small professional firms. Within this research the meta-theory of structuration will therefore provide a useful perspective to a middle-range application (Merton, 2007); the consideration of trade credit management.

In terms of the methodological implications of structuration theory, Sarason et al (2006) identify that subjective, qualitative research methodologies are closely affiliated, allowing recognition of the agent, whilst in addition representing the enabling and constraining

influence of structures. Sarason et al (2006, p.302) further discuss how qualitative research focuses upon answering ‘what’, ‘why’ and ‘how’ questions in an attempt to understand, rather than explain, identifying a range of ‘qualitative tools’ that could be employed, that include multiple case studies. This research seeks to add to existing knowledge regarding financial management practices within SMEs, by adopting a qualitative, inductive, method of inquiry with a broadly structuration theory perspective. An appropriate research strategy is required that recognises the significance of considering trade credit management practices within complex and varied contextual conditions, and that will facilitate the gathering of qualitative accounts of practice in order to consider the situated reality of *how* trade credit is managed and *why* particular practices are used.

The research strategy must facilitate the recognition of the existence and influence of external macro-level knowledge without assuming normative prescriptions of practice, whilst exploring fully the role of informal practice emergent from the micro-world of the practitioner as reflexive agent. Through careful analysis of qualitative accounts of practice set in rich and complex contexts, it is intended to provide causal descriptions of trade credit management practices in small professional firms, and deepen understanding of the role of informal and formal practice and their interaction. A case study research strategy provides an approach consistent with structuration theory, offering a strategy that is suited to addressing ‘how’ and ‘why’ questions within a particular context, and that also embraces inductive, qualitative methods. Case study research does not dictate a particular philosophical location, but accommodates a range of ontological positions, within which a broadly structurationist approach can be established. This research has therefore adopted a case study research strategy, to be discussed more fully within the following section.

The collection and analysis of qualitative data will be operationalised broadly in line with techniques suggested by Miles and Huberman (1994) who consider themselves transcendental realists, distinguished from structuration theory. However, given the close relationship between critical realism and structuration theory, the data analysis techniques that they discuss and suggest can be applied in a manner compatible with a structuration approach, and that allows the agency of the practitioner to emerge inductively, alongside the causal influence of social structures. Giddens (1984) therefore provides a useful enabling language through which to consider findings and build understanding of the reality of trade credit management practice within small professional firms.

3.4 Research strategy

3.4.1 The rationale for a case study research strategy

Within Yin's (1994) comparative discussion of five alternative research strategies three conditions are identified that enable the researcher to distinguish between them, by evaluating their appropriateness for a particular area of research. The three conditions identified by Yin (1994, p.4) consist of:

‘(a) the type of research question posed, (b) the extent of control an investigator has over actual events, and (c) the degree of focus on contemporary as opposed to historical events’.

The five strategies identified by Yin (1994) include: experiment, survey, archival analysis, history and case study. Of these, a clear rationale for the suitability of a case study strategy can be established. Whilst it is true that the focus of Yin's (1994) text is upon case study methods, which may therefore raise issues regarding the comprehensiveness of the strategies identified, the strategies discussed do not differ markedly from those identified in more general research methods texts. For example, Bryman and Bell (2003), within a chapter concerning research design, identify very similar approaches to those highlighted by Yin (1994) including; experiments, cross sectional design, longitudinal study, case study and comparative study. However, it could also be argued that ethnographic research approaches may be given more prominence by qualitative researchers as research designs/strategies in themselves, rather than as data collection ‘methods’ falling under the umbrella of case study research.

In distinguishing between research strategies, Yin (1994) argues that the most significant condition is the type of research question being asked. As identified at the beginning of this chapter, this research is concerned with *how* trade credit is managed within small professional firms, and *why* particular practices are used. The role of formal and informal practices, considered within the context of their occurrence, is central to the research. Survey based approaches tend to quantify *what* normative working capital practices have been adopted within small firms, without revealing informal aspects of practice, whilst hypothesis testing approaches to *why* will not provide grounded, causal explanations, reflective of actual working capital management practice within SMEs. This research is concerned with more than ‘mere frequencies or incidence’ (Yin, 1994, p.6). Yin (1994,

p.7) identifies *how* and *why* questions as generally explanatory in nature, and as being most 'likely to favour the use of case studies, experiments or histories'.

The two remaining conditions identified by Yin (1994, p.8) are:

'the extent of control over behavioural events and degree of focus upon contemporary as opposed to historical events'.

Where no access or control exists, histories are considered the most appropriate strategy, although it is recognised that histories regarding contemporary events may cross over with case studies. As Yin (1994, p.8) identifies, 'histories are the preferred strategy when dealing with the 'dead' past'. This research is concerned with gathering accounts of working capital management practices within small professional firms which will potentially involve reflection upon both current and past events, and is therefore dependent upon the use of systematic interviewing, a key feature of case study research as identified by Yin (1994). Calculated manipulation and control over behaviour is crucial for the use of experiments, typically conducted within a laboratory environment, or as social experiments. Experiments are therefore clearly not appropriate for this research as the researcher has no formal control over events investigated. Yin (1994, p.9) emphasises that for some research projects all research strategies may be appropriate, or a combination of research strategies may be used, highlighting that 'the various strategies are not mutually exclusive'. However, Yin (1994, p.9) concludes that there are some circumstances which determine that a particular strategy will have 'a distinct advantage', and that for case study this will be where:

'a 'how' and 'why' question is being asked about contemporary set of events over which the investigator has little or no control'.

The research questions identified, focus upon the gathering of accounts of practice, and the lack of control over them, therefore imply that a case study research strategy is particularly conducive for this research. The approach adopted is required to facilitate the surfacing of grounded mechanisms in order to develop a causal description of working capital management practices. To achieve this, systematic interviewing will be used to gather accounts of practice. In addition, data reflecting the contextual circumstances of the firms will be collected and drawn upon to establish potential causal connections to practice. The importance of an inductive approach to the research has been stressed within earlier discussion of existing research and associated issues with the dominant positivist,

deductive approach. A case study research strategy, although embracing of both theory testing and theory generation, could be viewed as particularly sympathetic to inductive, qualitative methods, given the focus upon 'how' and 'why' questions. Both the circumstances and methodological position of this research have been shown to fit with the use of a case study research strategy which will therefore provide the method of enquiry for this investigation of working capital management practices in small professional firms.

3.4.2 Case study research strategy: Issues

Chetty (1996, p.73) states that case study research is 'an essential form of research within the social sciences and management', characterised by wide coverage of a range of issues concerning business and organisations. Examples of well known studies in business and management that have utilised a case study research strategy are provided by Bryman and Bell (2003), and include, amongst others, Pettigrew's (1985) single organisation study of Imperial Chemical Industries (ICI), and Marshall's (1995) study of women managers. Similarly, Perren and Ram (2004, p.83) identify that 'the case study method has a long and respected history in the social sciences', and has been increasingly adopted within small business research as qualitative methods have risen in popularity, citing examples including Chetty (1996), Perren et al (1998), and Ram (1999). Additionally, Curran and Blackburn (2001) have highlighted the popularity of case study method within small business research referring to small sample sizes and ease of execution for the simpler form of case study, as explanatory factors.

Despite the apparent contributions of case study research and their increasing popularity, Yin (1994, p.9) identifies that 'case studies have been viewed as a less desirable form of inquiry than experiments or surveys', with concerns regarding 'the lack of rigour of case study research', and confusion arising from the dual meaning of the term 'case study', being applicable to both the description of a research strategy and a teaching aid. Yin (1994) clearly distinguishes case studies used for teaching purposes from case study research, and in doing so emphasises the critical requirement for case study research to present evidence without bias. Yin (1994) recognises the legacy of poorly conducted case studies for their reputation, but also highlights that issues of bias exist within alternative research strategies; this is not a problem unique to case study research.

Other concerns with case study research identified by Yin (1994) relate to the volume and manageability of data collected and the timescale involved, a criticism which may be due to a tendency to consider case study research as analogous to ethnography. An ethnographic methodology is closely associated with social anthropology and implies immersion in the field with emphasis upon the ‘description of local particularities’ with focus upon ‘individuals’ perspectives and interpretations of their world’ (Miles and Huberman, 1994, p.8). However, as Yin (1994) points out, case study research is not dependent upon ethnographic approaches and may encompass a range of fieldwork techniques that do not necessarily require long periods of time to be spent in the field. The distinction between case study and ethnography is an important one; a case study research strategy can include a range of quantitative and qualitative evidence, and both inductive and deductive approaches to the role of theory. Case study research does not imply the adoption of an ethnographic methodology.

Numerous positions regarding the purpose and nature of case study research can therefore be adopted (Hammersley and Gomm, 2006), with some viewing case study research strategy as ‘a distinct research paradigm’, and others ‘as a method - to be used as and when appropriate, depending on the problem under investigation’ (Hammersley and Gomm, p.3, 2006). Yin (1994, p.14) identifies the tensions that exist reconciling case study research method with researchers whom:

‘distinguish between quantitative research and qualitative research - not on the basis of the type of evidence but on the basis of wholly different philosophical beliefs’.

However, Yin (1994, p.15) maintains a counter argument exists that there is a ‘strong and essential common ground’ between qualitative and quantitative research. Indeed, Chetty (1996) views the ability of case study research to incorporate both qualitative and quantitative data as a key strength of the method, whilst Yin (1994) identifies that the choice of a case study research strategy for them comes down to whether the circumstances and research problem facilitate a fit, rather than an ideological commitment.

Previous discussion of a case study research strategy has demonstrated its consistency with the philosophical position of this research, and its appropriateness for the area of investigation, highlighting how such an approach would allow for an in-depth, qualitative,

inductive, consideration of working capital management, without separating practice from complex, contextual conditions. However, as Perren and Ram (2004, p.84) identify there:

‘has been little discussion of the distinctive philosophical consequences of applying the case study approach to the small business and entrepreneurship area’.

The implications of this will be more fully considered within later discussion of the type of case study to be undertaken.

Yin (1994, p.10) identifies that an area of further concern with regards to a case study research strategy is that ‘they provide little basis for scientific generalisation’. Hammersley and Gomm (2006, p.5) highlight that where the purpose of case study research is ‘to draw, or to provide a basis for drawing, conclusions about some general type of phenomenon or about members of a wider population of cases’, that differing views exist as to how this is possible. Firstly, Hammersley and Gomm (2006) distinguish a type of inference or generalisation that is ‘logical’, ‘theoretical’ or ‘analytical’ in nature. Analytic generalisation represents Yin’s (1994, p.10) position who demonstrates this clearly when addressing the question of generalisability, stating that:

‘case studies, like experiments are generalisable to theoretical propositions and not to populations or universes. In this sense the case study, like the experiment does not represent a ‘sample’ and the investigators goal is to expand and generalise theories (analytic generalisation) and not to enumerate frequencies (statistical generalisation)’.

Similarly, Ryan et al (1992, p.117) identify that case studies ‘require that we look for theoretical generalisations not statistical generalisations’, with the potential of explanatory case studies to generate theoretical generalisations realised through the application of the logic of replication.

Alternatively, Hammersley and Gomm (2006, p.5) identify that some researchers argue that case studies can be undertaken in order to produce ‘the same generalisations as those which survey researchers produce’, whilst others, such as Stake (2006) and Donmoyer (2006), contend that:

‘case studies need not make any claim about the generalisability of their findings, that what is crucial is the use others make of them: that they feed into the process of ‘naturalistic generalisation’’. Hammersley and Gomm (2006, p.5)

Stake (2006, p.22) discusses naturalistic generalisation as such:

‘That knowledge is a form of generalisation too, not scientific induction but *naturalistic generalisation*, arrived at by recognizing the similarities of objects and issues in and out of context and by sensing the natural covariations of happenings. To generalise this way is to be both intuitive and empirical, and not idiotic.’

Hammersley and Gomm (2006, p.5) further highlight the work of Lincoln and Guba (2006) who consider the notion of ‘naturalistic generalisation’, identifying that for them case studies should ‘facilitate the ‘transfer’ of findings from one setting to another on the basis of ‘fit’’. Hammersley and Gomm (2006, p.8) summarise Lincoln and Guba’s perspective as such:

‘Furthermore, they argue that we are not faced with a choice between either searching for general laws or studying the unique; that between these extremes there is ‘the broad range of the related’’. Hammersley and Gomm (2006, p.8).

Lincoln and Guba’s (2006) position is that from case study research working hypotheses could potentially be developed that aid understanding of other cases and that in order to achieve transferability between cases ‘thick’ descriptions are required. Issues of generalisability within case study research are complex and dependent upon case study design, however it is clear that criticism of case study research on the grounds that there is no basis for scientific generalisation represents a blinkered view of the purpose of research, and ignores the multifaceted nature of the case study research strategy.

Concerns with case study research identified by Yin (1994) have been addressed, even if no consensus has been reached upon certain issues. The adoption of systematic and rigorous approaches towards case study research that have clarity of purpose with regards to the role of theory, and clear demonstration of the appropriateness of the method for a particular area of research, have been made accessible, for example, through the work of Yin (1994) and Eisenhardt (1989). Yin (1994, p.13) offers what is referred to as a technical definition of a case study that outlines the logic of design:

‘1. A case study is an empirical enquiry that

- investigates a contemporary phenomenon within its real life context, especially when
- the boundaries between phenomenon and context are not clearly evident’.

This aspect of the definition helps to separate a case study from alternative research strategies; a case study research strategy would be adopted where contextual conditions

were considered particularly relevant and significant to the phenomenon under investigation. The second aspect of Yin's (1994, p.13) definition states that:

'2. The case study inquiry

- copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result
- relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result
- benefits from the prior development of theoretical propositions to guide data collections and analysis'.

According to Yin (1994, p.13) a case study is therefore more than simply a data collection technique or a design feature, but constitutes a 'comprehensive research strategy'. A case study research strategy can be considered particularly appropriate for this area of investigation. As has been discussed, this research is concerned with gathering qualitative accounts of practice, situated within rich and complex conditions anticipated to impact considerably upon the phenomenon under investigation.

The focus upon 'how' and 'why' has been shown to be conducive to a case study research strategy over and above the alternative strategies available. A case study investigation is also compatible with research broadly orientated towards structuration theory, facilitating an inductive, theory generating approach to the investigation of trade credit management that allows the role of both agency and structure in forming practice to surface, and a causal description of firm practice to develop that depicts their interaction. Establishing this rich understanding of practice would not be achieved utilising research strategies that separated accounts of practice from their context. With the issues associated with case study research strategy now addressed, and the approach justified in its appropriateness for this area of research, this chapter will continue with a discussion of the type of case study to be utilised, and the implications of this for the research design.

3.5 Types of case study

Case study research consists of a range of possible approaches and philosophical positions, often reflected in the type of case study undertaken. The design of the case study therefore has important implications both for the role of theory and for the nature of generalisation. However, Perren and Ram (2004), as previously discussed, have identified a lack of consideration of the philosophical implications of utilising a case study research strategy

within small business and entrepreneurial research. In order to address this, Perren and Ram (2004, p.84) have mapped existing small business research against two dimensions; the first represents the 'dichotomy between 'objective' and 'subjective' perspectives', whilst the second dimension is concerned with 'whether the boundary is placed around some form of 'milieu of social actors' or the individual 'entrepreneur/owner-manager'' (Perren and Ram 2004, p.85).

The resultant map identifies the various underlying paradigmatic positions of small business and entrepreneurship case study research, investigates the implications of different approaches and sensitises the researcher to the disadvantages and advantages associated with each. Consequently, this is particularly useful when considering the type of case study research design appropriate for this research. The following section will therefore discuss the different types of case study; identify the type of case study adopted within this research; and, through positioning this research upon Perren and Ram's (2004) paradigmatic map, give full regard to arising concerns.

Broadly, there are three distinct types of case studies, with authors using different terminology to refer to similar 'types' of case study, albeit with some important differences. Firstly, there are cases described as either exploratory/intrinsic/classic (Yin, 1994, Stake, 1995, and Dyer and Wilkins, 1991). This type of case study is undertaken where an intrinsic interest exists within a particular case, about which little is known (Stake, 1995). For intrinsic case studies therefore, it is the case itself that is dominant (Stake, 1995). Similarly, Yin (1994, p.28) highlights the role of exploratory case studies when little is known about the phenomenon under investigation, existing theory is underdeveloped and, as a result, 'available literature will provide no conceptual framework or hypotheses of note'.

Consideration of the case as dominant is also emphasised by Dyer and Wilkins (1991, p.613) within their discussion of what they refer to as 'classic case study method'. For Dyer and Wilkins (1991), the focus of case study research should be upon a 'single' case and the provision of a rich description of the case and its context in order to reveal deep insights. Dyer and Wilkins (1991) therefore offer a distinct view of case study research which, despite sharing similarities with exploratory cases, also differs from them with regards to the generation of theory, and will be discussed more fully later in this section.

Exploratory/intrinsic/classic case studies are therefore generally characterised by an inductive approach with an emphasis upon theory development, and the use of qualitative research methods. Perren and Ram (2004) situate case studies of this type at the subjective end of the subjective-objective dimension.

Secondly, case studies can be considered instrumental, or explanatory (Yin, 1994, Stake, 1995). Cases are selected for the insight provided into *issues*; they are instrumental in situations that require a general understanding, as opposed to intrinsic cases selected for their particularity (Stake, 1995). As Stake (2000, p.437) clarifies, for instrumental case study 'the case is of secondary interest, it plays a supporting role, and it facilitates our understanding of something else'. As discussed by Yin (1994), explanatory case studies are likely to be used to test or refine theory, extending existing understanding through theory building and hypothesis testing, and consequently tending to be more deductive in nature. Explanatory case studies are therefore positioned by Perren and Ram (2004) towards the objective end of the subjective-objective dichotomy.

The final type of case study that can be identified is that of collective (Stake, 1995), or multiple case study, (Yin, 1994, Eisenhardt, 1989). For Stake (1995), a collective case study must be comprised of instrumental cases; intrinsic case studies are, by definition, single case studies. As Stake (2000, p.437) discusses:

'with even less intrinsic interest in one particular case, a researcher may jointly study a number of cases in order to investigate a phenomenon, population, or general condition. I call this collective case study. It is instrumental study extended to several cases'.

Similarly, Yin (1994) identifies that the strong rationale for the classic, single case, established by identifying rare, critical, or revelatory cases, can not normally be provided for multiple-case designs. Multiple case study selection, as with single cases, occurs for theoretical reasons but, as explained by Eisenhardt and Graebner (2007, p.27):

'the choice is based less on the uniqueness of a given case, and more on the contribution to theory development within the set of cases. That is multiple cases are chosen for theoretical reasons such as replication, extension of theory, contrary replication and elimination of alternative explanations'.

Multiple case studies can be approached from both inductive and deductive perspectives; Yin (1994) refers to both theory testing and theory development, whilst Eisenhardt (1989) discusses the strength of multiple case studies in theory building, adopting a broadly

inductive approach. When discussing the use of multiple case studies, Eisenhardt and Graebner (2007, p.25) explain that

‘the central notion is to use cases as the basis from which to develop theory inductively. The theory is emergent in the sense that it is situated in and developed by recognising patterns of relationships amongst constructs within and across cases *and* their underlying logical arguments’.

Different assumptions regarding the role of theory and generalisation exist both across and within the types of case study identified. For example, Yin (1994) argues that case studies allow the researcher to expand and generalise theories through ‘analytic generalisation’ whilst Stake (2000) refers to ‘naturalistic generalisation’ achieved through ethnographic methods. However, perhaps the sharpest contrast exists between the perspective of Dyer and Wilkins (1991) and that of Eisenhardt (1989). According to Dyer and Wilkins (1991, p.615), the depth and richness of a single, ‘classic’, case allows the context to be fully developed, offering potentially paradigm shifting insights through the use of approaches that unveil ‘deeper social dynamics’. By comparison, Eisenhardt’s (1989) multiple case study approach is criticised for providing ‘thin’ descriptions of cases that lack a full discussion of their context as a result of trading off a ‘deep’ understanding of a single case against the benefits of ‘comparative insights’ and the subsequent identification of theoretical constructs (Dyer and Wilkins, 1991, p.614). Theory derived from in-depth, single case studies is, Dyer and Wilkins (1991) argue, likely to be both more accurate and powerful as a result of the richness of the ‘story’ situated within its context, and consequent resonance with the reader.

Eisenhardt’s (1991, p.621) response to the Dyer and Wilkins (1991) critique is focused around three key questions concerned with; whether classic case studies *have* generated better theory than multiple cases; do the classic case studies truly represent single cases undertaken with small regard for methodological rigour; and finally, does ‘better stories versus better constructs represent a false dichotomy’. Firstly, Eisenhardt (1991, p.621) identifies that the success and contribution of the early classic case studies could be explained as a result of both an existing lack of development within a discipline area and ‘the extraordinary skills of their authors’. In short, Eisenhardt (1991) argues that it was these conditions that enabled the remarkable contributions of the early, classic cases, and that these were achieved ‘in spite of the limitations of single setting research’.

Referring to discussion regarding the appropriate number of cases, Eisenhardt (1991, p.622) also notes that this should be considered not on the basis of whether ‘two cases are better than one or four better than three’, but should instead be determined by ‘how much new information is likely to be learned from incremental cases’. Secondly, Eisenhardt (1991, p.622) accuses Dyer and Wilkins (1991) of a ‘critical misreading’ of classic case studies, arguing, with the use of illustrative examples, that a number of them are actually multiple case studies utilising the underpinning logic of such an approach in order to establish ‘theoretical insights’. These are born not from unstructured, ‘loose’ approaches, as implied by Dyer and Wilkins (1991), but result from methodological rigour consistent with a multiple case study approach; as identified by Eisenhardt (1991):

‘the classic case studies rely upon theoretical sampling, a priori measures of constructs, specification of research questions, multiple respondents, previous literature and so forth’.

Finally, Eisenhardt (1991, p.626) contests Dyer and Wilkin’s (1991) trade off between stories and constructs, arguing that this ‘arises from page limits and editorial constraints’ rather than differences between single and multiple case studies. Comparing a book with a journal article and finding the book offered a more in-depth, richer account is a rather predictable conclusion; by their very nature books allow for discussion of the ‘context of social dynamics’ whilst journal articles will tend to focus upon theory (Eisenhardt, 1991, p.626). Dyer and Wilkins (1991) emphasis upon the communicative strengths of storytelling is also countered by Eisenhardt (1991, p.626), who points out that this can be attributed to ‘cognitive bias’, whereby ‘contextually rich stories lure people into thinking that they know more than they do’, and thus provide little in the way of scientific advantage. Eisenhardt (1991) effectively answers the criticisms of Dyer and Wilkins (1991), providing a staunch defence of multiple case study method whilst highlighting the advantages and methodological rigour of such an approach.

Of the types of case study discussed, a multiple case study design could be seen as particularly suitable for this research. As has been previously identified, this research is concerned with gathering qualitative accounts of working capital management practice within small professional firms. There is not, therefore, an ‘intrinsic’ interest in one particular case, nor have cases been selected due to their rare, critical or unique nature. However, the selection of small professional firms was driven by theoretical motivations, being determined because of the opportunity provided to consider highly interactive client

relationships within rich, complex, social contexts. The intention of this research is to undertake case studies in order to surface formal and informal dimensions of firm practice, and provide a causal explanation of trade credit management within small professional firms. Such an approach is aligned closely with inductive research methods. Eisenhardt's (1989) approach to the design and implementation of multiple case studies offers an inductive, rigorous method to building theory from cases consistent with the ontological position of structuration theory. Therefore, Eisenhardt's (1989, p.32) multiple case study process, referred to as a 'roadmap', has provided a structured research design compatible with this research.

As the type of case study to be adopted has now been identified, this research can be positioned upon Perren and Ram's (2004) paradigmatic map of small business and entrepreneurship case study research in order to explore the advantages and disadvantages associated with such an approach. As discussed previously, the map consists of two dimensions, a subjective-objective boundary, and a milieu-entrepreneur boundary, which creates four paradigmatic positions. Perren and Ram (2004) distinguish between subjective-objective cases with reference to intrinsic cases positioned at the subjective end, and explanatory, or instrumental cases, situated at the objective end. The milieu-entrepreneur dimension is associated with boundary setting and is concerned with whether the boundary 'is placed around some form of 'milieu of social actors' or the individual 'entrepreneur/owner manager'' (Perren and Ram, 2004, p.85). A structuration perspective considers the agent and structure to exist within a duality, with the interaction of an agent's actions and social structures creating and recreating social systems. Such a position therefore recognises both the micro-world of the owner-manager, and macro-level, external knowledge enshrined in structures. Multiple cases studies intended to build theory inductively with a structuration theory orientation could therefore be argued to be positioned within the middle ground of the subjective-objective continuum.

As this research is concerned with trade credit management practice within small professional firms, the boundary is placed neither firmly around the owner-manager or milieu of social actors, but rather firm practice sits somewhere between the two. The case is thus situated centrally in terms of the subjective-objective continuum and the milieu boundary. Perren and Ram (2004, p.94) identify that adopting a subjective position with regards to entrepreneur's personal stories allows researchers to 'gain insight into the

entrepreneur's subjective interpretation of the world', yet may prove problematic in terms of 'pattern spotting' and recognition of other more 'objective' explanations', with the potential to 'leave readers confused as to the key themes from the research and the actions or policy conclusions that can be drawn'. Alternatively, 'objective entrepreneurial narrative explanations' (Perren and Ram, 2004, p.91), whilst potentially resonating with previous entrepreneurial research and reducing the complexity of multiple entrepreneurial cases, may 'blind the researchers to nuances and other explanations outside the conceptual framework' (Perren and Ram, 2004, p.93).

In adopting what could be considered 'a less extreme perspective' (Perren and Ram, 2004, p.88) with regards to the subjective-objective continuum, it is hoped that this research avoids issues associated with the 'epistemology of the particular' that may limit the 'broader relevance' of the research (Perren and Ram, 2004, p.94), whilst ensuring that the research design does not run 'the risk of straitjacketing explanatory frameworks, approaches to investigation and depictions of reality' (Perren and Ram, 2004, p.89). The next section of this chapter will now discuss Eisenhardt's (1989) roadmap for building theory from multiple cases, and its operationalisation within this research.

3.6 Multiple case studies: Adopting Eisenhardt's approach

Eisenhardt and Graebner (2007, p.26) identify that when inductive, theory building research is undertaken it is necessary to justify the approach due to the assumption that such research is 'less precise, objective and rigorous than large scale hypothesis testing'. As has been established within earlier discussion, existing theory and evidence of working capital management within small firms is mainly dependent upon objectivist, positivist research focused upon normative practice and the uptake of formalised financial management practices. Small business research adopting a subjectivist, interpretivist position has provided evidence of contradictory findings, reflecting the importance of informal practices, yet could be seen to ignore the influence of 'conventional models and knowledge from outside the micro world of the owner managers' (Perren and Grant, 2000, p.34). Inductive research with a structuration theory perspective conceptualises trade credit management as emergent from the recursive relationship between structure and agency, asking *how* trade credit is managed and *why* particular approaches are used. An inductive,

qualitative approach is therefore necessary in order to deepen understanding of trade credit management practices within small firms, and generate causal explanations of practice grounded within the evidence.

Eisenhardt's (1989) roadmap for building theory from multiple case studies draws upon the work of Yin (1981, 1984), Miles and Huberman (1984) and Glaser and Strauss (1967) and has provided a comprehensive framework against which to develop the research design. Within the framework, eight key steps are identified that guide the process of building theory, covering:

‘getting started’, the selection of cases, data collection methods, field work, data analysis, the shaping of hypothesis, comparison with existing literature and reaching closure (Eisenhardt, 1989, p.533).

Therefore, Eisenhardt's (1989, p.533) approach offers an all encompassing research design that directs selection of cases and fieldwork techniques, through to analysis of individual cases and cross case comparisons, in order to ‘shape hypothesis’ and build theory. This research broadly utilises Eisenhardt's (1989) approach to multiple case studies, using the steps of the process to guide case selection, fieldwork techniques, within case analysis, cross case analysis and the enfolding of the literature. These stages form the subsequent sections of this chapter.

3.6.1 Selection of cases

Eisenhardt's (1989) roadmap begins with guidance on ‘getting started’ and case selection. The importance of identifying research questions in order to limit data collection and provide focus is highlighted. For this study, the research questions have been previously identified as asking how small professional firms manage amounts owed by clients, and why particular practices are utilised. In addition, Eisenhardt (1989, p.536) refers to the ‘a priori specification of constructs’ in order to ‘shape the initial design of theory building research’. Given the importance of an inductive approach within this field of research that does not impose theoretical constructs, and Eisenhardt's (1989, p.536) own acknowledgement that ‘theory building research is begun as close as possible to the ideal of no theory under consideration and no hypotheses to test’, this research has not identified constructs, a priori. Rather, the approach taken reflects that of Strauss and Corbin (1990, p.50) who argue that the role of ‘technical’ literature is to ‘stimulate theoretical sensitivity’ and that:

‘phenomena will be explained in light of the theoretical framework that evolves during the research itself’, rather than ‘constrained by having to adhere to a previously developed theory’ (Strauss and Corbin (1990), p.49).

Within this research the literature review (chapter 2) has therefore facilitated the identification of a paradigmatic gap with regards to trade credit management and, in accordance with Eisenhardt’s (1989) roadmap, the literature will be folded in to cross case discussion of findings.

Implicit within the defining of research questions is the definition of the case itself, which according to Miles and Huberman (1994) forms the focus, or heart of the study. The research questions of this study have been previously stipulated, but further discussion is warranted regarding the focus in order to more tightly define what constitutes the ‘case’. For Miles and Huberman (1994), as with Yin (1994), the unit of analysis *is* the case; defining the unit of analysis assists in determining the limits of data collection and establishing boundaries, however flexible. The unit of analysis, or case, within this research is the trade credit management practice of small professional firms. Accounts of practice represent the cases, and therefore the unit of analysis, forming the ‘heart’ of the research. Data will be collected that provides evidence of trade credit management, informed through the gathering of accounts of practice from owner-managers, and that considers the contextual conditions within which practice occurs.

With the unit of analysis defined as trade credit management practice, the issue of firm selection can now be addressed; small professional firms were required in order to access cases of firm practice. For multiple case study analysis this is particularly significant, as, unlike the ‘classic’ case studies, the uniqueness of the case is less likely to be the determining factor in selection. Eisenhardt (1989, p.536), considers case selection as ‘an important aspect of building theory from case studies’ that is driven by the logic of theoretical sampling, whereby cases are selected not for statistical reasons, but ‘because they are particularly suitable for illuminating and extending relationships and logic amongst constructs’ (Eisenhardt and Graebner, 2007, p.27). Indeed, Eisenhardt and Graebner (2007, p.27) pose the question: ‘*How can the theory generalise if the cases aren’t representative?*’ responding by clearly stating that ‘the purpose of the research is to develop theory, not to test it’.

Through theoretical sampling therefore, cases are selected that will ‘replicate or extend the emergent theory’ (Eisenhardt, 1989, p.537). Within the previous chapter it was argued that the distinctive characteristics of small, professional firms determine the particular importance and relevance to them of the management of amounts owed by clients. As the key assets of a small professional firm are likely to be knowledge based, finance may prove difficult to access, whilst trade credit represents a crucial aspect of the working capital cycle of a small professional firm, of which effective management will be vital in maintaining cash flow. Additionally, the relationship between the small professional firm and client provides a rich social encounter, characterised by the provision of highly customised, bespoke advice. Therefore, the unit of analysis, trade credit management practice, theoretically sampled within small professional firms, provides cases that could be argued to be particularly illuminating, with the potential to extend emergent theory (Eisenhardt, 1989).

In order to select cases of trade credit management practice within different firm contexts, it was necessary to operationalise criteria regarding what constitutes a small professional firm, returning to the discussion of definitional issues associated with ‘smallness’ introduced within the previous chapter. Burrows and Curran (1989, p.530) identified that ‘the problem of what constitutes a ‘small’ enterprise has posed severe problems for researchers from the Bolton Report (1971) onwards’, arguing that ‘size, whether measured in terms of number of employees, turnover, market share or whatever, is *not* a sufficiently robust criterion to allow ‘small firms’ to be isolated’. The problem to be avoided, highlighted by Burrows and Curran (1989, p.530), is one of ‘size reductionism’, whereby smallness should not be regarded as ‘a *necessary* condition’, but as a ‘*contingent* one’, to be considered amongst a series of additional contextual conditions and characteristics. As Curran and Blackburn (2001, p.16) state:

‘to privilege size over these other criteria begs important questions about what most influences the operation and structure of economic enterprises and under what conditions. In practice this emphasis on size often leads to other criteria being neglected or being treated as secondary’.

As Burrows and Curran (1989, p.530) conclude, size cannot solely determine the nature of the small firm, and that ‘what constitutes ‘smallness’ will be very much contextual’. This discussion is further developed by Torr s and Julien (2005, p.362) who propose the use of the ‘small business concept’ (Julien, 1990), rather than ‘small size concept’.

The implications of these discussions are particularly pronounced for quantitative definitions of small firms that, despite practical advantages regarding objectivity and the accessibility of information, are limited by their sector dependence (Curran and Blackburn, 2001). For example, quantitative definitions utilising employees or turnover suffer from both definitional ambiguities and their sector dependent nature, as discussed by Curran and Blackburn (2001). As an alternative, qualitative definitions for small firms can be adopted in an attempt to ‘capture the distinctive characteristics of the small firm compared with larger enterprises’ (Curran and Blackburn, 2001, p.13), and provide sector specific approaches. However, difficulties can arise when drawing comparisons across sectors (Curran and Blackburn, 2001) and countries (Storey, 1994), whilst operationalising such definitions is also problematic.

In response to issues associated with size reductionism and quantitative and qualitative definitions, Burrows and Curran (1989) developed an approach to defining small enterprises that combines both qualitative and quantitative aspects within consideration of two key concerns; legal independence and contextual criteria. Burrows and Curran (1989, p.530) identified that the legal independence of small enterprises:

‘is a crucial criterion as this legal status often implies a set of *real* economic and social relations which does lend at least some specificity to such organisations’.

Curran and Blackburn (2001) identify that failure to differentiate between small independent enterprises and small establishments owned by a parent would result in unsatisfactory research, given that they are very different in terms of decision making processes and potential access to resources.

Burrows and Curran (1989, p.531) combine the requirement for legal independence with contextualising criteria, establishing a ‘grounded notion of ‘size’’, by:

‘tapping the informal (or formal, if such judgements exist) criteria by which smallness is perceived commonly, within the subculture of the economic sector being studied’, thus avoiding ‘essentially arbitrary size criteria’.

Establishing grounded, sector specific definitions of what constitutes a ‘small’ firm therefore entails the need for qualitative research in order to derive ‘a sector consensus on what was regarded as a small business’ (Curran and Blackburn, 2001, p.17). Once established, the qualitative features of a small firm in a particular sector can be converted

to quantitative measures in order to operationalise them. Burrows and Curran (1989) recognise the disadvantages of such an approach to defining small firms, particularly with regards to difficulties associated with the generation of a variety of sector specific definitions, thus creating problems for inter sector comparisons. However, Burrows and Curran (1989, p.531), returning to the issue of size reductionism, further argue that this should:

‘be avoided at all costs. Although small business research will always attempt to say something about small firms in general, this organisational attribute should not be privileged over others’.

As Curran and Blackburn (2001, p.17) discuss, to utilise employee or turnover based definitions of ‘smallness’ is to insinuate that firms with below a particular number of employees, or level of turnover, will also ‘share enough other characteristics to be treated as members of the same category for research and policy purposes’. A grounded approach to defining a small business would adopt the perspective that the inclusion of a range of business activities in the same category solely because they all employ below a certain number of employees, or their levels of turnover fall below a particular benchmark, ‘is to ignore a wide range of sector characteristics that make them very different from each other’ (Curran and Blackburn, 2001, p.17).

This research therefore attempted to adopt a grounded approach to the defining of small professional firms. Proudlock et al (1999, p.245) discuss how to define small professional firms, arguing that while there are numerous definitions in existence ‘it is proposed that different size definitions are needed in the context of professional service sector research’. Keeble et al (1992, p.442) develop a definition for small service firms that in addition to drawing on the work of Bolton (1971), identifies that:

‘it would also seem logical, as suggested by Burrows and Curran (1989) to root the concept of smallness in an industry based perception or judgement of what constitutes a small enterprise in that particular sector’.

Keeble et al (1992, p.12) state that:

‘...there is considerable consensus amongst executives and professional association representatives as to what constitutes a ‘small’ rather than a ‘large’ firm. Small firms are seen as employing no more than about 10 professional staff. This roughly equates to a maximum of 25 total staff and a 1989-90 turnover of £1 million. The great majority of firms below this size are also independently owned and managed, in line with the functional of ‘smallness’ proposed by Bolton (1971)’.

Proudlock et al (1999, p.245) use Keeble et al's (1992) above definition and identify the following as necessary characteristics to identify a small professional service sector firm:

- a) Firms must have 25 or fewer employees
- b) The firm must be privately owned forming no part of a larger organisation
- c) The owner manager must predominate, with no outside control.

Glancey et al (1998) also identify as key characteristics of small business service firms the requirement for them to be independently owned, controlled by one distinct individual, and have less than twenty-five employees.

All of the firms within this research fulfil the criteria regarding private ownership and no outside control. However, as a result of responses received and availability of access, the number of employees for some of the cases selected was above twenty five. Yet none of the case firms employed more than fifty employees, which is within the much-used quantitative criteria of the EU (European Union). It is therefore recognised that the firms included within this research range from the 'small' to potentially 'medium' given the grounded criteria, yet fall comfortably within the EU's quantitative definition for small for the number of employees. Furthermore, Curran and Blackburn (2001) identify that the number of employees should not necessarily be ruled out as a measure of size due to its ease of use and popularity, and that within a single sector study such as this the problems are mitigated.

Firms were selected from four professions; accountancy, architecture, surveying and law. As discussed within Chapter 2, small professional firms are distinguished from small business service firms by their provision of expert strategic advice and services. Accountants and solicitors, are information-intensive services:

'which exist to provide their clients with strategic information and expertise which is both relatively intangible, durable in its effects, and concerned with problem-solving and policy making rather than routine administration' (Keeble et al (1992), p.12).

These types of professions have been classified as 'white collar' business services (Glancey et al, 1998, p.249) and differentiated from technical consultancy, where advice is provided within specific technological disciplines. Architects and surveyors represent technical consultancy. These four professions were chosen in order to replicate findings and build causal explanations for trade credit management practices amongst small

professional firms, whilst allowing for potential differences amongst professions to emerge.

A total of 21 interviews were conducted, from which 16 cases were taken. Architects were contacted first, with 7 interviews undertaken. This was followed by contact with solicitors, with 6 interviews undertaken. From preliminary data analysis of these interview transcripts it became apparent that there were no new emerging themes following analysis of the fourth interview with architects and solicitors. Cases were theoretically sampled and although Gummesson's (1991, p.85) notion of *saturation* was not expressly applied the approach resonates as analysis of later, additional cases intra profession did not surface new aspects of practice or causal influences.

As a result, a total of four interviews were undertaken with both surveyors and accountants. The first four interviews with architects and solicitors were retained and analysed further. This resulted in 4 interviews within each of the 4 professions selected, providing a total of 16 cases. In addition, the data analysis techniques employed required the in-depth analysis of transcripts, and sixteen interviews proved to offer sufficient breadth across small professional firms, whilst avoiding data over load. The table below summarises brief demographic information relating to the sixteen interviews undertaken, which are grouped according to profession, with the case identifier.

Case Identifier	Profession	Number of employees	Year established	Legal structure
S _A	Solicitors	6	2004	Limited liability partnership
S _I		40	1996	Limited liability partnership
S _N		>50	1882	Partnership
S _R		>50	1966	Limited liability partnership
AR _B	Architects	2	2002	Sole practitioner
AR _C		20	1983	Partnership
AR _F		3	1997	Limited company
AR _H		1	2004	Sole practitioner
A _T	Accountants	12	1989	Sole practitioner
A _U		1	2003	Sole practitioner
A _V		>50	1975	Limited liability partnership
A _W		2	1992	Sole practitioner
SU _E	Surveyors	5	2002	Limited company
SU _L		26	1938	Limited company
SU _M		5	1877	Partnership
SU _Q		2	2002	Limited company

Table 1: Detail of Cases and Case Identifiers

3.6.2 Data collection

3.6.2.1 Research techniques

It has been established in earlier discussion that in order to deepen understanding of trade credit management practices within small professional firms, it is necessary to undertake research that addresses the lack of emphasis upon informal decision making and practices, and avoids imposing normative prescriptions of ‘best’ practice. Qualitative research can be seen as particularly relevant where it can be used to ‘uncover and understand what lies behind a phenomenon’ (Strauss and Corbin, 1990, p.19). When discussing qualitative research, Silverman (1999, p.27) refers to Hammersley and Aitkinson (1983) as providing a helpful set of defining characteristics for qualitative research that identify how ‘field research can provide a broader version of theory than simply a relationship between variables’ arguing that:

‘a theory must include reference to mechanisms or processes by which the relationship among the variables identified is generated’.

A critical discussion of quantitative approaches within the research area has highlighted the applicability of these observations to research strategies utilising frameworks drawn from normative practice.

An inductive, qualitative approach to the research directly addresses issues identified with a quantitative, positivist research strategy. In taking a grounded approach:

‘phenomena will be explained in light of the theoretical framework that evolves during the research itself, rather than ‘constrained by having to adhere to a previously developed theory’ (Strauss and Corbin, 1990, p.49).

An evolving, inductive, theoretical framework will facilitate the surfacing of informal and formal practice, and the influences upon them, rather than simply emphasising the lack of adoption of normative practices.

Interviews orientated towards the unstructured end of the interview continuum (Hughes, 2002) were therefore selected as the primary method of data collection, in order to gather rich narratives from within small professional firms, representative of practitioners’ interpretations of their social world. Such an approach allowed a more in depth investigation of the situated reality of trade credit management within small professional firms, without reference to a potentially inappropriate theoretical framework.

Following two pilot interviews, the interview protocol was developed in order to generate conversational accounts in the following areas; a general background to the firm; an overview of credit management within the firm and examples of dealing with clients. Interviewees were contacted by letter prior to the interview and asked to identify four examples where they had dealt with clients differently, in terms of managing amounts owed, and that they would be willing to discuss. Of the types of interview identified by Patton (1990), the interview guide approach corresponds most closely to the style adopted for this research, whereby ‘topics and issues to be covered are specified in advance in outline form’ and ‘the interviewer decides the sequence and wording of questions in the course of the interview’ (Hughes, 2002, p.211).

Respondents were initially asked:

‘Could we begin by establishing a general picture of the business – could you talk me through how the business came into existence, and how the business has developed, or changed’.

Practitioners’ responses helped to establish basic demographical information regarding the firm, and contextual detail. There were no standardised follow up questions, however prompts were used as reminders of basic information, for example; turnover, profile of clients, number of employees, age.

Secondly, respondents were asked to provide a general account of credit management within the firm:

‘Could you now just talk me over generally how you set your business terms, how you collect cash owed to you, how you deal generally with clients that owe you money’.

Accounting and finance terminology was deliberately avoided, and again there were no standardised follow up questions. A passive, ‘neutral’ interview stance (Patton, 1990) was adopted, whereby prompts such as ‘could you tell me more about that’ were used only where interviewees began to ‘dry up’, or where further explanation was of interest. Responses were useful in providing a general overview of the firms approach, but alone may have been focused upon more formal aspects of practice. Subsequently, interviewees were asked to talk through four examples where clients had been dealt with differently:

‘Could we now turn, if possible, to four detailed examples of where you have dealt with clients differently, in terms of extending credit and managing what is owed to you. What I’m really interested in is your stories of each of the cases, in as much detail as possible’.

A ‘neutral’, non interventionist interview approach was maintained with prompts used again only to develop the detail of accounts, or to ensure consistent coverage of particular areas, such as, for example, the size of the client, and the history of the relationship. As identified above, overarching accounts of approaches to trade credit management may have focused primarily upon formal systems. Consideration of examples of dealing with clients allowed a more in depth discussion of practice to emerge, surfacing informal approaches and revealing complexities within decision making. Practitioners explained decisions and practice revealing dimensions of practice that might otherwise have remained unexplored. Firm practice was teased out of the four examples provided and represented along with the causal influences within the case specific causal maps. The four examples and their consolidation within the causal maps allowed a holistic understanding of trade credit management within each small professional firm to develop.

Finally, Hughes (2002) suggests that ending the interview by asking the interviewee whether there is anything they would like to ask provides a subtle signal that the interview is concluding, whilst also potentially inviting further information. The interviews were ended therefore as follows:

‘Is there anything that you’d like to ask me or, alternatively, is there anything that you expected I might have asked you?’

Interviews were between one to two hours in duration and were conducted with either a practitioner within the firm, a practice manager, or, in some cases, both. Interviews were tape recorded and transcribed verbatim, yielding a large volume of rich, qualitative data.

Yin (1994) highlights the importance of using multiple sources of evidence within case study research in order to achieve triangulation, focusing therefore upon data triangulation. Denzin (1989, p.236) refers to the conventional assumption that ‘triangulation is the use of multiple methods in the study of the same object’. This research is concerned with individuals’ trade credit management practice, viewed from a structuration theory perspective. Multiple examples of working capital management practice offer the

opportunity to partly achieve triangulation, but it would be inconsistent with the approach of this research to ignore data that did not triangulate. However, where possible, multiple sources of evidence have been drawn upon to achieve some level of triangulation. In addition to interview data, documentary evidence was gathered to provide additional contextual detail regarding the cases and their professional environment. Field notes of visits to all firm premises that included observations of surroundings were kept and firm web sites, where available, were accessed to gather information upon the firms concerned. The role of professional bodies was also considered, and the guidance provided in terms of professional development, and in particular credit management. The final stage of Eisenhardt's (1989) approach to building theory from case studies is to enfold the literature, with the literature therefore providing a further point of evidence against which to compare emerging concepts.

3.6.3 Field work

3.6.3.1 Securing interviews

Web sites of professional associations were used to identify the names and contact details of small professional accountancy, law, surveying and architectural firms, whose profiles appeared to meet the employee and ownership criteria of the definitions discussed earlier, and who were situated within the south east. As discussed earlier, during the interviews the employee information disclosed at times was not consistent with the websites however all of the firms included had employee numbers of less than 50, and met the ownership criteria. Initial contact was made via a standard letter addressed generically but clearly and briefly outlining the focus of the research, identifying that it would be most useful to interview someone closely involved with credit management and dealing with clients. As a result, interviews were undertaken with a mix of practitioner, practice manager, and practitioner and practice manager, but the majority were undertaken solely with a practitioner. Participation was requested on behalf of the researcher by the head of Brighton Business School, a Professor of Accounting, and a reply form and self addressed envelope was included, as were the contact details of the researcher. Offers of participation were quickly followed up with a letter of thanks that guaranteed anonymity, for both the firm and clients, and asked respondents to think of four examples prior to the interview that they would be willing to discuss. Respondents were encouraged to reflect upon the entire lifecycle of the relationship, from first deciding to offer trade credit through to the collection of cash, and whether their approach to the client changed over time.

Interviews were organised either over email or on the telephone, and all involved visiting firm premises, which proved to be offices, private homes or rented ‘work space’ in some cases. Eisenhardt (1989, p.538) identifies that when building theory from case studies, there is ‘frequent overlap of data analysis with data collection’, and that ‘field notes ...are an important means of accomplishing this overlap’. Accordingly, the interview protocol was designed to allow for field notes to be recorded both during and directly after each interview, capturing initial impressions, thoughts and ideas with regards to the case. As Eisenhardt (1989) discusses, these notes often acted as a useful stimulus to initial data analysis.

3.6.4 Data analysis

3.6.4.1 Within case analysis

As identified at the beginning of this chapter, a full and detailed explanation regarding the process of data analysis and the underpinning audit trail is provided within chapter 4 which follows directly from the methodology chapter. Discussion here will therefore provide an overview, rather than detailed exposition of data analysis, and will focus upon data analysis at a case level. Eisenhardt (1989, p.539) states that ‘analyzing data is the heart of building theory from case studies, but it is both the most difficult and the least codified part of the process’, referring to Miles and Huberman’s (1984) observation that there is often little to demonstrate how a researcher travels from data to conclusions. Eisenhardt (1989) identifies that key steps to analysis include within case analysis and cross case analysis. Discussion within this section focuses upon within case analysis and seeks to provide a clear explanation of the approach to analysis of transcripts, and the processes employed.

Causal mapping was used to analyse the transcripts. Miles and Huberman (1994, p.152) identify that causal maps provide the opportunity to

‘get a reasonable hand hold on the ‘plot’ – the flow of events and states in a particular case – and not get lost in a blur of everything affecting everything else’.

Causal networks, or maps, are identified by Miles and Huberman (1994, p.153) as ‘an abstracted inferential picture organising field study data in a coherent way’. This enables data to be displayed in order to identify the most important variables within the interviews, and the relationships between them. A structuration theory perspective is concerned with both structure and agency, and their recursive relationship; causal maps offer a data

analysis technique conducive to such a position being able to incorporate and represent the informal micro-world of the owner manager alongside formal, normative practice, and explore the relationships between structure, agency and firm practice.

The maps represent 'case specific events' (Miles and Huberman, 1994) and convey a 'grounded' story about a particular situation. Analysis of the transcripts and development of the maps required the transcripts to be coded. According to Strauss and Corbin (1990) coding represents the way that data are broken down, conceptualised and put back together in new ways. Through the process of open coding the data is broken down, examined, compared, conceptualised and categorised. The maps produced from the transcripts have broken down the data to clearly display the variables at play through a process of open coding, whereby 'conceptual labels are placed on discrete happenings, events and other phenomenon' (Strauss and Corbin, p.61 (1990)). The approaches of Miles and Huberman (1994) and Strauss and Corbin (1990) to data display and analysis can be seen as very similar in nature and complementary to one another.

The maps have organised the data so that actual practices within a firm are displayed in the centre grouped into three general areas that form a central framework; *Negotiation of terms of business*; *Management of amounts owed*; and *Collection of amounts owed*. These three areas emerged from the accounts of practice as an organising framework as the transcripts were analysed. Codes within these three areas are descriptive in nature, identifying aspects of firm practice and drawn mainly from interviewee responses when providing an account of credit management practices within their firm. Causal influences upon practice surfaced from interviewees accounts of why particular practices were adopted, and are coded and mapped around these three areas, linking with actual practices, demonstrating the causal relationships, and telling the 'story' about each case. Respondent's discussion of examples of dealing with clients yielded particularly rich data when considering causal influences.

3.6.4.2 Audit trial

As discussed earlier, all interviews were tape recorded and fully transcribed, verbatim. A total of sixteen interviews that lasted between one to two hours were analysed, yielding a large volume of qualitative data. Each interview was formatted with line numbers to provide a method of referencing to the text, whilst the names of firms and clients were codified to ensure anonymity. Coding of each interview was undertaken initially by hand,

on the face of the transcript. Actual practices within firms were identified, coded, and recorded, thus providing a description of both formal and informal credit management practices within a firm. Causal influences upon practice were then categorised and coded, and a rough version of the causal map produced. The resultant case specific causal maps display the above coding procedures, illustrating firm practice and causal influences, and text line references for each code back to the appropriate transcript.

3.6.4.3 Cross case analysis

Using the causal maps analysis shifted intra-profession to look across cases and identify conceptual codes for cross case analysis, an important aspect of building theory from case studies as identified by Eisenhardt (1989, p.541), and a necessary step towards establishing emergent ‘themes, concepts and...relationships between variables’. The identification of categories that have the ‘conceptual power to pull together around them other groups of concepts’ is, according to Strauss and Corbin (1990, p.65), the next level of analysis. Miles and Huberman (1994) also refer to this process within their discussion of causal networks, noting the need to generate network variables that provide more powerful explanations, usable in other cases. Within this research conceptual codes are referred to as axial codes and these capture, or ‘pull together’, causal influences upon firm practice situated within the firm’s environment and aspects of firm practice situated within the central framework.

Analysis was firstly undertaken intra-profession to develop four cross case, causal maps that consolidated case specific causal maps and identified emerging axial codes within each profession. The final stage of analysis involved consolidating the intra-profession maps into one final, summary diagram that formed the basis for the inter-profession, cross case network of causation which represents the last level of abstraction. Through the process of cross case analysis concepts emerged that provided interrelated, overarching explanations for the influence of causal axial codes upon firm practice. They are referred to as meta-level organising constructs and will be surfaced and discussed throughout the data analysis chapters, and used to frame conclusions of findings within chapter 10.

The stages of data analysis outlined above, and the audit trail, are discussed in more depth in chapter 4, which is concerned solely with providing a full explanation of analytical processes and therefore the necessary backdrop to the subsequent chapters that present and discuss findings.

3.6.5 Enfolding the literature

The conclusion of Eisenhardt's (1989, p.544, p.545) approach to building theory from case studies is to compare 'emergent concepts, theory, or hypotheses with the extant literature' moving through a process of iteration between theory and data until 'the incremental improvement to theory is minimal'. Eisenhardt (1989, p.544) identifies that this involves 'asking what is this similar to, what does it contradict, and why'. The final stages of this research therefore involve the enfolding of relevant literature, and comparing and contrasting this with the cross case network. The emergent, meta-level explanatory concepts will be considered in light of both conflicting and similar existing literature in order to 'enhance the internal validity, generalizability and theoretical level of theory building from case study research' (Eisenhardt, 1989, p.545). This process will draw to an end whereby, as Eisenhardt (1989) suggests, little new is contributed to theory by repeated iterations between theory and data, and a level of saturation has been reached.

3.7 Conclusions

This chapter has sought to provide a clearly articulated rationale for the ontological positioning of this research, and the research strategy adopted. The compatibility and appropriateness of a case study research strategy with an inductive, qualitative, structuration theory approach, has been discussed and demonstrated. Critical discussion of types of case study identified the suitability of a multiple case study research design, in order to build theory inductively from cases. Eisenhardt's (1989) 'road map' therefore offered a comprehensive framework with which to operationalise this research. Discussion has broadly followed Eisenhardt's approach, and has included the following sections; case selection; data collection; field work; data analysis; cross case analysis and the enfolding of literature. The subsequent chapters are concerned with data analysis and the discussion of findings. Chapter 4, discusses in-depth the analytical process and audit trail. Chapter 5 presents a detailed discussion of intra-profession analysis for solicitors intended to act as an 'exemplar', whilst chapters 6, 7 and 8 present and discuss cross-profession analysis.

Chapter 4: The Analytical Process

4.1 Introduction

The purpose of this chapter is to provide an account of how the initial stages of cross case, intra profession analysis were approached, and how the resulting intra profession cross case diagrams were constructed. This discussion provides the back drop to the subsequent chapters, the first of which presents an in-depth consideration of cross case analysis within one of the four professions (solicitors), highlighting key findings. Chapter 5 therefore acts as an ‘exemplar’ of the analysis undertaken within each of the four professions considered, and provides a detailed discussion of the analysis techniques underpinning all the intra profession cross case diagrams. The intra profession, cross case diagrams form the basis for the final cross case network of causation that consolidates and summarises inter profession analysis. The three, inter profession analysis chapters, present discussion of cross case analysis and are organised in accordance with the central framework of firm practice that emerged from case level analysis. The inter profession analysis chapters therefore consolidate findings within the key aspects of firm practice; *Negotiation of terms of business*; *Management of amounts owed*; *Collection of amounts owed*.

As explained in chapter 3, causal mapping (Miles and Huberman, 1994) was used as a data display technique for each case, after the transcripts had been coded. The causal maps were then considered across each profession (accountants, architects, solicitors and surveyors), and consolidated within four, intra profession, cross case diagrams. Discussion within this chapter therefore explores how analysis moved from case specific causal maps to the intra profession, cross case diagrams, and the audit trail between the two. A hologram provides a useful metaphorical descriptor for the structure of the analysis and will be returned to in later discussion. Case specific analysis is captured within a causal map; initial analysis surfaced a central organising framework for the maps representative of three key aspects of firm practice, as identified above; *Negotiation of terms of business*; *Management of amounts owed*; *Collection of amounts owed*. This framework is retained throughout all levels of analysis broadening in scope from case specific analysis, to intra profession analysis, and then to the final level of cross case, inter profession analysis, hence the hologram providing a useful metaphor with which to describe the analytical process. Inter

profession analysis represents the final level of abstraction, through which organising meta-level constructs emerge that provide cross cutting explanations of trade credit management in small professional firms. A summary diagram of inter profession analysis is used as a point of reference for the discussion in chapters 6, 7 and 8. A final inter profession cross case network of causation is presented within chapter 10 to frame conclusions and display the causal axial codes and their influence upon the key areas of firm trade credit management.

The sections of this chapter are organised accordingly; an overview of the causal maps is followed by a discussion of the underpinning audit trail between the causal maps and the intra profession, cross case diagrams, with the chapter ending with an explanation of the construction of the cross case diagrams. For the purpose of clarity and identification and as summarised below in table 2, when referring to axial codes, brackets, [], and italics are used, and when referring to codes from within the causal maps, italics are used. Bold italics refer to organising meta-level constructs.

Key to analytical discussion	
<i>[italics]</i>	Causal axial codes Firm practice axial codes
<i>Italics</i>	Case specific codes
<i>Bold Italics</i>	Organising meta-level construct

Table 2: Key to Analytical Discussion

4.2 Case specific analysis: Causal maps

As discussed within the methodology chapter, sixteen interviews were fully transcribed in order to facilitate qualitative data analysis. Within each interview, practitioners were asked to provide four examples of dealing with clients, in addition to talking through an overview of their trade credit management. The overview of trade credit management generally

tended to yield qualitative data that described processes and procedures that were formal in nature. This facilitated the emergence of the three key areas of practice that form the central, organising framework of the causal maps. However, the examples of dealing with clients in addition surfaced informal dimensions that revealed the richness and complexity of firm practice beyond the scope of formalised, explicit policies. Practitioners' examples of dealing with clients allowed coding to capture idiosyncratic, multi-dimensional layers of firm practice and the complexity of causal influences upon that practice. Codes within the case specific causal maps therefore also represent the consolidation of examples with common features in order to depict informal firm practices. The causal maps therefore reflect formal and informal practice and the causal influences upon both aspects. Within appendix 5 the transcript for case S_A is included in order to provide an example of case specific analysis.

The transcripts were open coded in line with the principles discussed by Strauss and Corbin (1990) and Miles and Huberman (1994). The transcripts were formatted to include the line numbers and all codes within the causal maps are referenced back to the case transcript via the line numbers. The codes were then mapped for each case; codes were organised into causal maps from which emerged a central framework consisting of three key areas of practice (*Negotiation of terms of business, Management of amounts owed, Collection of amounts owed*). Codes within the boundary (the dashed line) of these three areas are representative of the trade credit management practices within each firm, whilst influences upon practice are mapped around this framework, illustrating the causal relationships. The maps therefore represent grounded accounts of trade credit management practice within small professional firms, and the causal influences upon that practice, providing a useful mechanism for data display. Appendix 1 contains the sixteen case specific causal maps.

4.3 The audit trail: From case specific causal maps to intra profession diagrams

The case specific causal maps derived from the interview transcripts and discussed above, recognise the richness of the individual case, and it is from this position that analysis was undertaken. Once each case had been considered inductively and a grounded, causal map

constructed, attention shifted to intra profession analysis. Looking across cases in order to build theory from case studies is a necessary step towards establishing emergent ‘themes, concepts and...relationships between variables’, (Eisenhardt, 1989, p.541). The first stage of cross case analysis began with a separate consideration of each of the four professions in order to surface intra-profession similarities, differences and nuances in trade credit management practices. This approach provided the basis for further cross case analyses in the form of inter profession comparisons, and the emergence of organising meta-level constructs.

Intra profession analysis began with a consideration of the case specific causal maps. Axial coding is described by Strauss and Corbin (1990) as the process of reassembling data in order to identify relationships. Open coding of case specific maps displayed the disaggregated data, whilst intra profession analysis identified axial codes that made ‘connections between a category and its sub-categories’ (Strauss and Corbin, 1990, p.97). These axial coding categories therefore provided more powerful explanations of firm practice and causal influences that were usable in other cases (Miles and Huberman, 1994) and facilitated the development of a coding frame. The axial codes are audit-trailed to the causal maps using four spreadsheets (one for each profession). Case specific codes relating to firm practice were grouped intra profession, to form descriptive axial codes that captured elements of firm practice, pulling them together to identify key aspects of trade credit management within each of the three areas of the central organising framework. Axial codes were also established that captured the open coding of causal influences upon firm practice, with causal axial codes then situated within the environmental levels of the firm. The intra profession coding frameworks therefore display the axial coding of causal influences and firm practice.

The sixteen case specific causal maps can be found in appendix 1, and the four intra profession coding frameworks can be located in appendix 2, and are presented within a spreadsheet. The following discussion explains the process of intra profession analysis and the audit trail, and will refer to the intra profession analysis of accountants to provide an example, an extract from which is provided below for reference in figure 1:

Axial Coding Framework: Accountants							
Axial Codes:	Causal Map Coding:		Direct influence upon practice			Indirect influence upon practice	
			Negotiation of terms of business	Management of amounts owed	Collection of amounts owed	Interaction of causal map influences	Interaction of axial codes
Client attributes ^{T,U,V,W}	Client attitude ^T	Client perception of small firm ^T				Type of client ^T	Client profile ^T
	Client circumstances ^{U,V,W}			V	U,V,W		
	Client control of costs ^U		U	U			
	Client expectations ^{V,W}	Client association with work ^W		V,W			
	Client cash flow ^V		V		V		
	Client systems ^V				V		
	Use of IT ^V	Job turnover ^V	V	V			
Client satisfaction ^{V,W}	Quality of service ^V Client dispute ^{V,W}	W	W	V,W	New clients ^V	Client profile ^V	
Client profile ^{T,U,V,W}	Referred clients ^{T,U}		T,U				
	Type of client ^{T,U,W}		T			Referred clients ^U Client control of costs ^U Client firm relationship ^U Networking ^U Repeat clients ^W	Client attributes ^U Client firm relationship ^U Firm attributes ^U
	Size of client ^{U,V}			U		Client systems ^V Client cash flow ^V	Client attributes ^V
	Repeat client ^{V,W}	Self selection of clients ^{V,W}				V, W	Client firm relationship ^W Client firm relationship ^W
	New clients ^V		V				Client firm relationship ^V
	Scale of job ^{V,W}			V,W			

Figure 1: Extract from Axial Coding Framework: Accountants

The spreadsheets show the causal influences identified from the case specific causal maps (second column), and how they have been attributed to the axial codes (first column). Each case specific causal code is referenced to the originating case using superscript and the case letter as an identifier. The spreadsheet therefore provides the audit trail between the causal influences identified for each individual case, and the causal axial codes. The third column shows other case specific codes that were attributed within the case to a ‘label’. For example, and with reference to the axial coding frame for accountants, *Client association with work* had been attributed within analysis of case A^W to *Client expectations*, which was then captured within the axial code [*Client attributes*].

The spreadsheet also records whether the case specific causal codes had a direct, indirect, or, as is evident in some cases, both a direct and indirect, influence upon firms’ practice. Three columns represent the central framework of the causal maps (i.e *Negotiation of terms of business; Management of amounts owed; Collection of amounts owed*), and the direct influence upon practice of the case specific causal codes is captured against these, with a reference to the case by letter. For example, and with reference to the accountants spreadsheet, [*Client attributes*] is an axial code that has captured the influence of *Client cash flow*. Reading across the spreadsheet, it can be seen that for case A^V, *Client cash flow* was a direct influence upon the *Negotiation of terms of business*, and *Collection of amounts owed*. The exact nature of this influence can be found with reference to the case

specific, causal map for case A^V by looking for *Client cash flow* and tracing the influence represented within the map upon the *Negotiation of terms of business* or the *Collection of amounts owed*. In other words, the causal codes present in each case, grouped according to axial codes on the spreadsheet, can be identified with reference to the second column, and by reading across the spreadsheet their direct influence upon firm practice (if present) can be traced.

The indirect influence of causal codes upon firm practice is also represented within the final two columns of the spreadsheet. The first of the two columns is concerned with the interaction of causal map influences. For example, the spreadsheet for accountants shows that for case A^T, the causal code *Client attitude* (second column), captured by [*Client attributes*] (first column), only has an indirect influence upon practice through its interaction with the *Type of client* [*Client profile*]. Again reference to the case specific map for case A^T illustrates the relationship. The indirect impact of case specific, causal codes reflects the interaction of the causal influences at a case level, and is an important element in understanding the complexity and interconnectedness of these influences. Although not always directly attributable to a particular trade credit management practice, this interaction is nonetheless significant through influence exerted upon other causal codes that do have a direct influence. However, causal interaction is only represented at the level of axial codes within the intra profession diagrams; the level of detail would be overwhelming otherwise.

The final column of the spreadsheet captures the interaction of the axial codes for each case. The intra profession, cross case diagrams capture interaction of axial codes only. For example, for case A^T as above the *Client attitude* [*Client attributes*] influenced firm practice indirectly through its influence upon the *Type of client* [*Client profile*]. Therefore there is causal interaction of the axial codes; in this case [*Client attributes*] influences [*Client profile*], and this is captured within the intra profession, cross case diagram. However, where the interaction of causal codes is within the axial code the interaction is not shown; for example, in case A^U, the *Type of client* [*Client profile*] can be seen to have an indirect influence upon practice through *Referred clients* [*Client profile*] but this within axial code interaction is only depicted on the case specific map.

To recap, case specific causal codes can be identified with reference to the second column of the spreadsheet; reading across the spreadsheet the potential direct influence of that causal code can be observed with reference to the three columns representing the central framework of the causal maps. The next column identifies the indirect influence of a causal code upon other causal codes, within case specific maps. Reading across the spreadsheet from a case specific causal code, it is therefore possible to identify both the direct and indirect influence of that code. The causal axial codes are listed in the first column and pull together conceptually the case specific causal codes. The interaction of the axial codes within cases is captured in the final column.

Finally, the coding frames provide an audit trail to the axial coding of firm practice for each profession. Firm practice within each of the three areas (*Negotiation of terms of business; Management of amounts owed; Collection of amounts owed*) that constitute the central framework for each case specific causal map, and that form the centre of the intra profession, cross case diagrams, were consolidated to form codes representative of practice and decision making. All practices within a firm were captured and reflected in this way, thus aiding the observation of common intra-profession approaches to trade credit management, whilst allowing for recognition of the idiosyncratic approaches of individual firms. The spreadsheet utilised therefore allows the analysis to move from the case specific causal maps, to a consideration of each profession and provides the audit trail to underpin the intra profession, cross case diagrams. With the cross case diagrams established intra profession, analysis shifted across professions for the final level of analysis that resulted in the inter profession cross case network of causation that depicts the framework of firm practice and the causal influence of the axial codes.

Through inter profession analysis organising meta-level constructs emerged that provided a cross cutting framework through which to consider findings. As will be seen within subsequent discussion of inter profession analysis, these meta-level constructs are deeply embedded within firm practice and derive their meaning from their context. Although familiar terms they should therefore be considered as self defining, emerging from the research as organising meta-level constructs that provide cross cutting terms through which to explain and understand the influence of causal axial codes across professions.

4.4 The intra profession diagrams

The intra profession cross case diagrams are constructed from the spreadsheets for each profession and display the axial coding of firm practice; the influence of causal axial codes upon firm practice; and the interaction of the causal axial codes.

The causal axial codes identified within the spreadsheet are organised inside the intra profession cross case diagrams according to whether they occurred within a firms' internal environment, operating environment or macro environment. This acts as a useful mechanism for identifying from where in terms of context the causal axial codes originate, highlighting the significance of contextual features. In addition, use of such a framework facilitates consideration of the potential structural properties of causal axial codes, the role of practitioner's agency and the nature of the recursive relationship between them. Where causal axial codes might be considered to be determined across environments, they are recognised as transcending environmental boundaries, for example the [*Client-firm relationship*].

In order to progress to a more conceptual level of abstraction it was necessary to consolidate the detail of trade credit management practices within the case specific causal maps, intra profession, and convey causal influences at a conceptual level. The causal axial codes are therefore linked to the key areas of practice at a general level, with arrows that identify the case in which the causal influence is present. The arrows signify that a causal axial code influences, for example, *Negotiation of terms of business*, but not which particular aspect of practice. To identify a specific influence upon a particular firms practice, the causal map for that case can be consulted. Some causal axial codes may not have an observable direct impact upon practice, yet exert considerable indirect influence through their causal interaction with other axial codes. Where applicable beneath each causal axial code in square brackets is a reference to the code/s influenced and the case/s in which the interaction is observed. As per previous discussion of the audit trail, within axial code interaction of causal influences is not shown within the cross case diagrams, but can be traced with reference to the spreadsheet.

The central framework of the diagram has been retained from the individual causal maps and represents firm practice across the three areas of practice; *Negotiation of terms of business*, *Management of amounts owed*, and *Collection of amounts owed*. The metaphorical image of a hologram can be returned to in order to provide an explanation; the central framework of the case specific causal map is retained and reflected within the next level of analysis that has been broadened to consider cases within a particular profession. As discussed previously within this chapter, the trade credit management practices of firms, identified within case specific causal maps, have been consolidated through axial coding to provide generalised areas of practice and decision making within the central framework.

The trade credit management practices within each section of the central framework represent distinct areas of practice, but these are also linked to each other within a web of interrelationships; this is represented by lines that connect the axial coding of firm practice inside each area of the central framework. At a case level it is also possible to observe some instances of interaction of a firm's practices across the three central areas, i.e. trade credit practices regarding the *Negotiation of terms of business*, the *Management of amounts owed* and the *Collection of amounts owed*, are often inter related. At an aggregated cross case level this complexity cannot be shown, but where appropriate these connections will be discussed.

The intra profession, cross case diagrams are representative of the interview transcripts and grounded therefore in the data. The causal maps and resulting cross case diagrams consequently reflect how practitioners represent their practice, and their perceptions of the causal influences, and should not be taken as the implied 'truth' of the situation. The philosophical position of this research is a structurationist one, as discussed within the methodology chapter, and as such practice is considered as emergent from the recursive relationship between agency and structure. The maps therefore need to be considered from this position, as Miles and Huberman (1994, p.7) state 'the main task is to explicate the ways people in particular settings come to understand, account for, take action and otherwise manage their day to day situation'. With this in mind, in reviewing the cross case diagrams an observer may identify the lack of an axial code which they consider intuitively should be represented. The exclusion of such potential intuitive causal factors is not necessarily equivalent to an acknowledgement that these factors do not exert influence

upon the trade credit management practices of small professional firms, rather than the maps reflect the practitioners view of their world.

4.5 Conclusions

The purpose of this relatively brief chapter has been twofold; firstly it has provided an explanation of the process of qualitative data analysis undertaken; secondly it has presented a description of the underpinning audit trail.

The causal maps depict practitioner explanations of how trade credit is managed within their firms, and what causal influences exist. These grounded portrayals of practice have been aggregated, intra profession, to provide four cross case diagrams. The case specific, causal map coding can be referenced back to the original transcript via line numbering, and a spreadsheet has been used to capture the axial coding process for causal influences and firm practice. The spreadsheet also demonstrates whether the causal influence has a direct or indirect impact upon a firm's trade credit practice, and traces the interaction of causal axial codes.

Having identified the analytical process and described the audit trail, discussion of cross case analysis can therefore progress with a focus upon emergent findings. Solicitors form the focus of the following 'exemplar' chapter, in which the intra profession cross case diagram is discussed in depth, providing a detailed explanation of intra profession analysis. This chapter is then followed by cross profession analysis, organised into three chapters and represented within a summary inter profession diagram and a final cross case network of causation, presented within a discussion of conclusions in chapter 10. This approach to the write up of the analysis chapters was adopted in order to avoid repetitive discussion of trade credit practices within small professional firms and the causal influences. Such an approach is not intended to obscure the intra profession analysis but to demonstrate the rigour of the analytical process, whilst maintaining an interesting discussion. This chapter therefore provides the back drop to the subsequent chapters concerned with intra-profession, cross case analysis, and the underpinning for the inter profession, cross case network of causation.

Chapter 5: Intra-Profession Cross Case Analysis: Solicitors

5.1 Introduction

This chapter acts as a detailed example of how intra profession cross case analysis was undertaken in order to develop cross case diagrams for each profession, as discussed within chapter 4. Solicitors provide the focus for this ‘exemplar’ chapter and discussion is therefore concerned with analysis of solicitors’ trade credit management practice in cases S_A , S_I , S_N and S_R . As a reminder, table 3 below briefly summarises the detail of these cases:

Case identifier	Number of employees	Year established	Legal structure
S_A	6	2004	Limited liability partnership
S_I	40	1996	Limited liability partnership
S_N	>50	1882	Partnership
S_R	>50	1966	Limited liability partnership

Table 3: Summary Case Information: Solicitors

Chapter 4 outlined the analytical process and construction of the cross case diagrams; the aim of this chapter is to discuss one profession’s cross case diagram in depth, establishing a rich, contextualised picture of trade credit management within small and medium sized solicitors. The four intra profession, cross case diagrams provide the foundation for the development of the inter profession, cross case network of causation and the emergence of meta-level organising constructs. These meta-level constructs provide interrelated, narrative terms with which to discuss the axial codes, cutting across them in an

overarching manner. Discussion of the cross case network and emergence of meta-level organising constructs will be developed more fully within the cross profession analysis chapters however, within this chapter, reference to meta-level constructs will be signposted where their explanatory nature is evident and they will be referred to using bold italics.

As a result of the inductive nature of this research, both formal and informal practices have been surfaced and discussion will therefore highlight both idiosyncratic approaches to the management of clients, and similarities that exist in trade credit management practices across solicitors' firms. This will enable the identification of profession situated commonality across firm practice, causal influences, and their interaction. The enfolding of literature will be undertaken within the inter profession analysis chapters, when areas of agreement, contrast and contradiction between the literature and this research will be explored within the context of consolidated, cross case analysis.

The metaphor of a hologram was used in chapter 4 to illustrate the analytical process. Discussion will be framed around the three areas of practice that constitute the central organising structure of case specific causal maps and intra profession cross case diagrams, namely; *Negotiation of terms of business*, *Management of amounts owed* and *Collection of amounts owed*. Analysis broadens out from single cases to intra profession analysis, but retains the emergent central framework of practice. The influence of the causal axial codes will be interwoven within discussion, and their relative importance explored. The following discussion is therefore summarised within the solicitors' intra profession diagram, figure 2, which provides a continuing point of reference for this chapter and is shown on the following page.

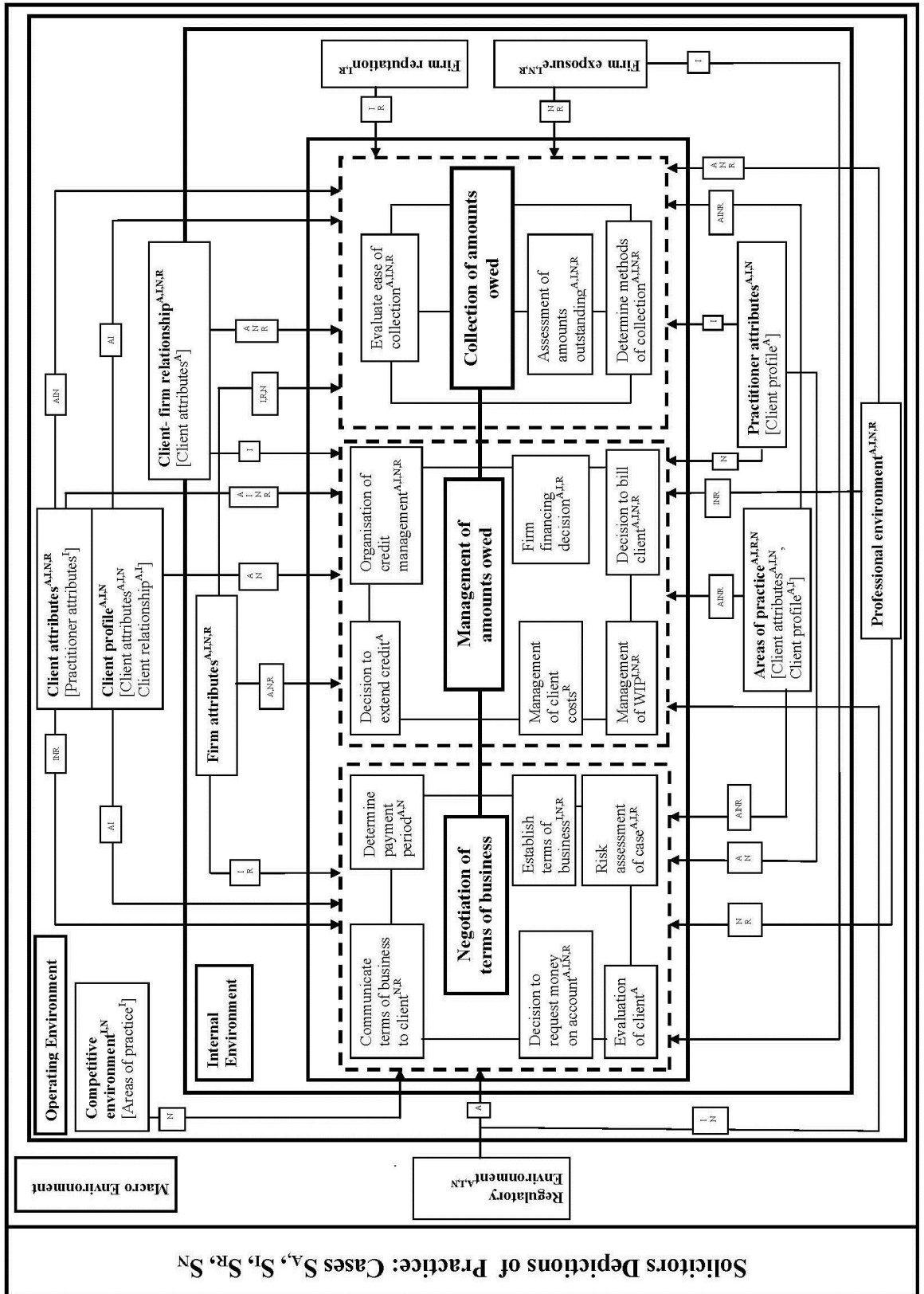


Figure 2: Solicitors' Intra-Profession Diagram

As discussed within chapter 4, the intra profession diagrams display axial coding of firm practice at their centre, with the influence of causal axial codes mapped around it and positioned within the internal, operating, or macro environment. The case specific causal maps for solicitors can be found within appendix 1c. The intra profession audit trail that traces analysis from case specific causal maps to intra profession diagrams is captured within the spreadsheets discussed within chapter 4 and as a reminder can be found within appendix 2.

Within discussion of the diagram, and as identified in chapter 4, reference to axial codes representative of consolidated areas of trade credit management practice within the three areas of the central framework will be signposted with the use of square brackets and italics. Causal axial codes will also be referred to using italics and square brackets. Discussion of case specific codes that relate to practice or causal influences will use italics only. However, as case specific codes are not necessarily directly observable within the cross case diagram, reference will also be made, in italics and square brackets, to the axial level codes that capture them and that are, therefore, represented within the intra profession cross case diagram. Emergent organising, meta-level constructs will be signposted in bold and italics. As outlined above, the chapter commences with discussion of the *Negotiation of terms of business*, followed by discussion of *Management of amounts owed* and *Collection of amounts owed*.

5.2 Negotiation of terms of business

The areas of practice forming the organising structure for this discussion are broadly distinguished from each other with regards to the aspects of practice considered. *Negotiation of terms of business* constitutes the first key aspect of the central organising framework and is primarily concerned with aspects involving the initial stages of dealing with clients, for example, *[Evaluation of client]*. However, trade credit practices across the three central areas are linked and impact upon each other; this interaction will be recognised within the discussion.

5.2.1 Establish terms of business and communicate terms of business to client

As discussed within chapters 3 and 4, practitioners were asked to provide a general overview of how trade credit was managed within the firm beginning with the initial client-firm arrangement and to discuss in detail four examples of dealing with clients. Standardised, established terms of business were explicitly referred to within cases S_I, S_N and S_R, [*Establish terms of business*]. These formal business terms are mainly concerned with providing the client with relevant information regarding the nature of the agreement with the firm, for example within Case S_N the practitioner describes the role of a client care letter:

'there's a thing at the beginning of the case called a client care letter that has to set out a number of things, one of which is the charging policy and the rates being charged for the billing concerned, we also have to put in our complaints procedure...but we have to be very specific about the rates we charge'

Case S_N, p.10, 244-248.

Particular emphasis was also placed upon the communication of formally expressed business terms to clients [*Communicate terms of business to client*], within cases S_N and S_R. This is illustrated below by case S_R, which also further explains the role of formally expressed business terms:

'I mean every client who walks through the door has to receive our terms of business, that's the law society rules and that includes how we look after clients, hourly rates, how we charge things storage of their files, conduct of the case, stuff like that'

Case S_R, p.1, 5-8.

Perhaps unsurprisingly, with the exception of case S_A, all the solicitors firms made explicit reference to formal terms of business [*Establish terms of business*], or how these were communicated to clients [*Communicate terms of business to client*]. A key influence upon establishing formal business terms and the importance of communicating these terms effectively to clients came from the *Professional context* [*Professional environment*] that the firms operated within, namely the law society, as evidenced above within case S_R. The *Competitive environment* [*Competitive environment*] can also be seen as a driver to effective communication of business terms, and in particular fee information, to clients, as case S_N demonstrates:

'you go into Tesco's you don't go out without paying your money so there's a big change from when I first came for people wanting to know how much it's going to cost them. I think years ago you walked into a solicitor and you paid what you were asked but not now and of course more and more institutions are able to do legal work, licensed conveyancers came along. You now read in the paper that Tesco's are going to have solicitors in stores – they have florists the next move is solicitors – it won't be long before you get the licensed probate clerk so they'll be licensed to do probate'

Case S_N, p.11, 270-279.

Within case S_N, there is also evidence of the firm's responsiveness to *Client preferences [Client attributes]* for transparency with regards to fee information, and changes in the *Competitive environment [Competitive environment]*. Further evidence of firm responsiveness to *Client preferences [Client attributes]* when communicating business terms to clients, is provided by case S_R which highlights how trade credit practices are adapted in order to assist client control of costs:

'They know if there's going to be a big level of fee, we have to give an indication of how much it's going to cost so that initial engagement letter that'll be the fee earners rate and also an initial amount of how much that's going to be...so the client is aware that it's going to be x amount of money and then on the very large cases it is quarterly..'

Case S_R, 154-159, p.7.

The business terms established and communicated determine to some extent formally expressed billing dates, therefore demonstrating how trade credit practices across the central framework can be linked. Within *Management of amounts owed* for case S_I there is evidence of the interaction of *[Establish terms of business]* with the *[Decision to bill client]*, in terms of formal expressions:

'Our terms and conditions say we can bill them monthly but I don't do that with any clients actually'

Case S_I, 346-347, p.14.

Billing will be explored more fully within the following section of this chapter.

5.2.2 Determine payment period

As noted previously, the practitioner within case S_A did not explicitly refer to general, standardised terms of business but did discuss the establishment of a formalised payment

period [*Determine payment period*]. Interestingly, the examples of dealing with clients revealed that these formal expressions were not necessarily representative of how clients were actually managed. Case S_A illustrates that formally expressed terms of payment are not necessarily imposed:

‘Yes we decided that it would all be terms of payment in strictly fourteen days and so it was all decided....well it depends really usually I suppose we’ve got fourteen days so we would start chasing after twenty eight days’.

Case S_A, p.8, 378-380, 385-387.

Clearly, the formally expressed terms identify a payment period of fourteen days and yet the effective reference point for the company pursuing payment is twenty eight days. The impact of industry *Norms* might be anticipated to be a particularly prevalent influence upon the payment period established, but there was little explicit evidence from within solicitors’ accounts of practice to substantiate this. It is however perhaps reasonable to speculate that 28 days as an effective payment period could have been informally established because of the practitioners awareness of industry *Norms* but as this is only implied industry *Norms* do not appear as an axial code for solicitors with regards to [*Determine payment period*].

The practitioner within case S_N was responsible for the re assessment of the firm’s payment period [*Determine payment period*] and so *Practitioner judgement [Practitioner attributes]* was, for case S_N, a causal influence:

‘we used to have ‘payment would be appreciated in seven days’ but then there were no trigger actions ‘it would be appreciated’, if it didn’t come in, so we thought fourteen days is fair enough –these come from recommendations I made’

Case S_N, p.5, 112-115.

Again, fourteen days has been identified as an appropriate payment period, based upon the judgement of the practitioner. Given that the formal payment period has been identified from the practitioners own recommendations and mirrors that of case S_A, it could be that this formally expressed payment period has also resulted from the influence of perceived industry *Norms* but, as above, this is not clearly explicit.

For the practitioner in case S_A, a key influence upon [*Determine payment period*] that is explicitly identified, is the *Type of client [Client profile]*. Encouraging clients to prioritise

payment, particularly for companies, is provided as the rationale for restricting the payment period:

‘if I give them 3 months the company could’ve gone down by then. If they are in trouble there’s more chance they’re likely to pay my bill or part of it and you know something’s better than nothing. And the other thing is you know we’ve got VAT quarters and if it slips over into the next VAT quarter we end up paying VAT and they haven’t paid us’

Case S_A, p.9, 497-508.

The *Type of client [Client profile]*, in this case a company, is considered to have implications for the **Risk** of non payment and this has influenced the payment period decided upon by the firm. For case S_A, the *[Regulatory environment]* can also be observed to extend its influence as *VAT Requirements [Regulatory environment]*, have influenced the payment period tolerated by the firm.

Practitioners demonstrated their awareness of the importance of establishing formal business terms and communicating these to clients within their *Professional context [Professional Environment]*. Accounts of practice also revealed how an appreciation of *Client preferences [Client attributes]* and a changing *[Competitive environment]* can also impact upon the formal information provided to clients, and payment arrangements. There was some implied evidence that suggested the influence of industry **Norms** upon payment periods however for solicitors this was not explicit. The *[Regulatory environment]* and *[Client profile]* were both observed to influence *[Determine payment period]*; *[Client profile]* in part reflects the **Risk** associated with dealing with company clients, whilst *VAT requirements [Regulatory environment]* provide a regulatory stimulus. The causal influence of both the *[Professional environment]* and the *[Regulatory environment]* can be explained by the regulatory impact of structures imposed within both the operating and macro environments; firms practice reacts to **Regulation** influences, adapting accordingly.

Firms response to the causal influence of both *[Client attributes]* and the *[Competitive environment]* can however be observed to be proactive, with the firm actively seeking to manipulate client behaviour through their awareness and assessment of *[Client attributes]* and *[Client profile]*, and responding to changes within the *[Competitive environment]*, encouraged by commercial **Motivation**. The complexities within the decision making of the practitioner are apparent; practitioners clearly recognise the importance of formally

expressed and communicated terms of business, yet these are adapted and evolve in reaction to the preferences of clients and the external environment.

5.2.3 Evaluation of client, risk assessment of case and decision to request money on account

On encountering new clients, firms discussed their approach to evaluating the riskiness of that client, [*Evaluation of client*], or the riskiness of the case, [*Risk assessment of case*]. The relevance of assessing **Risk** by case is determined by the [*Areas of practice*] for a solicitors firm and is largely a factor in no win no fee cases:

'we try to limit ourselves to six at any one time but in practice its usually about three because they have to be worth your while because they reckon that you've got to have 75% chance of success to make it worthwhile and also because you've got 75% of success you've got to have a mark up of 25% on top of your basic fee level'

Case S_A, 278-292, p.6.

'no not really apart from the fact that Fiona and I are doing employment work and we will look at the cases that we're carrying so for example no win no fee, and if we're really busy with no win no fee, we've got to take view that if we take too many of them it's going to impact cash flow quite considerably. Because you've still got your 50-75% chance that you're not going to get paid for that work at all'

Case S_A, 298-308, p.7.

The practitioner above is primarily concerned with the **Risk** associated with the fee agreements on these types of cases, and the subsequent implications for the cash flow position of the firm. There is evidence of a more formalised approach to [*Risk assessment of case*] of both no win no fee and general cases within case S_I:

'they relate specifically to the conditional fee agreements so you can decide what percentage you're charging the client, what percentage success fee it's called, the amount of success fees is based upon how complicated the claim is, what are your chances of winning or losing so it covers things like the accident, injury, the value of the claim, whether liability is going to be admitted quickly, whether it's going to take a long time getting to court, witnesses etc. Things like that and that's probably the most in depth risk assessment we have for anything because it's a conditional fee agreement – general agreements that we have, a general risk assessment is a tick box from everybody has to do 'have you considered risk', 'is it within your capabilities', 'can you take it on', and everybody just ticks yes, yes, yes, because otherwise once the telephone call comes through, you pretty much know whether you can do it or not'

Case S_I, 144-156, p.6.

The potentially significant impact of no win no fee cases upon a solicitor's practice is clearly a determining factor regarding the proportion of this activity undertaken by a firm, and the individual cases accepted. Evidence from cases S_I and S_A above reflect both informal and formalised approaches to *[Risk assessment of case]*, and subsequent settlement. For case S_I, it is also apparent that generalised use of a formalised, tick box, risk assessment procedure is not considered a particularly effective exercise, but one that merely captures valuable information already attained through conversation with the client.

For the practitioner within case S_A there was, in addition to case evaluation, an awareness of the importance of evaluating a *New client [Client profile]* stemming from previous *Practitioner experience [Practitioner attributes]*, and in response to the increased **Risk** the practitioner associated with a new client:

'I suppose we would...well it hasn't really happened here we haven't really had a big one. What we used to do in my old firm you would start off with someone you don't know you get money on account, you get directors guarantees, you get personal guarantees for a limited company and you would always do that unless you knew the client well'

Case S_A, p.10, 474-482.

As the result of the practitioner's **Experiential learning** the *New client [Client profile]* is perceived to pose **Risk** to the firm in terms of payment as little, if anything, may be known about them. The *[Decision to request money on account]*, also involved an assessment by the practitioner of factors perceived to contribute to the **Risk** associated with both known, and new clients. These assessments are clearly informed by an evaluation of what is known about a client and their circumstances, derived from numerous causal influences, highlighting the significance of **Knowledge of client**. For example, the *[Decision to request money on account]* in case S_N is taken after a consideration of the *[Areas of practice]*:

'So a lot of the work we do on the litigation side, we will always ask for payment on account so if you come to us and say 'I want a divorce' we will say 'that's probably going to cost you about five hundred pounds' and we need three hundred pounds on account initially for the court order and to get the ball rolling etc. So there's an element that we don't do certain work without getting money on account. Also if you ask us to sell your house or buy your own house we will ask for £150 to cover the initial search fees so the partners are quite strict in ensuring that fee earners get money upfront when they need to'

Case S_N, p.2, 43-49.

Client funding [Areas of practice] is another important determinant of whether practitioners receive monies on account and, therefore, of the **Risk** associated with receiving payment. Case S_A clearly demonstrates these aspects, highlighting the causal relationships between *[Areas of practice]* and *[Decision to request money on account]*:

‘we do three main areas of work: F and I do employment law and everything else and K does housing and community care law is publicly funded and we have a franchise from the legal service commission we also have the ability to provide publicly funded advice on employment but there’s no such thing as a full certificate so there’s no full legal aid if you like...Its now called legal help but it’s what actually used to be the old green forms..’

Case S_A, p.1, 27-41.

‘Now with the block funded work we get paid money on account by the legal services commission which more or less, well actually it was the only reason we could start the way we did because when we started we got five thousand pounds a month an account’

Case S_A, p.12, 595-601.

Case S_I further illustrates how the firm’s *Control of Process [Areas of Practice]* with respect to particular aspects of the firms work, leaves them in a powerful bargaining position when requesting money on account:

‘In the conveyancing department generally you don’t complete the transaction until you’ve been paid so you ask for the money in advance you finish and that’s fairly easy for them’

Case S_I, 38-40, p.2.

Where the **Power** resides is in part determined by *[Areas of practice]*, and this has implications for the evaluation of **Risk**. In case S_A, a clear link is made between undertaking publicly funded work, *Client funding [Areas of practice]*, where money is received on account, and the **Risk** associated with receipt of payment:

‘we’re still going to have a large chunk of publicly funded work, although it doesn’t pay anything like as well as the private client work, so yep I think it’s important the kind of work that you do, that makes the difference to recovery’

Case S_A, p.13, 611-617.

The **Risk** attached to dealing with a particular client is partly associated with the source of funding for that client, and is mitigated further as the firm has received monies on account.

Case S_A also provides further evidence of how trade credit practices across the central framework can be associated. *Client funding [Areas of practice]* has been observed to exert a direct influence upon the *[Decision to request money on account]*. What is also evident from case S_A, is that the receipt of monies on account from clients facilitated the firms start up financing, allowing the firm to avoid the use of debt; the *[Decision to request money on account]* had a direct impact upon *[Financing decisions]*, which is situated within *Management of amounts owed*, for case S_A. This will be discussed further within the following section of this chapter.

All solicitors cases exhibited evidence of the evaluation of **Risk** to some extent, whether through formalised or informal practices, within at least one of the following three key areas; *[Evaluation of clients]*; *[Risk assessment of the case]*; *[Decision to request money on account]*. **Risk** was explicitly identified as the stimulus for the assessment of clients and the particulars of their cases, before the client is taken on. In addition, the *[Decision to request money on account]* reflected the interplay of causal axial codes whose influence is partly or wholly explained by **Risk**. The evaluation of **Risk** therefore has a persuasive role to play in explaining both informal and formalised approaches to trade credit management in small and medium sized solicitors' practices. Previous discussion highlights the significance of **Risk** as an explanatory meta-level construct when considering the influence of a number of causal axial codes; **Risk** therefore can be identified as an organising, meta level construct, the scope of which will be explored more thoroughly within the following cross profession chapter.

Evidence also suggests that the *[Decision to request money on account]* is used proactively to influence a client's behaviour and that **Knowledge of client** partly explains the causal significance of axial codes. This occurs when clients are known and aspects of their payment behaviour anticipated by the practitioner, *Client expectations [Client attributes]*, and where the practitioner identifies the need to signal to the client the incurrence of costs, *[Decision to request money on account]*, as illustrated in case S_I:

'those ones its money on account – we always get it first – they're slightly different just because of the amount of money I guess although I can't really explain why – I generally ask them for three hundred pounds on account which is a very small amount of work actually so it covers..you have to make one application to court and that covers that so it stops me spending out of the office account and ensures that they're aware that they have to pay costs'

Case S_I, p.14, 335-344.

Case S_I further demonstrates how the [*Decision to request money on account*] can be used in response to escalating costs, *Cost escalation [Firm exposure]*, to manipulate the expectations of clients, *Client expectations [Client attributes]*, and therefore reduce the exposure of the firm, [*Firm exposure*]:

'If I thought costs were going to be big, if they were getting out of hand for whatever reason I probably would ask, or if I thought the clients were being particularly unreasonable its quite a good way of controlling them – if you say of course I'll do that but I want another five hundred on account it does make them sit back and think do I really want to do that...it's quite a good way of managing their expectations'

Case S_I, 382-391, p.16.

Within case S_R, the practitioner takes the opportunity to exert control over the payment behaviour of the client, and utilises the [*Decision to request money on account*] in order to secure payment up front:

'It's a horrible thing really that we're always after money but we get lots of work and don't get paid at the end of it – it's not that many businesses do that sort of thing where you pay at the end of the job....if you want a car you pay for it beforehand so we're just trying to swing it around so that we get the money on account from the start straight away so the client knows where we are and I think that's better for the client sometimes'

Case S_R, 29-31, p.2.

'we don't seem to worry about that because if we don't receive the money for that account we won't continue the work so you know you write to the client and say 'obviously I can't do more work until you've paid my interim bill or given some more money on account'

Case S_R, 22-26, p.1

A similar attitude to discontinuing works where requests for monies on account [*Decision to request money on account*] were ignored was exhibited by the practitioner in case S_I:

'they tend to say yes or no fairly quickly and if they say no then they don't get anything done or if they ignore it again they don't get anything done just because of the way I work – if I've dealt with the file it goes away and it won't come out again until something comes in, so when the cheque comes in, the file comes out'

Case S_I, p.15, 364-369.

The relationship between aspects of practice across the central framework is further illustrated by case S_R, when considering the [*Decision to request money on account*]. From the evidence above it can be seen that requests for money on account are intrinsically linked with the billing decision and that, as well as monies being requested at the beginning of a client firm agreement, ongoing requests are used to manage amounts outstanding and to surface the payment intentions of the client, an area to be explored in the following section.

This ability of the practitioner to halt work highlights one aspect of the **Power** relationship between the practitioner and client. In circumstances where requests for monies on account had been made and were ignored or denied by the client, the practitioner is prepared to exert control by withdrawing their services, signalling clearly to the client that if they wish the job to be begun or completed, then funds need to be provided as requested. The control a firm may exert over the processes involved will also have important implications for **Power**, and in turn evaluation of **Risk**, as discussed earlier. **Power** is a recurring, meta level organising construct which surfaces in other aspects of the practitioners trade credit management and is both multifaceted and dynamic; shifting circumstances will be seen to effect the **Power** relationship, whilst clients also exert **Power** to their own advantage.

The approach of the practitioner to the [*Decision to request money on account*] within case S_R is also perceived as being compatible with *Client preferences [Client attributes]*. As previously discussed, clients were considered to prefer smaller, regular requests for payments, a preference facilitated by providing regular requests for money on account:

'we are just trying to swing it around so that we get the money on account from the start straight away so the client knows where we are and I think that's better for the client sometimes. There's nothing worse than at the end of the case being hit with a huge bill rather than small amounts during the life of the case – it's much better to know where you are – and I think we've had certain clients prefer that along the way – so conversations we've had – some clients will pay by credit card or debit card which they prefer to pay'

an amount each month rather than be at the end of a job and find out there's this huge bill that they can't fund'

Case S_R, p.2, 29-37.

The practitioner's experience of the [*Decision to request money on account*] is also influenced by the [*Client profile*]. For case S_I, the practitioner explains how the *Type of client*, [*Client profile*], often determines the client's attitude, *Client attitude* [*Client attributes*], to payment on account:

'I don't have many commercial clients so it's been quite a learning curve for me dealing with them....their approach is very different.....They don't quibble, they know they have to pay for a service – you ask for money on account – no problem they give it....their whole approach is just very different'

Case S_I, 411-420, p.17.

Within case S_I there is also evidence that highlights how the requirements of the particular *Type of client* [*Client profile*], can impact upon decisions regarding money on account, illustrating further the interaction of the [*Client profile*] with [*Client attributes*]:

'I don't get money on account from him, I don't get money to cover his disbursements if there are any either – it has to be done quickly so if something has to be paid out quickly rather than wasting time asking him to send the money and have to wait for cheques to clear – its 5 days before you can draw on them, that's something they're very strict on – and by then you might have missed your chance and because these types of clients will pay you just pay it to you and claim it back – it's a completely different attitude to money'

Case S_I, 424-431, p.18.

The practitioner in case S_I recognises that to undertake work for particular clients they must be prepared to act with urgency, and without the usual security of obtaining money on account. They are prepared to do so as a result of assessing the implications of the *Type of client* [*Client profile*] for attitudes to payment, and their understanding of the context the client is operating within.

Experiential learning has also impacted upon the [*Decision to request money on account*]. For case S_R, previous firm payment problems led to a review of practices, from which new recommendations for requesting money on account were developed:

'they ask how much it cost so that was a problem billing at the end of the case so we changed our ways and are billing or asking for money on account to start with'

Case S_R, 2-4, p.1.

Case S_A demonstrated earlier how experience can influence practices adopted, when discussing how to evaluate a new client. For case S_A, the practitioner's professional experience, *Practitioner experience [Practitioner attributes]*, exposed them to what might be considered 'best practice', and raised their awareness of using *[Decision to request money on account]* in order to mitigate **Risk**. For case S_R, reference is made to the *Firm experience of payment problems*, rather than the practitioners, and so *[Firm attributes]* as a causal category captures this influence, rather than *[Practitioner attributes]*, as in Case S_A. Amongst *[Firm attributes]*, the *Approach of the partners* was also observed to have influenced the *[Decision to request money on account]* for case S_I, in which circumstances the interview was undertaken with a solicitor within the firm, but not a partner. The practitioner highlighted that the approach to requesting money on account was not consistent across the firm and largely depended upon individual partners, creating the potential for conflict:

'a lot of the time you go to the partner and say what you want doing, or can I do this or how do you work and you work to their style – sometimes that's a good thing and sometimes it's not. I'm quite particular about getting money on account from clients because I don't like to do the work unless I know I'm going to get paid but one partner never does that - I've fallen foul of that a few times in that I've taken matters over that they've started and then don't get paid or made agreements with the client who then doesn't pay up...It's very much , and if you've taken over something from someone senior to you, it's very hard to then say I'm not going to do any work until you give us money, you just have to get on with it, it's really very tricky'

Case S_I, 62-71, p.3.

5.3 Negotiation of terms of business: Summary

This section of the chapter has sought to discuss in detail trade credit management practices that are commonly concerned with the *Negotiation of terms of business*. Discussion has focused upon cases of practice within solicitors firms, and the causal axial codes that have influenced practice.

A number of the firms' trade credit management practices developed partly in response to their contextual environment. The [*Competitive environment*], [*Regulatory environment*] and [*Professional environment*] are representative of causal axial codes that exist within the firms operating and macro environments. Both the [*Regulatory environment*] and the [*Professional environment*] determine particular requirements that a firm is expected to adhere to; they are concerned with regulating, or standardising, firm practice, but exist at differing environmental levels. **Regulation** thus provides an additional explanatory meta-level organising construct with regards to the causal influence of these axial codes. For example, *VAT requirements* [*Regulatory environment*] would influence all businesses whilst the [*Professional environment*] is concerned with the *Professional context* particularly relevant to law firms, and the origin of codes of best practice. The impact of these causal axial codes within *Negotiation of terms of business* was observed when considering how firms [*Establish terms of business*], [*Communicate terms of business to client*], and [*Determine payment period*]. These contextual, causal axial codes therefore exert a formalised, regulatory influence upon firm practice. The [*Competitive environment*] however captures the dynamic conditions of the operating environment that the firm exists within, and its influence upon practice was observed where firms responded to this, in a proactive manner, motivated by commercial potential. Hence, at a meta-level, **Motivation** explains the causal significance of the [*Competitive environment*].

Other causal axial codes captured the influence of descriptive characteristics of the client, the firm, and areas of the firms practice. Discussion shall firstly consider clients. [*Client attributes*] were a pervading influence, as firms provided evidence of how their practice was managed in a proactive manner, with firms anticipating client behaviour and manipulating this through their trade credit practices. Firms demonstrated their responsiveness to *Client preferences* [*Client attributes*] and *Client expectations* [*Client attributes*], in their [*Decision to request money on account*], and in [*Communicate terms of business to client*]. The [*Client profile*] also contributed to firms evaluations of **Risk** with [*Client profile*], influencing decisions regarding the payment period, for example. Aspects of **Risk** evaluation were apparent across numerous aspects of practice, aside from explicitly and formally acknowledged to be concerned with **Risk**, and these were largely informed by portraits of clients established by practitioners with reference to the descriptive characteristics described above. Both **Risk** and **Knowledge of client** therefore provide

interrelated meta-level explanations regarding the influence of *[Client attributes]* and *[Client profile]*. **Risk** also explains the significance of *[Firm exposure]*, whereby *Cost escalation [Firm exposure]* has acted as a trigger to the *[Decision to request money on account]*.

Descriptive characteristics of the firm, *[Firm attributes]*, *[Areas of practice]*, and practitioner, *[Practitioner attributes]*, are represented within the internal environment of the firm, and their influence has also shaped approaches to the *Negotiation of terms of business*. With regards to *[Firm attributes]* and *[Practitioner attributes]*, **Experiential learning** can be seen to explain their influence at both a practitioner and firm level. Reference has been made to both firms' experience of past payment issues, and practitioners' previous professional experience, and awareness of 'best practice' procedures. Therefore, with reference to the *Negotiation of terms of business*, **Experiential learning** acts as a meta-level organising construct that explains the causal influence of *[Firm attributes]* and *[Practitioner attributes]*, in this context.

[Areas of practice] has important implications for the *Negotiation of terms of business*, determining, for example, *Client funding [Areas of practice]*, and directly effecting firm practice, for example, the *[Risk assessment of case]*. Again, the pervading explanation regarding the influence of *[Areas of practice]* upon *Negotiation of terms of business* is evaluation of **Risk**, but there is also evidence of **Power** as an organising meta-level construct, and of the interaction of the two. Having discussed trade credit practice within the first section of the central framework, *Negotiation of amounts owed*, and explored the causal influence of axial codes and their relationship with meta-level organising constructs this chapter will now consider the *Management of Amounts Owed*.

5.4 Management of amounts owed

Trade credit practice within this section is considered to be concerned mainly with the administration and control of amounts owed to the firm. This includes for example the *[Decision to bill client]*, and the *[Decision to extend credit]*. Central to the *Management of amounts owed* is the *[Organisation of credit management]* and discussion within this

section will begin with a consideration of this aspect of practice, an aspect that emerged for all four firms interviewed.

5.4.1 Organisation of credit management

As discussed at the outset of the previous section, practitioners were initially requested to talk through credit management within their firms. This provided explanations of how credit management was organised and its role within the firm, and in some cases it was possible to trace distinct influences upon how this function had developed, or changed. Centralised aspects of the *[Organisation of credit management]* were discussed within all four interviews, however, unsurprisingly, increasing formalisation of credit management procedures was apparent when comparing the smallest of the firms, case S_A, against the larger firms. Despite this, there was evidence to suggest that the procedures in place for case S_A were both appropriate and effective, with use of software packages and aged debtor schedules. The practitioner within case S_A when discussing the *[Organisation of credit control]* below, highlights the role of the bookkeeper and also identifies the functionality of the software package used:

'yes what she will do, she does all the entering on the system and she also tries to control , what she does is flag what bills, you know, how old any debts are and we will decide to have a go at a low key chase from me or one of the other partners and then take action and pass them back to her'.

Case S_A, 328-335, p.7.

'yeah well what we have on our computer system we have a financial package on our system and it tells you when bills are thirty, sixty and over ninety days old, and so when you run your reports it tells you exactly where you are on your credit control and you can spot where problems are'

Case S_A, 513-520, p.11.

Evidence of a similar approach was provided by case S_N, where a centralised accounts department, albeit on a larger scale, was identified, as was the use of case management software to monitor debtors (accounts receivable), *[Organisation of credit management]*:

'as far as accounts, financial management and credit control is concerned, we have an accounts manager and a legal cashier, and I also have certain tasks in the accounts department which I do to help out, one of which is to keep an eye on credit control'

Case S_N, 40-42, p.2.

'but also on the software we've got in the accounts department it is the full case management software but we don't use it.....running it literally just for accounts but it's a database of clients, it's got a lot of information but that does what's known as an aged debtor list – it will actually tell you what's thirty days over'

Case S_N, 115-119, p.5.

Some degree of centralisation with regards to the accounts function of a practice is perhaps reflective of an efficient organisational structure and is likewise reflected across all four firms, however the extent of the centralisation of tasks with regards to the *[Organisation of credit management]* differs, with evidence suggesting that for some firms the autonomy of the practitioner, or more specifically the fee earner, is an important factor when retrieving amounts owed. This is reflected above in case S_A, where the *[Organisation of credit management]* involves the bookkeeper in the role of monitoring amounts owed, yet contact with the client reverts to the practitioner. A similar approach is illustrated within case S_N:

'there's various copies of that bill – one held in a folder up in accounts....what I do twice a week, on Tuesday and Friday, I go and look at anything that's unpaid and the fourteen days are up. I then phone the fee earner concerned and say 'this has reached fourteen days, it hasn't been paid, do you want a red reminder. If there's a good reason not to send one then we won't'

Case S_N, 86-89, p.4.

For case S_N, the practitioner identifies how a fee earners' awareness of *Client circumstances [Client attributes]*, determined in part by prior experience with the client, *Repeat clients [Client profile]*, provides a causal explanation for their role in retrieving amounts owed:

If there's a good reason not to send one then we won't. You get a very good idea of who's going to pay – one example at the moment, we're waiting for a bill for lady in hospital terminally ill with cancer, now we're not going to badger her with that kind of call. If the poor lady dies then there'll be probate anyway so there are valid reasons when we don't. Normally if they go out, if that goes a further 14 days without the money being paid I contact the fee earner again and say 'do you want to write them a letter or make a call or do you want the litigation department to write. Usually by then they make a phone call and it doesn't get to that'

Case S_N, 89-97, p.4

Clearly, within cases S_N and S_A, a centralised credit management function is not considered an adequate replacement for the responsible fee earner, who is thought to be better

acquainted with the circumstances of the client, and whose approach is therefore expected to come from an informed position, tempered if necessary to reflect the circumstances. However, for case S_R the situation is perceived differently. Here, the practitioner discusses how the centralisation of the [*Organisation of credit management*] has been welcomed by fee earners, with the removal of this aspect of their workload:

‘we’re centralising all the debt collection so it’s all in this office now, into one office to the accounts department so hopefully that will reduce the bad debts – the fee earners have got enough work on their plates as it is, they do the job, they do the work they don’t want to be collecting the money – and I think they quite like the idea of centralising it because it gets the burden off of collecting the money from them as well..’

Case S_R, 130-135, p.6.

The firms’ trade credit practices demonstrate how, when organising credit management within even the smallest of firms, a degree of centralisation is likely to occur. However, within cases S_A and S_N, fee earners are considered privy to a level of information more detailed than that likely to be captured within centralised, systematic functions. As a result, fee earners are consulted following reviews of amounts owed before the client is contacted, with the fee earner often also responsible for follow up communication with the client. For case S_R, however it is considered a productive allocation of resources for the accounts department to adopt more fully the [*Organisation of credit management*]. What could be argued to be considered optimal practice for case S_R has not been identified as such for other cases, in which circumstances, as an alternative to ‘optimal’, **Expediency** may offer a more appropriate explanation. **Expediency**, as a meta-level organising construct explains actions that are pragmatic, effective and appropriate, but not necessarily what would be regarded as optimal, and is concerned with the rationality of practitioners’ decision making.

The [*Organisation of credit management*] is, to some extent, determined by the [*Areas of practice*] of a firm, as reflected within case S_I:

‘Much of the accounting and credit management depends on the type of work we do’

Case S_I, 20-21, p.1.

‘the idea is to use the office account as little as possible and that’s also a big difference in the work I do and all the other departments actually – they

get money to cover all the disbursements whereas I very often have a negative figure in the office account'

Case S_I, 103-107, p.5.

For case S_I, the *Management of client account [Organisation of credit management]*, and the timing of the associated cash flows is largely determined by the *[Areas of practice]*. This is also observable within case S_A, where *[Areas of practice]* influence both the *[Organisation of credit management]* and *[Evaluate ease of collection]*, located in the final section of the central framework, in an interconnected fashion:

'and a lot of the work we've done, the publicly funded work, we haven't got the big credit control'

Case S_A, 552-554, p.12.

'we don't tend to extend credit anyway, as I say with publicly funded money you just bill at the end of the case, with the employer clients we tend to bill on a regular basis, so monthly or quarterly, and with employee clients we tend to, well there are different ways of funding them, some have legal expenses insurance, we'll get paid anyway at the end, some are funded themselves which means there's always a risk that you won't get paid, and then we do some no win no fee'

Case S_A, 99-111, p.3.

Within case S_A, *[Evaluate ease of collection]* reflects the practitioner's expectations regarding the receipt of payment from clients, and is in part determined by *Client funding [Areas of practice]*. *[Evaluate ease of collection]* in turn influences the *[Organisation of credit management]*. From the practitioner's perspective, the credit function is intrinsically related to the risk associated with the receipt of payment; as the practitioner is sure that with publicly funded clients, for example, payment will be received at the end of the case, their perception is that there is no associated 'credit control', and thus *[Evaluate ease of collection]* bears influence upon the focus and emphasis of the *[Organisation of credit management]*.

In order to consider how trade credit management practices are interrelated across the central framework, and the indirect influence of *Client funding [Areas of practice]* upon the *[Organisation of credit management]*, it is worth therefore highlighting that *[Evaluate ease of collection]* for case S_A, feeds back into the *Management of amounts owed*, as the resulting evaluation directs the firm's efforts when considering the *[Organisation of credit*

management]. **Risk** again provides an explanation for the significance of [*Areas of practice*] as conceptually it explains the importance of *Client funding* [*Areas of practice*], and the subsequent impact upon trade credit practices. However, there is also evidence of **Risk** interacting with **Expediency**; within case S_A as discussed above, it could be argued that the practitioner is behaving in an expedient manner, directing their efforts towards those clients evaluated as being difficult to collect from, and passively waiting for payment from clients whom they know to be securely funded.

For other solicitors firms' there was evidence of regulatory influences upon the [*Organisation of credit management*] originating from the [*Professional environment*]. In particular the *Management of client account* [*Organisation of credit management*] is undertaken in line with rules governing solicitors practice:

'every client has a financial ledger – as you know with solicitors you have to keep office money and client money separately, we could get struck off...unless we paid in, unless we banked a cheque into a client account and its processed into the bank before 3:30pm we can't draw on that money'

Case S_N, 281-284, p.12.

There's really strict solicitors practice rules which you have to comply with when you're handling client money, effectively you run two separate accounts – one is the office account and one is the client account'

Case S_I, 94-96, p.4.

Clearly, the *Professional context* [*Professional environment*] has a significant influence upon regulating the financial management of solicitors, evidence of which is apparent when considering the [*Organisation of credit management*]. This influence is extended further when *Industry standard accreditation* [*Professional environment*] is considered, whereby for case S_R the approach to the [*Organisation of credit management*] has been directed by the decision of the firm to become accredited by the Law Society:

'we're bound by the law society, guided by them, basically they tell us what we have to do – we're accredited Lexcel.....so they come in to audit us, they say this is what you should be doing and we have to try, we have to have monthly meetings on each individual client, each individual fee earner has to have a number of files audited to make sure they're doing it to certain standards, letter to clients that sort of thing'

Case S_R, 65-74, p.3.

'I mean it's great for us, it gets you into doing certain practises so you do have certain standards you have within the office which you do appraise but to belong to Lexcel you have to pay a subscription which is quite costly...the benefits are that there are certain procedures that you have to follow'

Case S_R, 78-87, p.4.

Accreditation entails the adoption of particular processes and procedures likely to be representative of structurally enshrined 'best practice', and the *[Organisation of credit management]* within case S_R has clearly been shaped in response to these accreditation requirements. The *[Professional environment]* has imposed a regulatory influence upon financial management practices, and constitutes an important aspect of a solicitor's operating environment. **Regulation** therefore acts as a meta-level organising construct that helps develop understanding of the influence of the *[Professional environment]*, within which professional bodies play a significant role.

Descriptive characteristics of the firm, captured by *[Firm attributes]*, are also observed to bear influence upon the *[Organisation of credit management]*. For case S_N, the firm's previous experience of *Resource constraints [Firm attributes]* led to the appointment of a practice manager and the subsequent development of systematic approaches to the business organisation, amongst them the *[Organisation of credit management]*:

'one of the biggest decisions they took was that the partners were spending too much time dealing with admin, management, personnel and marketing which they weren't best qualified to do and decided to get a practice manager in...so I deal basically with everything that isn't earning money, helping them to do that – I do personnel, I deal with all the systems and procedures, credit control, liaison with our accounts department, marketing, repairs, equipment supply, the whole remit'

Case S_N, 27-36, p.2.

The decision making of practitioners' demonstrates awareness of the need to put resources to their best use, recognising the potential benefit of introducing skilled help to manage administrative functions within a developing firm. It could thus be argued that such awareness is indicative of developmental, internal, **Experiential learning** within the solicitor's practice.

Within case S_A, the *Firm attitude to debt*, [*Firm attributes*], is explained as having had a direct influence upon the firm's control of credit, and the [*Organisation of credit management*]:

'to avoid borrowing, you now try and avoid borrowing if you can. Because you know borrowing will often give you a false sense of security and the fact that we haven't you know we've got an overdraft facility now but we didn't take that out until we moved in March which meant for the first nine months we were keeping a very close eye on things because we didn't have the facility there so that's why we were managing our credit so well and I think if you relax and think oh well I've got bank borrowing I just borrowed £20,000 from the bank we know you forget that you've got to repay it, it's not your money and so you take your eye of it, you know bills that are outstanding and so on, so if you keep your borrowing down to a minimum it does help you focus.....it's not just to look at this in isolation if you keep the rest tight you will keep this, it's very easy to keep complacent you know you haven't it's not your money – but the money I'm owed by my clients is my money'

Case S_A, 685-719, p.15.

For case S_A, the financial position of the business is considered holistically, with the practitioners' reluctance to use debt financing captured within the *Firm attitude to debt* [*Firm attributes*]. The [*Organisation of credit management*] is considered an important element of overall financial control, whereby credit management is linked to financial planning objectives. A disciplined, controlled approach to managing the finances of the business is associated with a reluctance to use debt, with debt perceived as having a behavioural impact, creating what is referred to by the practitioner as a *'false sense of security'*. For case S_A, the avoidance of debt and the restricted use of external finance, [*Firm financing decision*], creates an incentive for tight financial control and the uptake of effective credit management practices.

5.4.2 Firm financing decision

The *Firm attitude to debt* [*Firm attributes*] has also been identified above for case S_A as a key influence upon the [*Firm financing decision*], an aspect of decision making which is represented as an element of the *Management of amounts owed*. Both cases S_I and S_R also refer to how a preference to *Minimise use of overdraft* [*Firm financing decision*] is an important aspect of their trade credit practice within *Management of amounts owed*. For case S_I the practitioner interviewed specialised in one particular area of practice, which had

implications for the [*Organisation of credit management*], and subsequently for attempts to *Minimise use of overdraft* [*Firm financing decision*]:

‘so the firm doesn’t want to pay out anything out of the office account, that’s an overdraft, that’s the partners money – the idea is to use the office account as little as possible and that’s also a big difference in the work I do and all the other departments actually – they get money to cover disbursements’

Case S_I, 101-103, p.5.

‘I generally ask them for £300 on account which is a very small amount of work actually so it covers..you have to make one application to court and that covers that so it stops me spending out of the office account’

Case S_I, 337-340, p.14

For case S_N, management of the timing differentials regarding the incurrence of costs and disbursements is a focus for the practitioner in order to *Minimise use of overdraft*:

‘so the total debt of the firm...is from the very quick turnover cases here, from the private client that hasn’t yet paid his bill or also the time differential between paying out disbursements and getting them back in from the insurance company or from the legal aid board, so you pay them out and then claim them back which is the wrong way around really, we should get them in before we pay them out but we tend – you’ve got a doctor’s report you need, you pay out then make your claim and then a month later the legal aid board will pay you, we should do it the other way around and get it in first before we pay it but it always works the other way’

Case S_R, 239-247, p.10.

The [*Firm financing decision*] can therefore be seen as an important element within the *Management of amounts owed*, with [*Firm attributes*] directly influencing the decision, and both the [*Professional environment*] and [*Areas of practice*] exerting an indirect influence through the *Management of client account* [*Organisation of credit management*] and the [*Management of client costs*], an aspect of practice that will now be discussed.

5.4.3 Management of client costs

Of the four practitioners interviewed, one paid particular attention to the [*Management of client costs*], to the extent that this aspect of the *Management of amounts owed* was considered to be a distinct element of practice. As the result of the firm’s past experience, for case S_R, efforts were focused upon avoiding incurring disbursements that might not be refunded:

'where we do make a cock up, do the wrong thing, have to write off the odd disbursement here or there but it's not as bad as it used to be when we used to have loads of write offs for each other case maybe or not each other case but some of the disbursements were write offs so we're fully covered now, we're getting better'

Case S_R, 122-126, p.6.

The *Firm experience of payment problems [Firm attributes]* has again influenced trade credit practices of case S_R, with the practitioner reacting to previous cost retrieval issues by emphasising the need to focus upon the *[Management of client costs]* through effective communication of cost information to clients, and avoiding incurring disbursements without securing cover, as highlighted below:

'so it is a case, a litigation case, maybe they're doing a clinical negligence case they have to fund that – we have to pay that out of our money – it's very rare that you have to fund a lot these days because you get insurance, because you get legal aid. They basically fund or can fund all your disbursements so we do get it from that.....the big cases historically we would have to fund but now we would get a conditional fee agreement signed which means that the insurance company would then fund us for disbursements on account'

Case S_R, 208-218, p.9.

It can be seen above that the previous experience of the firm has caused them to adopt a cautious approach to incurring costs on a client's behalf and that changing conditions with regards to *[Areas of practice]* may also influence how easily this is achieved. As mentioned above, effective communication with clients, *[Management of client costs]*, was considered important in order to address the problematic issue of recovering costs:

'if you're going to court and the client says well I didn't know you were going to give me a bill for £20 K you can say will we have, every 3 months we've give you a cost estimation of how much it's going to cost and also we told you how much each individual fee earner to charged'

Case S_R, 163-167, p.7.

Providing regular cost information to the client was also perceived by the practitioner to be compatible with *Client preferences [Client attributes]*:

‘there’s nothing worse than at the end of the case being hit with a huge bill rather than small amounts during the life of the case – it’s much better to know where you are – and I think we’ve had clients prefer that along the way’

Case S_R, 32-34, p.2.

A combination of causal axial codes have influenced the trade credit practice of case S_R with the *[Management of client costs]* emerging as an important aspect of the *Management of amounts owed*. The causal influence of *[Firm attributes]* has led to the adaption of approaches, and is explained by ***Experiential learning***. These approaches are also informed by the nature of the case, *[Areas of practice]*, and in part reflect the firm’s reaction to *Client preferences [Client attributes]*, whereby the firm anticipates the payment behaviour of the client. Another aspect of the *Management of amounts owed* that was only referred to explicitly by one firm is that of the *[Decision to extend credit]*, to which the discussion shall now shift.

5.4.4 Decision to extend credit

When discussing the *Management of amount owed*, for all firms decisions regarding credit periods were intrinsically associated with the *[Decision to bill client]*, however, as noted above, in case S_A the practitioner explicitly referred to criteria under which particular clients would be extended credit *[Decision to extend credit]*. Therefore the discussion will consider the *[Decision to extend credit]* within case S_A before proceeding to explore the *[Decision to bill client]*. The *[Client profile]* can be observed to be a determining factor within case S_A when considering the extension of credit:

‘because you wouldn’t extend very much credit to an individual they would be mainly companies’

Case S_A, 227-230, p.5.

When making a *[Decision to extend credit]* within case S_A information signalled by the *Type of client [Client profile]* is incorporated into their decision:

‘I mean if we were, main corporate clients who run up big bills are all people who have all been known to me’

Case S_A, 418-420, p.9.

The practitioner's *[Decision to extend credit]* clearly refers to the *Type of client [Client profile]* and whether the client is a *Repeat client [Client profile]*; both dimensions of *[Client profile]* could be seen to indicate to the practitioner the perceived **Risk** associated with the client, and therefore the amount of credit extended. **Risk** again explains the influence of *[Client profile]* upon the *[Decision to extend credit]* for case S_A. Discussion will now focus upon an area of decision making common to all firms when *Managing amounts owed*, the *[Decision to bill client]*.

5.4.5 Decision to bill client

The influence of numerous causal axial codes upon the *[Decision to bill client]* reflects the complexity of firm practice. The influence of causal axial codes upon the billing decision will be discussed, beginning with *[Client attributes]*. There is evidence within cases S_A, S_R, and S_I that the *[Decision to bill client]* is made following consideration of the clients own need to control costs and cash flow, illustrating a collaborative approach. When discussing the *[Decision to bill client]*, the practitioner within case S_A highlights how *Client preferences [Client attributes]* have impacted upon this:

'because everyone likes to keep control of their cash flow whether they're a big company or a, I mean some companies, I did have one client who was a corporate client who's asked that I bill them monthly they always wanted a bill at the end of the month so it's really what they want'

Case S_A, 247-254, p.6.

Case S_A demonstrates further the practitioner's responsiveness to the client's requirements in terms of *Client cash flow [Client attributes]* and the *[Decision to bill client]*:

'yep because the one I'm thinking of where I billed every month they were a small company themselves and it helped their cash flow. So they knew exactly where they were on expenditure'

Case S_A, 259-263, p.6.

For case S_R the impact of *[Client attributes]* has been previously discussed in relation to the influence upon the *Negotiation of terms of business*, where the discussion also noted the interrelationship between the *[Decision to bill client]* and the *[Decision to request money on account]*. The frequency of billing is considered to facilitate the client's management of payments over a period of time, and is regarded as important for the *Clients control of costs [Client preferences]*:

'there's nothing worse than being hit with a huge bill rather than small amounts during the life of the cases – is much better to know where you are and I think we've had certain clients prefer that along the way – so conversations we've had – some clients will pay by credit card or debit card which they prefer to pay an amount each month rather than be at the end of the job and find out there's this huge bill that they can't fund'

Case S_R, 32-37, p.2.

Case S_I provides further evidence of the influence of *[Client Attributes]* and the *[Client firm relationship]* upon the *[Decision to bill client]*, whilst in addition highlighting the interplay between causal influences and in particular the association between *Repeat clients [Client profile]*, the *Type of client [Client profile]* and the *[Client firm relationship]*. The *Type of client [Client profile]* has a causal influence upon whether that client is a *Repeat client [Client profile]*. Where a *[Client-firm relationship]* exists, it is as the result of an ongoing client-firm arrangement, i.e. the client is a *Repeat client [Client profile]*:

'our senior partner he's been around a long time – it's very much who you know in Brighton it's a really small place – they know people - our retired senior partner, four of five people from other companies, he'd don't it from when he qualified when he was twenty five, it's that kind of thing, it's very insular like that if you know who, if they've been using you for a long time they just keep coming back'

Case S_I, 328-333, p.14.

'I think he was an existing client, we acted for him, maybe so again this firm... has lots of longstanding clients, a lot of referral work, I think we intend to get most of our work that way'.

Case S_I, 443-446, p.18.

From the practitioner's perspective for case S_I, the *Client attitude [Client attributes]* is largely determined by the *Type of client [Client profile]*, with client types exhibiting particular attitudes to payment, with subsequent implications for the billing decision:

'yes my commercial clients , I have a couple but one in particular who has a company run by him and his brother, they're directors, a property company, property managers, they own properties rent them out, deal with managing them, they're really quite a different type of client to deal with, I don't have many commercial clients so it's been quite a learning curve for me dealing with them, I'm getting more and more now but their approach is very different.....They don't quibble they know they have to pay for a service.....Their whole approach is just very different, costs can accrue very

quickly on their cases, the one client I'm thinking of the bane of my life but since then he's referred about another 3 cases to me and he pays his bill, I do bill him monthly as the costs get high so quickly and he pays monthly without a problem.....and because these types of clients will pay you just pay it out and claim it back'

Case S_I, 407-430, p17.

Case S_I provides further evidence of the influence of both [*Client attributes*] and the [*Client firm relationship*] upon the [*Decision to bill client*]. Again, the *Client attitude* [*Client attributes*] has influenced how the practitioner approaches billing the client, and clearly a [*Client-firm relationship*] has been established from regular interaction:

'he paid without question and with a thank you – a most unusual thing – thank you for doing this work for me you can have the money – at first what I was doing was reducing his bill as I treated him like my other clients – I didn't understand the way it was his approach to money – I have done I'm not billing more I still reduce...but I'm not afraid to charge for the work and there's not going to be an argument about it....if there is it'll be dealt with in an amicable way – he won't give me a headache - it's just a very different approach and that changes my approach to him'.

Case S_I, 451-459, p.19.

The above discussion highlights how the [*Decision to bill client*] has been influenced by the causal axial codes, [*Client attributes*] and [*Client-firm relationship*]. Firms have approached the [*Decision to bill clients*] in a collaborative, consultative manner reminiscent of an approach to the *Management of amounts owed* that although not necessarily optimal, is informed and productive, with problems regarding payment avoided for both the client and the firm. The firms are proactive, engaging with the client to create billing schedules to suit the requirements of both. **Expediency** therefore partly explains the influence of [*Client attributes*] and the [*Client-firm relationship*] upon the [*Decision to bill client*], as does **Knowledge of client**, given the firm proactively manages the payment behaviours of clients. Both the [*Client-firm relationship*] and [*Client attributes*] contribute to the firm's **Knowledge of client**, with insight to the client's attitude and preferences providing important information.

The indirect influence of the [*Client profile*] has been discussed above in case S_I, however for cases S_A and S_N aspects of the [*Client profile*] have had a direct effect upon the [*Decision to bill client*]. When deciding when to bill *Repeat clients* [*Client profile*], the practitioner within case S_A pays particular regard to the timing of the bill:

'well I've done some bills this morning and as I say it's well one client I've got is a firm of accountants and I give a lot of advice, support, to their HR person and I mean we just bill when they get to about £1000, that's where I feel on that because getting more than that then that's going to be oh god what's that. But I try and bill quarterly at the very least otherwise it just get too long and they get a bill you know and its a year old and they don't know what it's about'

Case S_A, 123-134, p.3.

Within the practitioner's assessment the intangible and ongoing nature of the advice being provided implies that billing needs to occur whilst the client recognises the work with which it is associated. In response to this and other case specific causal influences, such as *Client cash flow [Client attributes]* as discussed earlier, the practitioner has established triggers to billing *Repeat clients [Client profile]* that are either related to the time the amount has been owed, or the size of the bill:

'I mean for example I act for the caravan club, I do their employment work, I've acted for them since the late nineties again I bill them much the same as the accountants, you know quarterly or if the bill goes up'

Case S_A, 237-242, p.5.

This approach to the *[Decision to bill clients]* is **Expedient**; billing occurs not at set optimal points, but as the result of an assessment of more complex factors relating to *[Client attributes]* and *[Client profile]*. This assessment informs the practitioner's decision and enables them to evaluate when billing should occur, either in response to the increased **Risk** associated with escalating amounts owed, or before the client disassociates the fee from the work undertaken. Thus the *[Decision to bill client]* is not taken with reference to standardised criteria, yet reflects a thoughtful and appropriate approach, with the bill providing a timely signal to the client of amounts owed. The causal influence of the *[Client profile]* can also be observed for case S_N, where a *New client [Client profile]* presents a higher perceived level of **Risk**, which has implications for the practitioners approach to billing:

'on a day to day basis let's say we've done a job and its £100 plus VAT, £117.50, we've got two systems of billing – if there's any question if its perhaps a new client or there may be a delay in us getting paid we'll do what's known as a pro forma bill and it says this is not a VAT invoice – the reason for that is if we put it through the books we have to pay VAT in that quarters accounts. If it wasn't to get paid we've still had to pay over that VAT and we haven't had the money for it. If we do the pro forma bill then

the VAT isn't chargeable until we do the proper bill so you do a pro forma they sign it, you then put the proper bill through and send them the copy.'

Case S_N, 73-82, p.4.

Clearly, knowledge of a *New client [Client profile]* is restricted and this contributes to the perceived **Risk** associated with receipt of payment. The *[Decision to bill client]* is adapted to reflect this, and prevent VAT being paid before amounts owed have been received. The meta-level constructs of **Risk** and **Knowledge of client** again explain the influence of *[Client profile]* upon the *[Decision to bill client]*. As is evident above, the influence of the macro-environment is also apparent, with the *[Regulatory environment]* influencing the billing decision and *VAT requirements [Regulatory environment]* themselves shaping the firms billing procedures. Although the *[Regulatory environment]* by definition effects all the solicitors practices, only case S_N explicitly refers to VAT as an influence upon its *[Decision to bill clients]*. However, there is also discussion of the influence of *VAT requirements [Regulatory environment]* upon the *[Management of work in progress]* within case S_I, and this will be discussed in due course. **Regulation** provides a useful organising meta-level construct through which to explain the causal significance of the *[Regulatory environment]*.

The *[Decision to bill client]* is also influenced by the *[Area of practice]*, where the point of billing is partly determined by the nature of the case:

'we then also have interim billing so let's say we're dealing with a probate case and its taking a year to get the whole thing squared up – as we go along we'll bill for the work done to date. That's another element where we've got funds coming in. In some cases we can't – my wife's got a case that the firms dealing with in employment law, it's been running for three years – now the firm hasn't had any fees from that. Quite often that will be the case with personal injury – it doesn't happen till the end, in the hope that we'll get a win and it'll come out of that – so we can wait an awfully long time for our money. We've got a huge PI case thats just finished after 15 years and £60,000 worth of costs that we're owed and we haven't had a penny of that – so everybody has the opinion that solicitors are rolling in money but we do a hell of a lot of work where we don't get paid until the end'

Case S_N, 55-66, p.3.

The expected timing of the client settling payment with the firm, and the resulting *[Decision to bill the client]* is often therefore partly pre determined by the *[Area of practice]*, and associated prevailing payment *Norms*. Further evidence of the impact of *Client funding [Areas of practice]* in determining payment schedules is provided by cases S_A and S_R:

‘as I say with publicly funded money you bill at the end of the case, with the employer clients we tend to bill on a regular basis, so monthly or quarterly, and with employee clients we tend to, well there are different ways of finding them some have legal expenses insurance, we’ll get paid anyway at the end, some are funded themselves which means there’s always a risk that you won’t get paid and then we do some no win no fee’

Case S_A, 100-111, p.3.

‘and once the client’s got their fee’s then it’s down to us to get our fees and that’s another six months so we had to steamroll this case and fund this case for 3 years’

Case S_R, 183-185, p.8.

Within case S_R, *Control of process [Areas of practice]* enables the firm to utilise interim billing *[Decision to bill client]* in order to surface the payment intentions of the client and exert control, sending a clear signal to the client that further work will not be undertaken until payment is received:

‘and in there it says about interim billing as well so we have to get a copy of that back signed by the client so we say in that ‘we will interim bill you during the case’ so that we’re not stretched – if you get a client, you’re halfway through who hasn’t paid your one thousand five hundred bill you know that there’s no point completing that job unless he gives you any money on account because you know at the end of that case he’s not going to give you your full bill – if he’s not paid your interim bill, he’s not going to pay your full bill so we’re very, very tight on that’

Case S_R, 10-16, p.1.

The interplay of meta-level organising constructs is apparent in explaining the influence of *[Areas of practice]* upon the *[Decision to bill client]*. Billing *Norms* have been established within *[Areas of practice]*, and these have acquired embedded structural properties that firms passively accept. This is mitigated to some extent by the firm’s ability to evaluate the *Risk* associated with the client on the basis of their funding; for example if a client is publicly funded, the firm accepts that payment will not be made until the end of the case, but knows with certainty that this payment will eventually be received. The practitioner’s

decision making could therefore be described as **Expedient**, trading off risk and potential delays in payment. Related to assessments of **Risk** and **Expediency** is **Power**; introducing interim billing provides an indicator of client payment intentions, enabling the practitioner to exert some control over the client, and informing their evaluation of the risk associated with the receipt of payment. The meta-level organising constructs of **Power**, **Expediency**, **Risk** and **Norms** therefore interact explain the influence of *[Areas of practice]* upon the *[Decision to bill clients]*.

Finally with regards to the *[Decision to bill client]*, both *[Firm attributes]* and *[Practitioner attributes]* can be identified as causal axial code influences. Interesting intra firm dynamics are revealed by the practitioner within case S_N, who discusses the distinction between the fee earners and partners within the firm with regards to the *[Decision to bill client]*:

‘we’re constantly stressing to the fee earners it’s not their business it’s the partners business and you can see the difference between a partners billing attitude and a member of staff’s but we do keep it under control a lot more’

Case S_N, 198-201, p.9.

‘It’s impressive on fee earners not to let debts build up – people are much happier to get three two hundred bills throughout their case than one six hundred pound bill at the end of it. And we provide them with a heck of a lot of info on work in progress on their cases and they’re in a position to know what’s owed so the partners would constantly impress that and as the end of the financial year we have to for the accountants prove that we’ve accrued costs....and that is a snapshot of how much money is outstanding to the firm and it can set alarm bell ringing’’

Case S_N, 231- 237, p.10.

The *Motivation of the practitioner [Practitioner attributes]* is a causal influence upon the *[Decision to bill client]*, with the implication that the partner’s billing of clients is more motivated as a direct result of their position as partners. Fee earners by definition have different profiles with regards to **Motivation**, and as a result their billing is less prompt. The *[Decision to bill client]* can also be observed to be interrelated with the *[Management of work in progress]*, where decisions regarding billing intervals are taken with reference

to levels of work in progress. The meta-level organising construct **Motivation** therefore explains this aspect of the causal influence of *[Practitioner attributes]*.

For case S_R, the *Firms experience of payment problems [Firm attributes]* directly influenced the *[Decision to bill client]*, with the firm reviewing practices and tightening billing procedures in order to reduce payment problems:

‘OK, so the matrimony department, so people split, they ask how much it’s going to cost so that was a problem billing at the end of the case so we changed our ways and are billing or asking for money on account to start with’

Case S_R, 2-4, p.1.

Supporting evidence of the reviewed billing practices of case S_R was also provided earlier, when discussing the influence of *[Areas of practice]*. **Power** again provides a meta level explanation of the need to establish more effective billing procedures in response to the payment problems experienced, as does **Experiential Learning**, whereby the firm has demonstrated their reflection on past payment issues and adapted their billing processes accordingly. As explored to some extent within discussion of the *[Decision to bill client]*, this aspect of trade credit management is closely related to the *[Management of work in progress]*, to which discussion now turns.

5.4.6 Management of work in progress

As discussed earlier, for case S_N the practitioner’s decision making with regards to billing and work in progress is closely interrelated. This is also apparent within case S_R, where the *[Management of work in progress]* has been affected by the introduction of interim billing, following the review of financial management practices, with the result that the firm is now financing reduced levels of work in progress, as evidenced above when discussing the *[Decision to bill client]*. Additionally, previous discussion of the *[Management of client costs]* for case S_R highlighted how changes in the funding of disbursements have impacted upon work in progress, with the initial outlay now covered through an insurance company, or legal aid:

‘it’s very rare that you have to fund a lot these days because you get insurance, because you get legal aid. They basically fund or can fund all your disbursements so we do get it from that’

Case S_R, 209-211, p.9.

For case S_R the discussion above explores the linkages between aspects of practice within *Management of amounts owed*, however the common, direct influence of *[Areas of practice]* can also be observed, previously with regards to the *[Management of client costs]* and presently with regards to the *[Management of work in progress]*.

‘now we’ve had one where we’ve paid – you don’t get any money if there’s no conditional fee agreement you don’t get any money on account so you could fund – I think we were funding thirty five – forty thousand of disbursements as this case was going on because this was pre conditional fee agreements – now if a client gets a conditional fee agreement the clients insurers say we need this money so they will fund the claim’

Case S_R, 185-190, p.8.

‘so if it’s a case, a litigation case, maybe they’re doing a clinical negligence case they have to fund that – we have to pay that out of our money – it’s very rare that you have to fund up a lot these days because you get insurance, because you get legal aid’

Case S_R, 208-210, p.9.

The *[Areas of practice]* for the firm have direct implications for the *[Management of work in progress]* with the associated funding arrangements determining to some extent the level of investment necessary for a particular case. Further evidence of the influence of *[Areas of practice]* is provided by case S_N and S_I, where the investment in personal injury cases is substantial and work in progress accumulates until the resolution of the case:

‘in some cases we can’t – my wife’s got a case that the firms dealing with in employment law, it’s been running for three years – now the firm hasn’t had any fees from that. Quite often that will be the case with personal injury – it doesn’t happen till the end, in the hope that we’ll get a win and it’ll come out of that – so we can wait an awful long time for our money. We’ve got a huge PI case that’s finished after fifteen years and sixty thousand worth of costs that we’re owed and we haven’t had a penny of that’

Case S_N, 58-64, p.3.

‘OK they’re all dealt with pretty much on the same basis – personal injury clients who are on the conditional fee which is ‘no win no fee’ and that means they’re not expected to pay anything as they go along...clients enter into a conditional fee agreement supported by an insurance policy ...which funds all disbursements as well so that’s the important bit – so as your claim goes along you can’t claim anything for work in progress you only get it at the end if you win’

Case S_I, 118-129, p.5.

As can be seen in cases S_R and S_I above, for ‘no win no fee’ agreements the firm receives amounts from the insurer to cover disbursements, but given the nature of the agreement will be unable to claim their fee until the end of the case, if they win, hence the impact upon the *[Management of work in progress]*:

‘a huge impact – my department for the first year I was working here – we have targets to meet each year and I was making something like twenty per cent the first year because the work in progress figures are huge but you’ve got no money coming in’

Case S_I, 290-293, p.12.

The causal influence of *[Client attributes]* and *[Practitioner attributes]* is apparent when considering the *[Management of work in progress]* within case S_N, as is the close relationship with the *[Decision to bill client]*:

‘it’s impressing fee earners not to let debts build up – people are much happier to get three two hundred pound bills throughout their case than one six hundred pound bill at the end of it. And we provide them with a heck of a lot of info on work in progress on their cases and they’re in a position to know what’s owed so the partners would constantly impress that’

Case S_N, 231-235, p.10.

As discussed within the section concerning the *[Decision to bill client]*, the *Motivation of practitioner [Practitioner attributes]* can also be seen to impact the *[Management of work in progress]*, with pressure upon fee earners to increase the frequency of their billing, thus reducing levels of work in progress for case S_N. Additionally, more frequent billing is seen to be compatible with *Client preferences [Client attributes]*. Reporting on levels of work in progress is an important element of practice for case S_N, and this approach was adopted in response to issues with the *Motivation of practitioner [Practitioner attributes]* and in order to raise the partner’s awareness of the issue:

‘I think I purposely brought it to the attention of the partners on a more regular basis – I introduced monthly reports....which I also circulate to all the fee earners monthly or every six weeks...what are you going to do about it – it also goes to the department heads report so they can check up on it and get an explanation for the partners to see’

Case S_N, 257-261, p.11.

Client expectations [Client attributes] have also impacted upon the *[Management of work in progress]* for case S_I, however in this situation the indirect influence of *[Areas of*

practice] also contributes to the scenario where these expectations present particular difficulties for the practitioner when attempting to recoup their work in progress:

'also when you get the damages cheque in its always made payable to the client, trying to get money from them even if its accrued...it's just not going to happen so you make the decision not to – generally I try to retain five hundred pounds from the client's money. The charges that they have to pay for Accidentline come in at about three hundred to three hundred and fifty so I will have a balance left which I can either send back to them or charge it in costs so if I tried to retain any more it would just give me such a headache it's not worth doing because of the arguments you'll have and that's because of the people you're dealing with – a huge amount of difference trying to get money from them – all they hear is no win no fee and the defendant will pay regardless of the agreement and regardless of how many times you go through it with them, they do not believe that should have to pay anything.....so you never get what your work in progress is'

Case S_I, 206-220, p.9.

Finally, the practitioner within case S_I also referred to the influence of the *[Regulatory environment]* upon the *[Management of work in progress]*:

'there's been a new development with VAT, everyone now has to pay VAT on work in progress...make me bill more maybe...so if my work in progress figure – I remember last September it was something like one hundred and forty thousand but my billing was nothing like that so they can see the money there and see it sitting there and just can't do anything'

Case S_I, 299-304, p.13.

Again, the interrelationship between the *[Decision to bill clients]* and the *[Management of work in progress]* is clear, as is the implied concern of the partners. Changes in VAT provide an additional incentive for prompt billing, which would address levels of work in progress within the firm.

Tax regimes form part of the regulatory environment for firms and the above discussion highlights in what particular ways trade credit practices can be adapted within a proactive response to macro level, structural constraints. **Regulation** therefore provides a meta level construct, explaining the influence of *VAT requirements [Regulatory environment]*. Similarly, *[Areas of practice]* was identified as a key causal influence upon the *[Management of work in progress]*, where firms' levels of work in progress in part depended upon engrained payment schedules given structural properties by the nature of

the case. As previously discussed, these payment **Norms** reflect the conditions, agreements and payment structures associated with certain [*Areas of practice*], over which the firm has little control, and accepts in order to engage in these areas of law. **Norms** again provides a meta level construct to explain the impact of [*Areas of practice*] upon the [*Management of work in progress*]. Distinctions between the motivation of partners and fee earners were highlighted when discussing the [*Decision to bill client*] and have, in an interrelated fashion, also influenced the [*Management of work in progress*], with levels of work in progress being perceived to differ in accordance with whether the practitioner is a fee earner, or partner. **Motivation**, therefore, acts as an explanatory meta level construct when considering the influence upon the [*Management of work in progress*] of [*Practitioner attributes*]. The influence of [*Client attributes*], highlights how firms anticipate how a client may behave, as a result of the client's expectations, or preferences. The adaptation of trade credit practices in response to [*Client attributes*] is explained by the meta-construct, **Knowledge of client**.

5.5 Management of amounts owed: Summary

Consideration of the [*Management of work in progress*] draws this section of the chapter concerning the *Management of amounts owed* to a close, having discussed the six central decision making areas, that consisted of; the [*Organisation of credit management*], [*Firm financing decisions*], [*Management of client costs*], [*Decision to extend credit*], [*Decision to bill client*] and [*Management of work in progress*]. Discussion of this central area of a firms practice has explored the influence of casual axial codes upon the *Management of amounts owed*, and given an indication of the emergence of meta level constructs that cut across them, providing higher level explanations regarding their influence.

From within the internal environment, [*Areas of practice*] was a dominant causal influence, affecting all firms *Management of amounts owed*, to some extent. This determined, for example, payment **Norms** and processes imposed on firms, and contributed to practitioners' evaluations of **Risk** and **Expediency** in decision making. Additional causal axial codes from within the internal environment include [*Firm attributes*] and [*Practitioner attributes*]. [*Firm attributes*] captured the descriptive characteristics of the firm that influenced trade credit practice, and meta level constructs associated with the

influence of these attributes included **Experiential learning**, with evidence that firms decision making reflected previous experience of payment problems, the desire to retain tight financial control, and effective management of limited resources. [*Practitioner attributes*] reflected motivational differences between practitioners, and the subsequent impact upon the *Management of amounts owed*.

Whilst **Motivation** partly explains the causal influence of [*Practitioner attributes*], attempts to anticipate and manipulate the behaviour of clients are more commonly observed when considering the causal influence of axial codes from within the operating environment. In particular, consideration of both [*Client profile*] and [*Client attributes*] provides evidence of firms awareness of client circumstances and a corresponding responsive, often collaborative, approach to the *Management of amounts owed*. However, anticipation of potential payment problems in addition reveals firms exercising their control where possible, and using aspects of the *Management of amounts owed* to surface client payment intentions. A firm's **Knowledge of client** will therefore be partially determined by a consideration of their profile and attributes, but further informed where a [*Client firm relationship*] has been established. Evidence of evaluation of **Risk** and **Expediency** within decision making pervades the influence of client determined axial codes, and can be seen to be interrelated with practitioners **Knowledge of client**.

Finally, axial codes within the macro economy exhibit **Regulation** and influence firms *Management of amounts owed*, with firm practice responding to the requirements of tax regimes and codes of professional conduct. Analysis of the *Management of amounts owed* has revealed interesting aspects of firms' trade credit practices. There is evidence of formalised approaches, representative of what might be considered to be 'best practice', and of informal, complex approaches, whereby practitioners incorporate the causal influence of a range of axial codes within their decision making in a sophisticated and appropriate manner. Customised, proactive approaches are evident, with firms adapting their *Management of amounts owed* according to the circumstances. The meta-level, organising constructs surfaced provide cross cutting, explanatory insights regarding the influence of casual axial codes, and this discussion will be developed within the cross profession chapter. The final section of the central framework shall now be considered; the *Collection of amounts owed*.

5.6 Collection of amounts owed

Collection of amounts owed is primarily concerned with actions related to the retrieval of monies owed from clients. Trade credit management practice in this area includes three key areas; *[Evaluate ease of collection]*, *[Determine methods of collection]*, and the *[Assessment of amount outstanding]*. This section of the chapter will therefore begin with a consideration of *[Evaluate ease of collection]*.

5.6.1 Evaluate ease of collection

[Evaluate ease of collection] is concerned with the practitioner's assessment of retrieving payment and is an aspect of trade credit practice engaged in by all four firms. Practitioners' evaluations in this context are closely related to *[Areas of practice]*, with how the client is funded, *Client funding [Areas of practice]*, and whether the practitioner has control of either the funds, *Control of funds [Areas of practice]*, or the process, *Control of process [Areas of practice]*, all contributing to the assessment. Cases S_A and S_N below demonstrate how *Client funding [Areas of practice]* influences a firms' evaluation, providing the practitioner with an indication of associated **Risk**:

'well there are different ways of funding them some have legal expenses insurance, we'll get paid anyway at the end, some are funded themselves which means there's always a risk that you won't get paid and then we do some no win no fee'

Case S_A, 105-111, p.3.

'yes but we're still going to have a large chunk of publicly funded work, although it doesn't pay anything like as well as the private client work, so yep I think it's is important the kind of work that you do that makes the difference to recovery'

Case S_A, 611-617, p.13.

'criminal is fine because it's all funded by then legal system...we get paid in advance because we have a contract so we get x amount of money a month which they will adjust and then as we do the work we get the money ...so that's never a problem at all, probate isn't a problem because we're dealing with all the money, we're collecting it in so it's in our hands...same with conveyancing, but its family and civil you tend to get more problems with clients who've won important cases because when things are going their way you tend to get a lot more grief'

Case S_N, 213-220, p.9.

Clearly, **Risk** explains the significance of *Client funding [Areas of practice]* within a practitioners' evaluation, and this is closely connected with **Expediency**; if client funding is considered secure, collection efforts can be focused elsewhere. There is also evidence within both case S_N and case S_A of how a practitioner may be able to exercise **Power** over the flow of funds, as determined by *[Areas of practice]*:

'you know if you're doing conveyancing you don't complete unless you have all the money in and your bill comes out, you know if you sell a house your money comes out of that. You're selling a business, your money comes out of the sale proceeds of the business you may carry very little bad debt its more on the litigation side where you're dealing with people who are spending vast sums of money to go to court and you know if people are successful they're always happy paying their bill but if they lose their case they'll always blame the solicitor even if its their own fault'

Case S_A, 569-583, p.12.

'obviously with conveyancing matters and with probate , we hold the funds so theres not a problem getting the money – so when you get your completion statement on your house you'll see our fees are included in that – and we've paid the agent obviously and discharged the mortgage or whatever so there's an element of your work where money is safe if you like because we're going to get it'

Case S_N, 66-71, p.3.

A clear association is apparent in the cases above between *Control of funds [Areas of practice]* and **Risk**; where the practitioner controls the funds, settlement of amounts owed becomes merely a matter of procedure. In circumstances where this is not the case, *[Evaluate ease of collection]* is more problematic, and therefore subject to potentially increased **Risk**. The influence of *Control of process [Areas of practice]* presents a related, yet subtly different, variation regarding **Power**, where the emphasis for *[Evaluate ease of*

collection] lies with the ability of the practitioner to control processes, rather than directly controlling funds:

'and if they say no they don't get anything done or if they ignore it again they don't get anything done just because of the way I work – if I've dealt with the file it goes away and it won't come out again until something comes in, so when the cheque comes in, the file comes out'

Case S_I, 365-369, p.15.

'Quite often you see we hold the deeds or wills or things like that and we can use that to lever, to say...it's a bit of judgement'

Case S_N, 154-156, p.7.

'we sent them the bill back in January ninety eight, didn't get paid but the fee earner dealing with it knows we hold other matters, other deeds for them so if they ever come back they're not going to get them until they pay that bill, so you'd have thought thirty odd quid in ninety eight you'd have written that off but there's good reasons not to write it off'

Case S_N, 179-183, p.8.

Cases S_I and S_N demonstrate how practitioners [*Control of processes*] *Areas of practice*, enables them, in some circumstances, to 'leverage' payment from the client, either by withholding further services and thus delaying completion, or by preventing access to legal documents held by the firm. Central to [*Evaluate of ease of collection*] is **Power**, as determined by *Control of funds* [*Areas of practice*] discussed above, and *Control of processes* [*Areas of practice*]. Practitioners are able to exert the **Power** implied within their position to leverage payment, either through direct control of funds or through their control of processes, and assessment of both is therefore an important element of [*Evaluate of ease of collection*]. Where practitioners assess that payment will be eventually received as a result of their position, resources are not necessarily expended in chasing amounts outstanding; decision making is expedient, rather than 'optimal'. For [*Areas of practice*] where leverage conditions do not exist [*Evaluate ease of collection*] reflects higher levels of associated **Risk**. As a result, [*Areas of practice*] can be observed as an important influence upon [*Evaluate ease of collection*], and the organising meta-level constructs of **Risk**, **Expediency** and **Power** interact to explain why.

[Evaluate ease of collection] also reflects the causal influence of *[Client attributes]* with evidence suggesting that practitioners' consider both the *Client attitude [Client attributes]*, and the *Client cash flow [Client attributes]*. For case S_I, the practitioner's evaluation is informed by an assessment of the *Client attitude [Client attributes]*, which is in some circumstances determined by the *Type of client [Client profile]*, which itself can also be observed to directly influence *[Evaluate ease of collection]*:

'commercial clients are a lot easier to deal with so in other businesses the people you deal with daily are aware of having to employ a service'

Case S_I, 50-52, p.3.

'he himself is supplying a service, running a business so he understands what we're doing – he used to be a solicitor long time ago which might..but I've few others who are the same, you do the work, you bill them monthly and its paid and that's good for cash flow'

Case S_I, 434-437, p.18.

'in his words, 'we want more clients like that' hopefully, I mean they're very demanding commercial clients they do expect to give you things at short notice but you don't mind it so much because you know you're going to get paid for it – its a big difference'

Case S_I, 462-465, p.19.

In the experience of the practitioner in Case S_I, the *Type of client [Client profile]* implies a particular *Client attitude [Client attributes]* to payment, with commercial clients perceived to pay promptly, and the fee considered secure. As a result, of their attributes these clients are valued within the practice, and this is reflected within *[Evaluate ease of collection]*. Similarly, Case S_A presents evidence of the influence of *Client attitude [Client attributes]* upon *[Evaluate ease of collection]*, with the interaction of *[Client profile]* and *[Client relationship]* perceived to create a responsive, collaborative client approach to payment:

'Well I think it's just because the type of clients that they are, this one here I've got is quite a big company they employ over 500 people and they've got branches in the Gatwick area and Manchester and Birmingham and yet they are essentially a family business themselves and they are very loyal to their suppliers and it's the way, as are the caravan club, you know they've always looked upon it that way they don't necessarily go into a big London firm just because for status, if they get good service they will stick, so they, that sort of client tend to be a very good payer because of the values that they have'

Case S_A, 431-447, p.9.

I would say so yes because they recognise the importance of values themselves, yes. And they know they're not going to get ripped off with me.

Case S_A, 453-457, p.10.

Well as I say the caravan club was one, and this other firm airport parking and hotels was another, and so they were just loyal.

Case S_A, 464-467, p.10.

When dealing with *Repeat clients* [*Client profile*], a [*Client firm relationship*] has been established for case S_A, and this is perceived to provide reciprocal benefit to both client and practitioner; the client receives value for money and the practitioner is rewarded with repeat custom and reliable, prompt payment. The [*Client firm relationship*] and the *Type of client* [*Client profile*] both therefore contribute to determining the *Client attitude* [*Client attributes*], which ultimately influences [*Evaluate ease of collection*]. For case S_A the [*Client firm relationship*] can also be seen to be an important direct influence upon [*Evaluate ease of collection*], with the client paying promptly as the result of the [*Client firm relationship*] that has been established over time. The practitioner's expectations of the payment behaviour of *Repeat clients* are developed from their experiences with clients, and are thus indicative of the practitioner's **Knowledge of client**. This knowledge allows the practitioner to assess the likelihood of the client paying promptly and also, therefore, the implied **Risk** of late or non payment.

For case S_I, the *Type of client* [*Client profile*] was also perceived to have a causal influence upon the *Client attitude* [*Client attributes*] to payment, signalling information regarding the client's likely payment behaviour. Further evidence of the influence of [*Client*

attributes] upon practitioners' [*Evaluate ease of collection*], and the interaction of axial codes, is provided within cases S_A and S_N. Here, [*Areas of practice*] is perceived to partly determine the *Client attitude* [*Client attributes*] to payment, again signalling information to the practitioner with regards to the potential for disagreement, and reluctance to pay:

'it's more on the litigation side where you're dealing with people who are spending vast sums of money to go to court and you know if people are successful they're always happy paying their bill but if they lose their case they'll always blame the solicitor even if it's their own fault'

Case S_A, 576-583, p.12.

Within case S_N, the practitioner again identifies [*Areas of practice*] considered to be particularly problematic, highlighting however that clients are more difficult when they have won their cases:

'but it's the family and civil – you tend to get more problems with those clients who've won important cases because when things are going their way you tend to get a lot more grief'

Case S_N, 218-220, p.9.

Finally, [*Client attributes*] can be seen to further influence [*Evaluate ease of collection*] within case S_A. The practitioner's awareness of the *Client cash flow* [*Client attributes*] position demonstrates a collaborative perspective, whereby the practitioner interprets the client's payment behaviour with respect to their cash flow situation:

'I had a client outstanding at the beginning of the year and they were a property letting company and they were obviously going through a tight time themselves and so obviously they see a way of credit in pushing payment of their bills so you know they'll put it right back and it wasn't until the file got to Jeanette's desk and she made the phone call saying it's on my desk to issue proceedings that we got paid, even though we've had a previous bill for a small amount that they paid by return so obviously they were just using it as way of their own cash flow management.'

Case S_A, 347-361, p.8.

In the above discussion, the axial codes [*Areas of practice*], [*Client attributes*], [*Client profile*] and [*Client firm relationship*] are all identified as important causal influences upon [*Evaluate ease of collection*]. Practitioners develop informed evaluations, based upon their **Knowledge of client**, their **Power**, and associated **Risk**, highlighting the causal influence of the aforementioned axial codes. [*Areas of practice*] in particular highlighted the role of **Power**, with practitioners referring to how clients were funded, the extent of practitioner's control of either those funds or the process involved, and how the configuration of these aspects determined the practitioner's leverage when securing payment. **Risk** is therefore closely associated with **Power**, with both meta-level constructs providing explanations as to the influence and interaction of axial codes.

As noted above, in order to [*Evaluate ease of collection*], practitioners sought to establish an understanding of potential client payment behaviour, incorporating aspects from a range of axial codes that included [*Client attributes*], [*Client profile*] and [*Client firm relationship*]. The information signalling qualities of these axial codes were perceived to provide the practitioner with indications as to the likelihood of collection problems; therefore developing **Knowledge of client** is central to understanding the causal influence of axial codes upon [*Evaluate ease of collection*]. Finally, **Expediency** is evident within [*Evaluate ease of collection*], with decisions reflecting assessments of **Risk** and **Power**, incorporating practitioners' **Knowledge of client**, yet taken with reference to the resources required and the necessity to expend these. This section of the chapter will now consider the second decision making area of *Collection of amounts owed*, namely [*Determine methods of collection*].

5.6.2 Determine methods of collection

All practitioners interviewed referred to aspects of trade credit management that were concerned with [*Determine methods of collection*], as with [*Evaluate ease of collection*]. This section will begin with a consideration of causal axial codes occurring within a firm's internal environment, with codes relating particularly to the firm discussed first, beginning with [*Firms attributes*] and [*Areas of practice*]. When considering [*Determine methods of collection*], there is evidence to suggest that *Resource constraints* [*Firm attributes*] are an important consideration when weighing up the opportunity costs of chasing payment:

'You have to chase that thirty or forty pounds each month. You don't sort of getting it on a standing order...if he's a bankrupt and has trouble paying he probably hasn't got a bank account so it's a trouble to get – so we continually have to chase that money so the fee earner is then spending more time chasing to get that money and the firms at a complete loss'

Case S_R, 45-51, p.3.

'because once I get them to start issuing proceedings in court, we pay the court fees so it has to be worth my time in doing it as well because we won't cover my costs of doing it again because I'm the only litigating solicitor here'

Case S_I, 541-543, p.22.

Emphasis is placed upon the most productive use of fee earners time, highlighting this as an important *Resource constraint [Firm attributes]* for the firm:

'as I mentioned we're centralising all the debt collection so it's all in this office now, into one office to the accounts department so hopefully that will help reduce the bad debts – the fee earners have got enough work on their plates as it is, they do the job, they do the work they don't want to be collecting the money, and I think they quite like the idea of centralising it because it gets the burden off of collecting the money from them as well. They quite like that as well. It's better if it's a separate body chasing them'

Case S_R, 130-139, p.6.

For case S_R above, the centralisation of debt collection, and the allocation of this task away from the fee earner responsible, is considered a more efficient use of resources. An additional benefit from a centralised function is also identified, with the practitioner highlighting that when collecting amounts owed, a degree of separation from the client may be preferred. The potential advantage of de-personalising collection is explored further within case S_N below, when considering the causal influence of the *[Client firm relationship]*. Further evidence within case S_I suggests that the opportunity cost of the fee earners time may warrant the use of external cost draughtsman in preparing formal court documents, and to some extent negotiating costs:

'you have to prepare formal bills of cost for the court – it's a formal court document – so they do all that and it's just a lot less hassle and they negotiate as well with you on the side. Also the defendants tend to employ cost draughtsmen as well so the cost negotiators come back to me and say yes or no and I'm happy to take their advice really...that's their field as far as I'm concerned...my hourly rate at the moment is one hundred and forty

pounds and they tend to charge about one hundred an hour so it's a bit of a pay off but it's worth it so that I can concentrate on what I need to do'

Case S_I, 239-248, p.10.

For case S_I, the use of cost draughtsmen can also be seen to be causally related to the *[Areas of practice]* of the firm, being a service particularly utilised when dealing with no-win, no-fee cases. Decisions to use external services clearly indicate an implicit cost benefit assessment of the best use of the practitioner's time, illustrating how *Resource constraints [Firm attributes]* influence *[Determine methods of collection]*. Resources required to collect monies owed are assessed against retrieving amounts owed, with practitioners highlighting that, in some circumstances, the time intensive nature of chasing clients for payment implies the associated opportunity costs erode any benefit. *Expediency*, therefore explains in part the causal significance of *[Firm attributes]*.

Whereas *[Firm attributes]* describe the characteristics of the firm and their influence upon *[Determine methods of collection]*, *[Firm exposure]* reflects firms' assessments of their exposure to clients and the subsequent impact upon *[Determine methods of collection]* in terms of the techniques employed:

'I would say though with a couple of ones, we do have trouble locating them so they might be in London or somewhere, there are agencies that we would use and are using to try and locate them – I don't know if they are, but they're kind of like private investigators who go and find these people for us – they will find them, I guess they probably hand them the letter 'here is the letter saying you owe us money' – there are certain people, firms, that will go and find people for us'

Case S_R, 143-148, p.6.

Where the practitioner might experience *Difficulty tracing client [Firm exposure]*, this is acknowledged and the additional **Risk** associated with securing payment deemed reason enough to employ the services of an external agency. Therefore, *[Firm exposure]* can be seen to influence *[Determine methods of collection]*, and is clearly associated with **Risk**.

Earlier discussion explored the causal influence of *Client attitude [Client attributes]* upon trade credit management, yet there is also evidence of the causal influence of the *Practitioners attitude [Practitioner attributes]* upon *[Determine methods of collection]*, and of the interaction between *[Client attributes]* and *[Practitioner attributes]*:

'and I might get one thousand six hundred back, now I can charge the client the difference between the one thousand six hundred and the two thousand but we very rarely do that unless there's a good reason to do so, such as the client has been really difficult, or the defendant has refused to pay some of the costs because the client has wound them up then we can charge the client'

Case S_I, 195-199, p.8.

'so that's how its set but people take it really personally even if they get paid, he'll say to me 'I don't care, get this money from them, it's not so much because they haven't been paid but usually because they've given the client that bit extra, went out of their way, and now they're refusing to pay and people take it personally as well – we are in business but we're also dealing with people – we can't encourage them as a means to get money and sometime you do that extra bit'

Case S_I, 544-550, p.22.

For case S_I, the approach to *[Determine methods of collection]* is clearly influenced by the *Practitioners attitude [Practitioner attributes]*, with some amounts owed to the firm being chased particularly persistently on matters of principle, where the practitioner feels they have provided a particularly good service, beyond that considered necessary. Additionally, where the *Client attitude [Client attributes]* may have been obstructive or difficult, the *Practitioner attitude [Practitioner attributes]* forms in response, with the practitioner keen to ensure full cost retrieval, at a higher rate than would normally be the case, hence the causal influence upon *[Determine methods of collection]*. **Motivation** therefore provides a partial explanation as to the causal significance of *[Practitioner attributes]*.

The final axial code situated within a firms' internal environment that influences *[Determine methods of collection]*, is *[Firm reputation]*. Practitioners within cases S_I and S_R highlight how decisions regarding *[Determine methods of collection]* are complex and involve consideration of the impact upon both the *[Firms reputation]*, and the *[Client-firm relationship]* which will be considered later in the discussion. Despite awareness of their right to charge interest upon late payment, the practitioner within case S_R is reluctant to do so, highlighting possible repercussions in terms of lost custom as the result of damage to the firm's reputation:

'It's not, we don't actually charge the clients interest but we have the right to if we want to but it's very rare that we actually do and I've never known it to be honest. We usually get the money in eventually and the amount of interest we'd get on five hundred pounds it's probably not worth it and the bad publicity and relationship with that client – you might not get the next job because of that, you charged them three pounds or something on that job – if you do is it worth it? We've never actually charged anybody interest as far as I'm aware'

Case S_R, 104-111, p.5.

Similarly, the practitioner within case S_I discusses how potential prospects for future business and referrals, *Impact upon referrals [Firm reputation]*, moderates the practitioner's approach to *[Determine methods of collection]*, with some amounts owed considered better left uncollected, rather than chased regardless of the implications:

'regardless of how many times you go through it with them, they do not believe they should have to pay anything so to do so can cause you more hassle and of course you want them to come back or to refer you so it just doesn't always make sense to do it so you never get what your work in progress is'

Case S_I, 216-221, p.9.

Interestingly, when discussing *[Determine methods of collection]* the only practitioner to refer to charging interest on late payment did so in terms of how the firm had never actually exercised this right. Clearly, when practitioners *[Determine methods of collection]* a range of factors are considered and evaluated which extend beyond application of 'best practice' collection techniques. Consideration of the potential future business value of the client and associated contacts therefore pervades the approach to *[Determine methods of collection]* and is balanced against potential damage to the *[Firms reputation]* of the full retrieval of costs incurred, or the charging of late payment interest. Commercial **Motivation**, is therefore a useful organising meta-level construct in understanding the causal influence of *[Firm reputation]* upon *[Determine methods of collection]*.

The above axial codes were all concerned with the firm's internal environments and their causal influence upon *[Determine methods of collection]*; the next category for discussion transcends the boundary between the environmental levels, incorporating aspects of the firm's internal environment and the operating environment. The *[Client-firm relationship]*

can be observed to influence [*Determine methods of collection*] for both cases S_N and S_R, and as can be seen above is closely related to [*Firm reputation*]. Indeed, for case S_R, the causal influence of the [*Client firm relationship*] upon [*Determine methods of collection*] can be interpreted similarly; charging interest upon late payment is perceived as jeopardising future business through potential damage to the existing [*Client firm relationship*]. Again, trade credit management reflects an evaluation of utilising a particular technique to collect amounts owed, and the potential consequences. **Motivation** explains the influence of [*Client firm relationship*] upon [*Determine methods collection*] at a meta-level, with methods tempered in order to preserve the [*Client firm relationship*], and therefore future business opportunities, in accordance with overarching commercial considerations.

The influence of the [*Client-firm relationship*] for case S_N again highlights the sensitivity with which firms [*Determine methods of collection*], with the fee earner responsible reluctant to adopt approaches with the potential to offend the client:

‘there’s a big resistance by some fee earners to send out that red reminder. Somehow they think it will upset the client but in my view they can blame the accounts department ‘oh no it’s the accounts department that sent that out’. They’re the people who have to work with the client, have a good relationship with the client and they think that it’s offensive’

Case S_N, 265-271, p.11.

For the fee earner, preserving the relationship with the client, and presumably therefore future business, is of primary importance, whereas the concern of the accounting department is with securing prompt payment, highlighting the potential for conflict between functional areas within a firm. The centralisation of collection is perceived by the practice manager to create distance for the fee earner, allowing the accounting department to act as a scapegoat should the client be offended by collection efforts, and thus de-personalising the collection process. Clearly, **Motivation** again offers a meta-level construct that explains the causal influence of the [*Client firm relationship*] upon [*Determine methods of collection*], with commercial motivations and business prospects having particular implications for how the [*Client firm relationship*] is managed and payment secured.

Within the firms operating environment, [*Client attributes*] can be identified as a significant influence upon [*Determine methods of collection*]. For case S_A, the effectiveness of the practitioner's approach and chosen methods of communication are considered to be partly determined by the *Client organisation* [*Client attributes*]:

'Depends upon the identity of the client, purely that. I mean some clients don't like the telephone, some clients depending on who you are working for, probably pointless in picking up the phone to your contact, you know because your contact is only the HR director, not the person who's going to pay the bill but if you have a sort of, like one of Fiona's where she's got a client who is really a one man company he's 100% shareholder doesn't have a finance director, doesn't have HR, you know she had a bill she wanted paid so she picked up the phone to him, but I pick up the phone to one of mine and they're going to say 'well I can't do much about it but if you put it in a letter and they'll pass it on to the appropriate person'

Case S_A 725-743, p.15.

Personal contacts within the business organisations of larger clients are considered less effectual in helping to secure payment than those within smaller client organisations, where the contact may also be responsible for paying the bill. Within larger clients, bureaucratic procedures and processes are considered to mitigate the influence of personal contacts. Case S_A above also further illustrates the influence of *Client preferences* [*Client attributes*] upon [*Determine methods of collection*], with the practitioner avoiding the use of particular methods perceived to antagonise the client. The practitioner's anticipation of the client's reactions to methods of collection, and their assessment of the impact of *Client organisation* [*Client attributes*] upon those methods, demonstrates the practitioner's **Knowledge of client**, and subsequent expectations of their behaviour.

Case S₁ highlights how the *Client attitude* [*Client attributes*] to payment is observed by the practitioner who then responds through the use of particular approaches, intended to incentivise the client to pay:

'it's better to get something than nothing – this client didn't do anything so we sued him, he didn't do anything about that so we got a judgement for three and a half thousand, he still ignored everything so now we're making him bankrupt so he finally got in touch to make an offer of payment, offering to pay two hundred pounds monthly again which he keeps breaching so I think he's probably going to be made bankrupt – we tried – we'd rather he paid monthly because to make him bankrupt we won't get anything, there's no benefit to us it's just to try and scare him into paying'

Case S_I, 507-514, p.21.

The practitioner's decision regarding [*Determine methods of collection*] is concerned with encouraging the client to pay, and not because the firm will benefit from the client being made bankrupt as an end in itself. Through [*Determine methods of collection*], the practitioner seeks to manipulate the payment behaviour of the client, thus **Knowledge of client** provides an organising construct that explains the causal influence of [*Client attributes*] upon [*Determine methods of collection*]. **Knowledge of client** also provides a meta-level explanation as to the causal influence of *Client expectations* [*Client attributes*] upon [*Determine methods of collection*] within case S_I:

'so I will have a balance left which I can either send back to them or charge it in costs so if I tried to retain any more it would just give me such a headache it's not worth doing because of the arguments you'll have and that's because of the people you're dealing with, a huge amount of difference trying to get the money from them, all they hear is no win no fee and the defendant will pay, regardless of the agreement and regardless of how many times you go through it with them, they do not believe they should have to pay anything'

Case S_I, 211-218, p.9.

In the circumstances above, the practitioner anticipates that retrieval of full costs incurred maybe unrealistic or difficult because of ingrained *Client expectations* [*Client attributes*], which are largely attributable to [*Areas of practice*]. With *Client expectations* [*Client attributes*] acknowledged, the practitioner adapts their approach to collection, accepting lower cost recovery than that incurred.

The final aspect of [*Client attributes*] observed to influence [*Determine methods of collection*] is *Client circumstances* [*Client attributes*]. Case S_N demonstrates how practitioners incorporate an awareness of *Client circumstances* [*Client attributes*] when deciding upon methods of collection, in conjunction with the responsible fee earner:

'I then phone the fee earner concerned and say 'this has reached fourteen days it hasn't been paid do you want a red reminder? If there's a good reason not to send then we won't..... Normally they go out, if that goes a further fourteen days without the money being paid I contact the fee earner again and say 'do you want to write them a letter or make a call or do you want the litigation department to write'. Usually by then they make a phone call and it doesn't get to that'

Case S_N, 88-97, p.4.

'he acts for a local residents association, now as you can imagine the money to pay our bill is coming from all the residents, he bills them half yearly or quarterly but obviously they've got to go round and say our solicitor has done x, y and z for us over this quarter, it will be x amount, so we know it's going to take them a little while to get the money in. So normally I end up sending a red reminder after twenty eight days, he'll leave it another week and we get the money a week after that, so we know it's going to get paid we're not worried about it, but there's special circumstances'

Case S_N, 161-168, p. 7.

The practitioner's awareness of *Client circumstances [Client attributes]* is an important influence upon *[Determine methods of collection]*, with the flexible adaptation of collection procedures when these conditions are known. Where the practitioner may not be well informed regarding *Client circumstances [Client attributes]*, collection procedures are not put in place until the responsible fee earner has been contacted, even with a centralised accounting function. The causal influence of *[Client attributes]* upon *[Determine methods of collection]* is therefore further explained by **Knowledge of client**, whereby *Client circumstances [Client attributes]* provide another aspect of information considered relevant to *[Determine methods of collection]*.

The final, axial code within a firms operating environment that exerts a causal influence upon *[Determine methods of collection]* is the *[Professional environment]*. For case S_N, the *Professional context [Professional environment]* implies an advantage for solicitors' practices, as the in house expertise and knowledge to secure payment already exists and can be readily utilised:

'so I'm constantly monitoring and of course being solicitors once we do decide we want to take action it's all done in house – in fact we're using one of the secretaries, she wants to become a legal executive so she works

for one of the solicitors and she does credit control through the courts for us so we're not using fee earning time'

Case S_N, 130-133, p.6.

The *Professional context [Professional environment]* of solicitors firms implies that they are well positioned to instigate legal proceedings to collect payment. Within case S_R, an established complaints procedure is in place that facilitates firms [*Assessment of amounts outstanding*], the final area of *Collection of amounts* owed to be discussed shortly, but that also demonstrates the directive influence upon [*Determine methods of collection*], of the law society, a constituent part of the firm's *Professional context [Professional environment]*:

'I think that's down to the individual fee earner or partner who decides after a couple of times they've decided not to pay they'll try and negotiate and say OK – the process is if the client complains about the bill, then we have a complaints process like most solicitors firms do these days – we have a complaints process – we have a partner who is in charge of complaints, that complaint will go to that partner, he will take an overview and talk to the fee earner or the partner involved, talk to the clients, maybe review the file to see if there is an over charge or if there is a case or something like that and then go back and report to the client. And then if the client is happy with that then maybe they'll say 'ok look there should be a reduction of the bill of this amount' and the bill will be paid or if not and the client still won't pay, then we have to take the client to court. We're bound by the law society, guided by them, basically they tell us what we have to do'

Case S_R, 55-66, p.3.

The [*Professional environment*] can be seen to define particular aspects of how firms [*Determine methods of collection*]. The practitioner within case S_N explicitly refers to the accessibility of in house expertise in order to pursue collection through legal means, whilst within case S_R, the regulatory influence of the professional association is identified in terms of determining the processes and procedures associated with collection. **Regulation** therefore provides a meta-level organising construct that explains the causal influence of the [*Professional environment*] upon [*Determine methods of collection*]. As identified above, within case S_N, the practitioner acknowledges the contextually advantageous position of the firm, due to their pre-existing skill base. The last area for consideration with regards to the *Collection of amounts owed* is concerned with practitioners' decisions regarding amounts outstanding, and how these might be assessed.

5.6.3 Assessment of amounts outstanding

From within the firm's internal operating environment, the causal influence of [*Firm attributes*] upon the [*Assessment of amounts outstanding*] can be observed, with *Resource constraints* [*Firm attributes*] contributing to the practitioner's assessment of the potential benefit of pursuing the amount outstanding:

If he's a bankrupt and has trouble paying he probably hasn't got a bank account so it's a trouble to get – so we have to continually chase that money so the fee earner is then spending more time chasing to get that money in and the firm's at a complete loss'

Case S_R, 48-51, p.2.

The establishment of benchmarks to direct assessments is apparent within case S_I, where amounts below a particular level are not considered worth pursuing, partly as a result of an evaluation of the costs incurred in doing so:

'I deal with a debt collection firm as well – we're supposed to have a limit – if it's over one thousand pounds we'll pursue it, if it's less than one thousand pounds it's not worth pursuing'

Case S_I, 502-504, p.21.

The practitioner in case S_I elaborated upon the benchmark of one thousand pounds, explaining how it was set:

'because once I get them to start issuing proceedings in court, we pay the court fees so it has to be worth my time doing it as well because we won't cover my costs of doing it again because I'm the only litigating solicitor here'

Case S_I, 541-544, p.22.

Decisions regarding the [*Assessment of amounts outstanding*] are taken with reference to the firm's available resources being put to their most efficient use. **Expediency** within decision making is apparent, with limited resources directed towards amounts owed of sufficient size to justify pursuing payment. The [*Assessment of amounts outstanding*] for case S_I includes consideration of the *Firms profitability* [*Firm attributes*], with the practitioner mindful of the eroding effect on profits of writing off even small amounts owed, thus adopting a proactive response to collection:

'We might get a one hundred pound bill that's a year old, instructions disappeared, we'll write that off. But we do leave quite a lot on there for some time – we've taken action, got a judgement on quite a few of these but we just can't collect the money. What it does is nibble away at profitability – we don't really have any huge, serious debts but this probably represents....there's one very big one there, but that will eventually come in...it isn't going up its coming down and if we were to write off some of the older ones, they've not been added to for a couple of months, if they were it would be a worry'

Case S_I, 185-196, p.8.

Case S_I demonstrates how the practitioner references *Firms profitability [Firm attributes]* when evaluating the impact of writing off amounts owed. For case S_N, there is evidence of the influence of *Control of funds [Areas of practice]* and the *Control of process [Areas of practice]* upon the *[Assessment of amounts outstanding]*, with both affecting the decision making of the practitioner:

'we have this longstanding client who took the deeds away, it was thirty pounds plus VAT. We sent the bill back in January ninety eight, didn't get paid but the fee earner dealing with it knows that we hold other matters, other deeds for them so if they ever come back they're not going to get them until they pay that bill so you'd have thought thirty odd quid in ninety eight you'd have written that off but there's good reasons to not write it off'

Case S_N, 178-183, p.8.

We've always acted for the family we know we'll be doing the probate so there's no need to for us to badger that person, once we're billing the estate the moneys there'

Case S_N, 168-170, p.7.

Practitioner's *[Assessment of amounts outstanding]* includes reference to the firm's ability to collect payment, and so *[Evaluate ease of collection]* is internally associated with the *[Assessment of amounts outstanding]*. Where the practitioner considers that amounts owed are secured as the result of their control of the funds or the process, their assessment is influenced in that even small amounts owed may be retained rather than written off, and the practitioner is prepared to wait for payment, rather than actively chase the client.

In addition, for case S_N the ability of the firm to locate clients is discussed, with the practitioner identifying that *Difficulty tracing clients [Firm exposure]* can lead to the

amount owed being written off, rather than incurring costs associated with securing a judgement:

'even with solicitors we can get a judgment but you've then got to find that the person to enforce it – quite often you've gone to all the expense of getting a judgement and they can't be traced'

Case S_N, 171-173, p.7.

'we might get a one hundred pound bill that's a year old, instructions disappeared, we'll write that off. But we do leave quite a few on there for quite some time – we've taken action, got a judgement on quite a few of these but we just can't collect the money'

Case S_N, 185-187, p.8.

The causal significance of *[Areas of practice]* and *[Firm exposure]* within Case S_N can be explained with reference to **Risk** and **Power**. Whilst *[Firm exposure]* primarily reflects the **Risk** of clients simply disappearing without paying, the causal significance of *[Areas of practice]* highlights how elements of **Power** interact with assessments of **Risk** to inform the practitioners approach to the *[Assessment of amounts outstanding]*; the practitioner has identified the possibility of leveraging payment in the future, and is accepting of delays where circumstances imply eventual payment of fees is secure.

The final two axial codes concerned with the *[Assessment of amounts outstanding]* originate within the firms' operating environment, the first of which to be discussed is the *[Professional environment]*. The causal influence of the *[Professional environment]* is perceived by the practitioner in case S_A to be determined by the contextual conditions associated with pursuing payment through the legal system:

'the history is that although you can threaten proceedings as a law firm particularly it is historically very difficult to get money from a client because when you deliver a bill you've got to put a note of entitlement to get a remuneration certificate and you have to have the bill signed by a partner so if they don't pay you'd have to go to court and if you get judgement you're still going to have all the problems of enforcing judgement and you can't use a statutory demand which a lot of businesses would use so you just have to sue and most people just don't get paid because most of the clients where that happens because you wouldn't extend credit to an individual they would be mainly companies and companies don't pay because they go down and it's not really worth spending the money'

Case S_A, 211-232, p.5.

The *[Assessment of amounts outstanding]* within case S_A will therefore include consideration of the difficulties of retrieving payment presented by the *Professional context [Professional environment]* for solicitors. Secondly, the practitioner's assessment references the *Type of client [Client profile]*, with the practitioner identifying that clients who owe money are likely to be companies, and if they have not paid then this is often a sign that the client company will fail, and that amounts owed are therefore unlikely to be retrieved.

A further aspect of the *[Professional environment]* that influences the *[Assessment of amounts outstanding]* is *Industry standard accreditation*, as can be observed within case S_R, where accreditation has directly influenced the practices adopted by the firm, and in addition how they deal with the *[Assessment of amounts outstanding]*:

'the process is if the client complains about the bill, then we have a complaints process like most solicitors do these days.....we have a partner who is in charge of complaints, that complaint will go to that partner, he will take an overview and talk to the fee earner or the partner involved, talk to the clients, maybe review the file to see if there was an overcharge or if there is a case or something like that and then go and report back to the client. And then if the client is happy with that then maybe they'll say 'ok look there should be a reduction of the bill of this amount' and the bill will be paid, or if not and the client still won't pay then we have to take the client to court. We're bound by the law society, guided by them, basically they tell us what we have to do, we're also accredited Lexcel...but it's basically an industry standard...they say this is what you should be doing and we have to try...'

Case S_R, 56-71, p.3.

The influence of the *[Professional environment]* provides the pre determined context within which the *[Assessment of amounts outstanding]* takes place, and defines a generic framework for firm practice, should a firm chose to attain *Industry standard accreditation [Professional environment]*. **Regulation** therefore again explains the causal significance of the *[Professional environment]*. Where the *[Client profile]* is identified as influencing the *[Assessment of amounts outstanding]*, **Risk** is clearly central to explaining the causal relationship, whilst in addition there is evidence of **Expediency** within decision making, with the firm identifying in their assessments that expending resources chasing payment will not be worthwhile in all circumstances.

5.7 Collection of amounts owed: Summary

For the practitioners interviewed, the *Collection of Amounts Owed* constituted three key areas of decision making; *[Evaluate ease of collection]*, *[Determine methods of collection]*, and *[Assessment of amounts outstanding]*. *[Evaluate the ease of collection]* was primarily concerned with the retrieval of payment, and demonstrated the significant causal influence from within the firms internal environment of *[Areas of practice]*. Practitioners evaluations were informed by the risk associated with *[Areas of practice]*, determined in part by practitioners' ability to control processes or funds and hence leverage payment. In addition and closely related to evaluations of **Risk** and **Power**, there was evidence of **Expediency** in decision making, with practitioners evaluations focusing retrieval efforts. Within the firms' operating environments, client determined axial codes were dominant, as practitioners developed their evaluations with reference to *[Client attributes]*, *[Client profile]*, and *[Client firm relationship]*. Evaluations sought to achieve an understanding of client payment behaviours, highlighting the information signalling qualities of these categories and enabling firms to anticipate potential payment problems, and direct resources accordingly. **Knowledge of clients** was therefore shown to be central to explaining the importance of the above causal categories. Decision making was characterised by **Expediency** rather than optimality, with practitioners' evaluations regarding where to expend efforts incorporating their **Knowledge of client**, and the existing *[Client firm relationship]*.

The second area of decision making for practitioners' within *Collection of amounts owed* was identified as *[Determine methods of collection]*. The practitioners' choice of collection methods reflected the influence of axial codes from within firms' internal environments, and their operating environments. Within the firms internal environment, *[Areas of practice]*, *[Firm attributes]*, *[Firm reputation]*, *[Firm exposure]* and *[Practitioner attributes]* were all shown to influence practitioners' selection of collection methods. *[Practitioner attributes]* were explained by **Motivation**, with *[Determine methods of collection]* reflecting the attitude of the practitioner to collection. The causal influence of *[Firm attributes]* was determined by the availability of firm resources and **Expediency** demonstrated in their allocation and use.

[Determine methods of collection] was also influenced by *[Firm exposure]* to clients, with particular techniques employed where clients were difficult to locate and hence associated with higher levels of associated **Risk**. *[Firm reputation]* was closely related to the *[Client firm relationship]* and their interaction highlighted the perception of practitioners' that the adoption of particular methods of collection could result in potential damage to future business relationships. Commercial **Motivation** of firms explained the causal influence of *[Firm reputation]* and *[Client firm relationship]*, with evidence clearly suggesting that **Motivation** explained decision making that is both complex, and focused upon the long term.

Located within the firms' operating environment, *[Client attributes]* again indicated once more the importance for practitioners of understanding clients' contextual circumstances, and developing their **Knowledge of the client** and therefore expectations of client payment behaviour. Methods of collection are adapted accordingly, with approaches tailored to reflect these expectations in order to satisfy client preferences or manipulate anticipated client payment behaviours. Finally, the influence of the *[Professional environment]* upon *[Determine methods of collection]* was twofold; firstly, practitioners identified that as solicitors they were equipped with the internal resources with which to pursue payment, whilst secondly the **Regulation** of professional bodies determined procedures and practices to be adopted when collecting payment. The range and influence of these axial codes highlight the intricacies of practitioners' decision making and the careful balancing of numerous considerations regarding *[Determine methods of collection]*.

The final area of decision making within the *Collection of amounts owed*, is the *[Assessment of amounts outstanding]*. Causal categories within firms internal environments included; *[Areas of practice]*, *[Firm attributes]* and *[Firm exposure]*. Findings echo those discussed above, with evidence highlighting assessments that depend upon **Knowledge of client** and demonstrate **Expediency**. **Risk** and **Power** are again central; assessments reference the position of the firm in terms of their control of funds or processes and the associated ability to leverage payment, whilst practitioners' tolerate late payment where the fee is considered assured. **Risk** and **Expediency** again provide central explanations as to the causal influence of *[Client profile]*, whereby the type of client

signals information to the practitioner regarding the likelihood of retrieving payment and the most effective allocation of resources.

The final causal axial code within the firms operating environment was found to be the *[Professional environment]*, which was observed to influence firm practice through **Regulation**. Practice has been found to respond to the causal influence of a variety of axial codes originating from within firms internal and external environments and is characterised by both formal and informal dimensions. Practice can be seen to be both idiosyncratic and complex, reflecting the complex decision making of the practitioner and a wide range of considerations. This section of the chapter now draws the detailed discussion of solicitors accounts of practice and the cross case diagram to an end; the following section provides the overall chapter conclusions.

5.8 Conclusions

The aim of this chapter was to provide a detailed example of the intra profession cross case analysis that underpins the cross case diagrams for each profession. Of the four professions considered, solicitors provided the focus for discussion and the chapter explored in depth practitioners depictions of practice, and the construction of the representative cross case diagram. This final concluding discussion seeks to draw together intra profession analysis of firm practice, within each area of the central organising framework of the cross case diagram, reflecting upon formal and informal dimensions, commonality and differences, and establishing the complexities apparent within practitioners' decision making. Within this discussion, the influence of the causal axial codes situated within the environmental levels of the firms will be enfolded. The chapter therefore begins with discussion of the *Negotiation of terms of business* and reflects upon firm practice within this section of the central organising framework of the intra profession cross case diagram.

As previously identified *Negotiation of terms of business* is primarily concerned with the initial stages of dealing with clients, and six key areas for decision making were identified; *[Establish terms of business]*, *[Communicate terms of business to client]*, *[Determine payment period]*, *[Evaluation of client]*, *[Risk assessment of case]*, and the *[Decision to request money on account]*.

At the outset of dealing with clients, firm practice was concerned with decisions regarding *[Establish terms of business]* and *[Communicate terms of business to client]*. Formal terms were perceived to provide clients with necessary information regarding agreements with firms, and to some extent this formally expressed information was standardised in nature. The organising, meta-level construct **Regulation** explained the causal influence of the *[Professional environment]* and the *[Regulatory environment]* upon these aspects of firm practice capturing pressures to standardise firm practices from within the operating environment and regulatory pressures from within the macro environment. The structural properties of these influences is clear for firms, however their application is more nuanced; practitioners react to *[Client attributes]* to ensure effective communication and facilitate clients cash flow management, whilst the *[Competitive environment]* has also stimulated increased transparency of fee information reflecting commercial **Motivation**. Practitioner evaluations regarding the timeliness and communication of terms of business highlighted informal dimensions of practice that demonstrated their ability to exercise agency through reflexive monitoring, rather than straightforward compliance with regulatory structures.

Of the two firms that referred explicitly to a formalised payment period, *[Determine payment period]*, one identified that they were rarely imposed, whilst both demonstrated to some extent an implicit appraisal of what might be considered **Norms** of payment. The *actual* practice of firms extends beyond that represented by formally expressed terms, with decision making the product of numerous considerations.

Additional key aspects of practice characterised by both formal and informal dimensions, are that of *[Evaluation of client]* and *[Risk assessment of case]*; both are concerned with the evaluation of risk but reveal standardised firm practices in some firms, and ‘rules of thumb’ in others, where practitioners’ establish guideline proportions of the no win no fee cases undertaken. Interestingly, where standardised procedures have been adopted, the practitioner’s description implies the evaluation is perceived as ineffectual, capturing little information not already considered. Practitioners’ evaluations of **Risk** when initially dealing with clients are similarly reflected within other aspects of decision making, notably the *[Decision to request money on account]*, which shall now be discussed.

The [*Decision to request money on account*] reflected the complex assessment of a range of causal influences in order to assess risk. Practitioners' decision making was informed by their evaluation of the client and their circumstances, considered to be largely determined by the [*Areas of practice*], and in particular *Client funding* [*Areas of practice*], and the practitioners *Control of process* [*Areas of practice*]. For some practitioners the [*Decision to request money on account*] was primarily concerned with securing payment up front, with requests for payment enforced through disruption to work, or delay to the start of the job. Requests for money on account were also observed to be used to proactively influence clients behaviour and avoid potential conflict, providing signals to ensure client awareness of escalating costs. Indeed, some practitioners identified that the frequency of requests for money on account was in part determined by *Client preferences* [*Client attributes*] for regular payments.

Further evidence of the responsiveness of practitioners to a client's needs was also provided, with one practitioner discussing how the *Type of client* [*Client profile*], with associated payment attitudes, may have requirements that need meeting before payment can be secured. In these circumstances, and as the result of consideration of the *Type of client* [*Client profile*] and their attitude, work may be undertaken where money on account has been neither requested, nor received. Further discussion of the [*Decision to request money on account*] highlighted how both *Firm experience* [*Firm attributes*] and *Practitioner experience* [*Practitioners attributes*] contributed to the approaches used, with practitioners addressing previous firm payment problems with earlier and more frequent requests for money on account, and demonstrating an understanding of 'best practice'. Clearly, the [*Decision to request money on account*] was an area of decision making intrinsically related to the billing decision, an aspect acknowledged and discussed within the chapter.

Within the six decision-making areas of the *Negotiation of terms of business* firm practice can be seen to consist of both formal and informal approaches, with commonality between firms reflecting contextual conditions, and differences highlighting the importance of the appropriateness of practice to the circumstances. The complexities within firm practice are also apparent, with implicit and informal dimensions performing vital functions within decision making.

The second element of the central framework is concerned with the *Management of amounts owed* and decision making has been identified as being primarily concerned with the administration and control of amounts owed to the firm. Practice was again grouped around six key decision making areas; [*Decision to extend credit*], [*Organisation of credit management*], [*Management of client costs*], [*Firm financing decisions*], [*Management of work in progress*], and the [*Decision to bill client*].

Within interviews participants were requested to talk through credit management within their own firms, and mainly from these explanations the [*Organisation of credit management*] was established. Centralised practices and accounting functions were identified within the larger firms, yet even the smaller practices used formal procedures representative of ‘best practice’, and employed accounts staff. However, despite centralised accounting functions existing within firms, trade credit management practices reflected the importance of the personal relationship between practitioner and client, with centralised procedures bypassed to accommodate *Client circumstances* [*Client attributes*], particularly where the client is a *Repeat client* [*Client Profile*]. Firm practice amongst solicitors varied in this respect; for some firms centralised systems for the [*Organisation of credit management*] were perceived to free practitioners from administrative functions and allow their time to be spent more productively whilst for others separating the two was problematic. Practice demonstrated **Expediency** that reflected individual firm assessments of what was considered pragmatic and appropriate.

Functional management of the [*Organisation of credit management*] was influenced by [*Areas of practice*] which often determined the timing of cash flows and signalled information regarding **Risk**. The **Risk** associated with [*Areas of practice*] directed and focused firms efforts and highlighted the interaction of **Risk** and **Expediency** in explaining the causal significance of [*Areas of practice*]. The causal influence of the [*Professional environment*] was also observed, with distinct **Regulation** for solicitors of client accounts, and adherence to the demands of *Industry standard accreditation* [*Professional environment*] implying that particular procedures are adopted within the [*Organisation of credit management*]. [*Firm attributes*] reflected the impact of *Resource constraints* [*Firm attributes*] upon the [*Organisation of credit management*], with practitioners decision making indicative of **Experiential learning**; practice was formalised and systemised in reaction to constriction of resources and evaluation of the best use of practitioners’ time.

For some cases the *Firm attitude to debt [Firm attributes]* highlighted an overarching holistic view of the *[Firms financing decision]*, with the *[Organisation of credit management]* considered intrinsically related to decisions regarding the use of debt finance. Indeed, the *[Firm financing decision]* was perceived as a distinct element of the *Management of amounts owed*, with firms keen to *Minimise use of overdraft [Firm financing decision]* which had subsequent implications for the *[Organisation of credit management]*. In particular, the *[Management of client costs]* was related to financing issues, with *Firm experience of payment problems [Firm attributes]* shaping approaches to the incurrence of disbursements that are determined by *[Areas of practice]*. However, the evidence also suggested the adoption of proactive management techniques that reflected *Client preferences [Client attributes]* in attempts to minimise payment issues and anticipate the payment behaviour of the client. The causal influence of *[Firm attributes]* upon the *[Management of client costs]* can therefore be explained by the meta-level construct ***Experiential learning***.

For most solicitors decisions regarding the extension of credit were discussed within the *[Decision to bill client]* however for one case, case S_A, the depiction of practice highlighted the causal influence of *[Client profile]* directly upon the *[Decision to extend credit]* with the *[Client profile]* perceived to signal information regarding ***Risk***, affecting the level of credit provided accordingly. The *[Decision to bill client]* however reflected the causal influence of a number of axial codes, many of which were client related. The influence of *[Client attributes]*, *[Client profile]* and *[Client firm relationship]* created responsive, proactive approaches to billing that were collaborative and designed to avoid payment problems. The axial codes influenced firm practice by providing information to practitioners regarding clients, allowing practitioners to develop their ***Knowledge of clients***. The *[Decision to bill client]* was not made with reference to formalised, standard criteria but with ***Expediency***; billing schedules were created that suited the requirements of both client and practitioner. The *[Client profile]* signalled information regarding ***Risk*** which was also incorporated into the *[Decision to bill client]*. The influence of the *[Regulatory environment]* was referred to explicitly by only one practitioner, with tax requirements shaping billing practice and ***Regulation*** therefore apparent.

The [*Decision to bill client*] was also determined for solicitors by [*Areas of practice*] which were associated with payment *Norms* that determined payment schedules. Billing *Norms* represented established social structures that were imposed upon firms. However, [*Areas of practice*] also determined elements of *Power* and *Risk* that to some extent mitigated the impact of *Norms* and allowed practitioners to use the [*Decision to bill client*] to exercise *Expediency* within firm practice, surface payment intentions and send signals to clients. For one case, case S_N, *Motivation* was seen to explain the causal influence of [*Practitioner attributes*] with differing profiles with regards to *Motivation* explaining incentives to bill clients. Finally with regards to the [*Decision to bill client*], [*Firm attributes*] captured the causal influence of the experience of previous payment problems and the tightening of billing procedures in response.

Discussion of the [*Decision to bill client*] has highlighted the complex nature of practice and the causal influence and interaction of numerous axial codes. The evidence suggests there is a role for both formal and informal firm practice in order to accommodate clients collaboratively and manage elements of *Risk*. Whilst there are social structures that shape the [*Decision to bill client*], there is also evidence highlighting how practitioners exercise their agency and in response create approaches that are appropriate and effective. The [*Decision to bill client*] is closely related to the final aspect of *Management of amounts owed*; [*Management of work in progress*].

The [*Management of work in progress*] is intrinsically related to other aspects of the *Management of amounts owed* and increased levels of work in progress were addressed through changes to billing decisions and the funding of costs. [*Areas of practice*] proved an important causal influence upon the [*Management of work in progress*] determining levels of investment and funding arrangements with direct implications for work in progress. In addition and as with billing decisions, the *Motivation of practitioner* [*Practitioner attributes*] was perceived as influencing the [*Management of work in progress*] with less motivated fee earners seen as tolerating higher levels of investment. Through the proactive management of *Client expectations* [*Client attributes*] and *Client preferences* [*Client attributes*], practitioners demonstrated their *Knowledge of clients* and adapted the [*Management of work in progress*] in order to provide timely information to clients and ensure client awareness of the level of costs. Finally, the [*Regulatory*

environment] provided incentives to billing which had direct implications for the *[Management of work in progress]*.

The *[Management of work in progress]* therefore provides evidence of social structures influencing firm practice through **Regulation** and payment **Norms** determined by *[Areas of practice]*. **Motivation** explains the causal influence of *[Practitioner attributes]* upon the *[Management of work in progress]* and the levels held. Informal dimensions of firm practice can be observed however with reference to the causal influence of *[Client attributes]*; practitioners **Knowledge of client** has allowed practitioners to adapt information provision in anticipation of payment issues arising.

The above discussion has reviewed the central element of the organising framework, the *Management of amounts owed* that covered the six aspects of decision making outlined at the outset. Firm practice has been shown to be context specific and explained by a number of interlacing organising, meta-level constructs that consolidate the causal influence of the axial codes. There are multi-dimensions to the trade credit management approaches used, with both formal and informal practice evident. Practitioners acknowledge and reference social structures whilst demonstrating their reflexive agency in adapting flexibly trade credit practice. The final section of the organising framework is now reviewed, the *Collection of amounts owed*.

The *Collection of amounts owed* was concerned with trade credit management practice related to the retrieval of amounts owed and in particular three main areas; *[Evaluate ease of collection]*, *[Determine methods of collection]* and the *[Assessment of amounts outstanding]*.

[Evaluate ease of collection] was evident within all four solicitor firms and was seen to be significantly influenced by *[Areas of practice]* which signalled information regarding the **Risk** associated with collection and provided indications as to the **Power** of practitioners in securing, or leveraging payment. *[Areas of practice]* therefore directs resources; **Expediency** implies that where practitioners are reasonably certain of receipt of monies owed effort is not expended in chasing. Client related codes, *[Client attributes]*, *[Client profile]* and *[Client firm relationship]*, are again dominant in terms of their causal influence upon *[Evaluate ease of collection]*. These axial codes signalled information to

practitioners that allowed them to develop their **Knowledge of client**. The *[Client firm relationship]* and *[Client profile]* interacted to influence *[Evaluate ease of collection]*, with practitioners aware of the benefits for prompt payment of reciprocally beneficial relationships. *[Evaluate ease of collection]* also demonstrated collaborative dimensions as practitioners accommodated delays associated with the *Client cash flow [Client attributes]*.

Once again, all four solicitors firms provided evidence of *[Determine methods of collection]*. The causal influence of *[Firm attributes]* was apparent from within the internal firm environment, with *Resource constraints [Firm attributes]* highlighting the importance of ensuring that time was not wasted inefficiently chasing clients for payment but was instead used in a productive manner. **Expediency** was again evident, with practitioners also aware of the need to assess costs and benefits. Levels of *[Firm exposure]* also influenced *[Determine methods of collection]*, with **Risk** determining techniques used in particular circumstances. Both *Client attitudes [Client attributes]* and *Practitioner attitudes [Practitioner attributes]* interacted to create conditions that ingrained practitioner's approaches to collection with practitioner **Motivation** focused upon full cost retrieval.

With regards to *[Determine methods of collection]*, *[Firm reputation]* was a significant causal influence that interacted with the *[Client firm relationship]*. None of the practitioners applied the right to charge interest on late payment, and some explanations implied that commercial **Motivation** was paramount; repercussions were anticipated in the form of lost custom and damage to the *[Firm reputation]*. Prospects for future business moderated approaches and long term commercial **Motivation** implied methods of collection perceived to be compatible with maintaining the *[Client firm relationship]*. Indeed for some practitioners, the centralisation of accounting functions provided the opportunity to de personalise collection efforts. **Motivation** provides a persuasive organising meta-level construct with which to understand the causal influence of both *[Firm reputation]* and *[Client firm relationship]* upon *[Determine methods of collection]*.

[Determine methods of collection] were also developed in accordance with *[Client attributes]* in order to navigate *Client systems [Client attributes]* effectively and make best use of personal contacts. Echoing the discussion above, *Client preferences [Client attributes]* were also influential with methods of collection chosen that were perceived to be non-antagonistic. **Knowledge of client** is important, with collection methods selected

that will encourage payment and maintain relationships. [*Determine methods of collection*] is further influenced through an understanding of *Client circumstances* [*Client attributes*]; methods used reflect context specific scenarios.

Solicitors clearly have an in-house expertise advantage in [*Determine methods of collection*], being well informed regarding the processes of instigating legal proceedings. Yet they are also tightly bound by the law society and hence the [*Professional environment*] formed the final causal influence upon firm practice within this area and is associated with **Regulation**.

The final area of *Collection of amounts owed* was the [*Assessment of amounts outstanding*]. Within firms internal environments the role of [*Firm attributes*] was clear; *Resource constraints* [*Firm attributes*] again influenced assessments and the establishment of benchmarks with **Expediency** directing resources to their most effective use. Reference was made to the eroding effect upon *Firms profitability* [*Firm attributes*] of writing off amounts owed that galvanised assessments. [*Areas of practice*] influence the [*Assessment of amounts outstanding*] in similar ways to [*Evaluate ease of collection*], however where amounts are considered secure and ultimately collectable assessments imply that they should be passively retained rather than written off or actively chased, even if small in amount. Similarly, [*Firm exposure*] influences [*Assessment of amounts outstanding*] with assessments incorporating **Risk**. Both **Risk** and **Power** explain the causal significance of [*Areas of practice*] and [*Firm exposure*].

The final axial codes in relation to the [*Assessment of amounts outstanding*] originate within the operating environment and are concerned with the [*Professional environment*] and the [*Client profile*]. The [*Professional environment*] determines the processes that retrieving payment through the courts would entail and interacts with the [*Client profile*] as one practitioner identifies that for a particular *Type of client* [*Client profile*], recovery through such a long process might not be worthwhile. Again the requirements of *Industry standard accreditation* [*Professional environment*] are also apparent, with the [*Assessment of amounts outstanding*] determined by the processes prescribed. The influence of the [*Professional environment*] is one of **Regulation**, whilst there is further evidence of **Expediency** and the pervading role of **Risk**.

The discussion above brings this chapter to a conclusion. The evidence presented highlights that trade credit management within small firms of solicitors is multi-dimensional; formal and informal practices sit together and are drawn upon according to the context. Analysis of qualitative accounts of practices has allowed causal axial codes to surface that are situated within the environmental levels of a firm and facilitate understanding of why particular practices are used. The embedded organising, meta-level constructs have been identified within the analysis and provide overarching, interconnected explanations as to the causal significance of the axial codes surfaced. The meta-level constructs enable a structuration perspective to begin to form on trade credit management within small firms of solicitors, with discussion of axial codes identifying structural influences, and the reflexive exercise of practitioner agency. Firm practice appears to emerge from the recursive interaction of the two, within a duality; this will be explored further within the cross case analysis that follows in the subsequent chapters. Chapter 6, 7 and 8 provide this cross case analysis with each chapter discussing one element of the central framework. Chapter 9 presents a synthesis of the empirical findings.

Chapter 6: Cross Profession Analysis: Negotiation of Terms of Business

6.1 Introduction

The aim of this chapter is to provide a consolidated discussion of inter profession, cross case analysis of practice within the first area of the central framework, *Negotiation of terms of business*, having previously established the detail of the analytic process in chapter 4. The discussion will therefore reference the first section of intra profession diagrams that depict firm practice and causal influences within each of the professions. As discussed within chapter 4, these diagrams display the analysis undertaken and are underpinned with coding frames that provide the audit trail between case specific causal maps and the intra profession diagrams (please see appendix 2). Additionally, a fifth diagram has been used to summarise the causal influence of axial codes upon firm practice, across professions. This summary diagram is presented on the following page, figure 3, and is also in appendix 4. The first section of the intra profession diagrams (please see appendix 3), and the cross profession, axial coding summary diagram, act as points of reference for the cross case analytical discussion within this chapter. Chapter 5 presented a detailed discussion of the qualitative analysis of cases of practice for solicitors. The qualitative evidence from the transcripts will not therefore be repeated within chapter 6, 7 and 8 but the findings will be drawn through into a cross profession discussion.

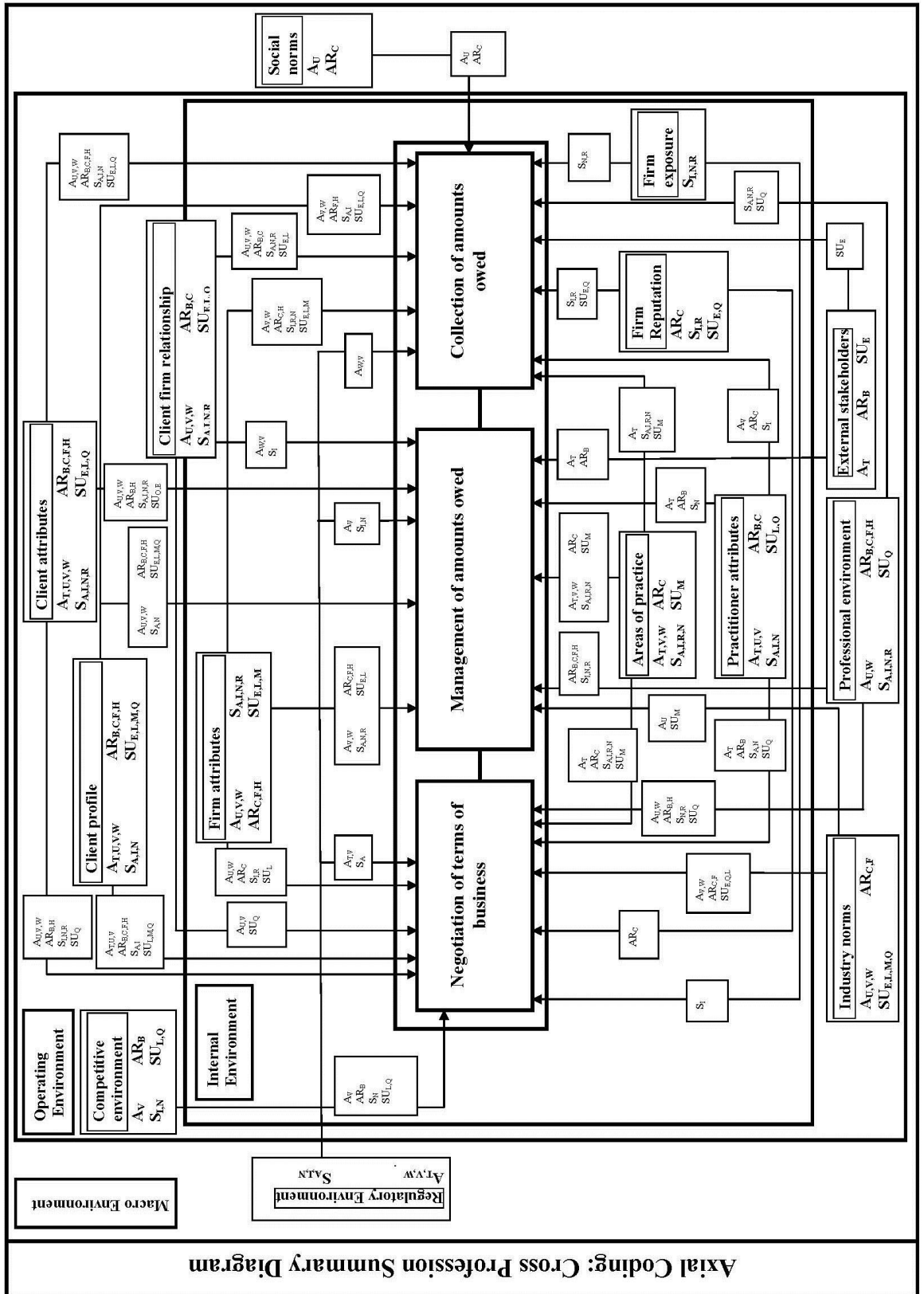


Figure 3: Cross Profession Summary Diagram

The structure of chapters 6, 7 and 8 is consistent with that of preceding chapters with the central framework of the case specific causal maps maintained. Chapter 6 discusses the *Negotiation of terms of business*; chapter 7 discusses the *Management of amounts owed*; and chapter 8 discusses the *Collection of amounts owed*. The hologram metaphor can again be referenced to explain the organisation of the analysis chapters, with the structure of the discussion within this and subsequent chapters mirroring that of earlier analysis; the central framework of case specific maps has been retained but an inter profession, cross case analytical perspective means that the focus has been broadened further.

This chapter seeks to consider inter profession research findings against existing research within the area, enfolding the literature and highlighting nuances, similarities, or contrasting discussion surfaced within this study. As practice is explored across professions chapters 6, 7 and 8 will consider the axial coding of causal influences against empirically and theoretically derived explanations for the provision of trade credit, and the uptake of both formal and informal trade credit management practices. Within this discussion, organising meta-level constructs will be explored; these constructs cross cut axial codes and add an additional dimension to the analysis of findings. The inter profession cross case analysis and organising meta-level constructs will be synthesised and discussed within the context of structuration theory in chapter 9. The conclusions chapter, chapter 10, is partly structured around the organising meta-constructs, and the implications of findings for policy makers and advisors are identified. This chapter now presents inter profession, cross case analysis of the *Negotiation of terms of business*.

6.2 Negotiation of terms of business

As discussed within earlier chapters, the *Negotiation of terms of business* is primarily concerned with the initial stages of dealing with clients, as can be seen by the practices identified within the intra profession diagrams. Firm practice and decision making broadly reflect issues regarding the initial evaluation of the risks associated with clients, the establishment of agreements with clients, and the determination of payment periods. This chapter explores and discusses these elements of practice and the causal influences of the related axial codes, against existing research. The chapter is organised around the elements of practice identified within the *Negotiation of terms of business* and apparent within the

intra profession diagrams. Sub headings will therefore refer to aspects of practice identified within the intra profession diagram. Where appropriate, aspects of practice have been grouped into common areas in order to organise a cohesive, structured discussion. At the beginning of the discussion for each aspect of practice a summary table will identify within which professions and cases the practice emerged. The first section of the discussion of *Negotiation of terms of business* will draw together small firm practice when deciding to take on a client, and will consider formal and informal approaches within evaluations.

6.2.1 Initial evaluation of client

Aspect of firm practice	Case Identifier
[Evaluation of client]	Accountants: A _T , A _U , A _V , A _W
	Architects: AR _C , AR _F , AR _H
	Solicitors: S _A
	Surveyors: SU _L , SU _M , SU _Q
[Evaluate risk of retrieving fee]	Accountants: A _T
[Selection of job]	Surveyors: SU _Q
[Decision to accept client]	Accountants: A _T
[Risk assessment of case]	Solicitors: S _A , S _I , S _R
[Decision to request money on account]	Accountants: A _U , A _W
	Architects: AR _C
	Solicitors: S _A , S _I , S _N , S _R

Table 4: Axial Coding of Firm Practice: Initial Evaluation of Client.

[Evaluation of Client], [Evaluate risk of retrieving fee], [Selection of job], [Decision to accept client], [Risk assessment of case] and [Decision to request money on account]

Previous research concerning working capital management within small firms has, as discussed within earlier chapters, tended to rely upon survey findings in order to establish the types of working capital management procedures utilised, and how frequently they are reviewed (for example, Peel and Wilson 1996; Peel et al 2000; Howorth and Westhead 2003). These surveys asked respondents, for example, whether the credit worthiness of customers was checked prior to the granting of credit, and if customer accounts were categorised according to solvency risk. Chittenden et al (1998) provide a detailed

consideration of credit management that categorised activities into pre delivery and post delivery and asked respondents to rate their importance; chasing overdue payments was ranked most important. In addition, Chittenden et al (1998, p.12) asked respondents to rank the importance of factors that determine credit decisions, identifying that those firms with ‘no late payment problems appear to pay more attention to credit agency reports, trade and bank references’.

The research above provides interesting empirical research findings regarding approaches to the management of trade credit and an indication as to whether these aspects were considered by firms and how actively. However, the approaches used are not intended to surface contextually specific, informal practices, and therefore this dimension of practice is not explored in-depth. Qualitative evidence from this research highlights how and why small professional firms have adopted both formal and informal practices in their *[Evaluation of client]*, and how the assessment of associated risks is evident in related decisions.

For accountants (A_T, A_U, A_V, A_W), surveyors (S_I, S_M, S_O) and architects (AR_C, AR_F, AR_H) the *[Evaluation of client]* was a significant aspect of practice when managing the *Negotiation of terms of business*. Practitioners within these firms identified how both formal and informal approaches to *[Evaluation of client]* enabled them to undertake their assessments, and what influenced their choice. Typically for practitioners *[Evaluation of client]* was based primarily upon a face to face meeting with the client:

‘I like to go and see them at their place of business – and I get an idea of – the initial consultation fee is free – and I like to go through their books....And that consultation is basically me getting as much information about them and about the business as I possibly can. I generally like to have a look at the way they do their bookkeeping as well, small business can be dreadful, really dreadful, it’s very important and through that I can give them a quote.....I do have a checklist to go through, that’s the institute’s procedures and questions to ask but I generally want a lot more and try to gather as much information as I possibly can otherwise I could lose the money’

Case A_U, p.3, 58-70.

‘someone will phone up and say I’d like to see you our initial consultations will always be free for the first half an hour or however long it takes. It is usually best to meet the person or individual concerned.....it’s just an

excuse to give someone a phone call and say 'hi yes can we do something for you, please come in and meet us and have a chat'

Case A_V, p.3. 54-62.

'you do get a feeling for people when you have that first visit....and what they want, and you get quite a good feeling, you hope, at that first visit about how much they can afford, how much they want to spend, you know you do that you look at their house and....'

Case AR_H, p.7. 438-442.

These initial consultations provide the opportunity for practitioners to evaluate clients in an informal sense, but are unlikely to be acknowledged in surveys concerned with formal practice. Clearly, the purpose of initial consultations goes beyond that of *[Evaluation of client]*, providing the opportunity for the practitioner to promote the firms services, and gather information to help establishing fees and scope client requirements. There are also indications that initial consultations and the gathering of information through informal mechanisms inform practitioner's evaluations in ways that a formal check of credit worthiness would not. Indeed, there is evidence that practitioners' particularly value informal information gathered using a variety of approaches, and that the use of such approaches therefore reflects the utility of this information, and a conscious choice, rather than evidence of unsophisticated trade credit management:

'I prefer if at all possible to have found out something more about the client than just what they've told themselves, I don't mean doing heavy searches via accountants or anything like that but to talk to other consultants who've dealt with them, other people in the industry it's a small world, and um it's possible...if someone says don't work with so and so it's still possible to say no, I mean it's very easy to get instructions, but if they don't pay their bills then you can very easily get into all sorts of problems'

Case SU_Q, p.5. 111-116.

The causal influence of *[Practitioner attributes]* upon informal approaches to the *[Evaluation of client]* is also apparent. Within Case SU_Q above, the valued, informal evaluation is enabled by *[Practitioner attributes]*, whereby the intuition, experience and objectives of the practitioner interact to influence the *[Selection of job]* and *[Evaluation of client]*. Case A_T below similarly highlights the importance of *[Practitioner attributes]* to informal aspects of the *[Evaluation of client]*, providing further evidence of the causal

influence of *Practitioner intuition [Practitioner attributes]* and *Practitioner experience [Practitioner attributes]*:

'I've got to try and assess whether they're going to do that. It's just experience I suppose really...'

Case A_T, p.5. 153-154.

'I think most of it is objective information, experience has a lot to do with it but its mainly objective....around the edges, I'm sure I've saved myself a lot of bad debts by making the right decision....sometimes I've got quite a good job because I've taken a chance where somebody else might not have done because I felt from experience it was worth a go'

Case A_T, p.7. 229-233.

Case A_T, although an accountant, is a specialist insolvency practitioner and therefore there were aspects of practice for Case A_T that were not observed amongst other accountants, as, for example, much more front end evaluation was devoted to *[Evaluating risk of retrieving fee]* and the *[Decision to accept client]*. These aspects of practice have been referred to here as they are associated with the *[Evaluation of client]*.

Informal approaches are perceived to offer an effective mechanism by which a client or job can be evaluated, as these provide the flexibility to incorporate both *[Practitioner attributes]*, and *[Firm attributes]*, reflecting complex objectives not solely concerned with profit maximisation. For, example within Case A_W, the objectives of the firm, *[Firm attributes]*, are to actively restrict growth, avoid resource intensive clients, and focus upon the existing client base. Given these circumstances, the practitioner reasons that formal methods of credit checking are unnecessary as the majority of clients are known to the firm, and the number of new clients, for whom formal credit checking is perceived to be worthwhile, too few:

'and I worked from home and then built the practice up – I've not gone madly for growth – I think this will be apparent later'

Case A_W, p.1. 4-6.

'yes most of your work is repeat, tax returns, company accounts, whatever, we do very little, in fact we don't really want that - the set up costs for start ups is costly to us and that why one doesn't do start up businesses'

Case A_W, p.2. 38-40.

'we haven't got formal, well I say we haven't, we don't do any credit checking, simply because the numbers coming through the door, the new cases – its not a big issue'

Case A_w, p.3. 52-54.

The nature of the *[Client firm relationship]* for professional firms indicates the importance of building client trust with potential clients and the need for reciprocal evaluation, from the perspective of both firm and client. This aspect of the *[Evaluation of client]* highlights the importance of firms meeting with clients in order to establish the compatibility of the working relationship and helps explain the important role of informal evaluations:

'generally it's weird when I do an initial consultation, with someone i don't like or don't click with the don't generally like me – it's quite a personal relationship I think when you're choosing a professional – it has to be someone you can work with – most people all have the same qualifications but then it comes down to personality and I do also think you have to meet them it helps them to...'

Case A_U , p.6. 137-141.

'now that's what I suppose I'm trying to say, going back to my earlier description, about age and experience, people will pay for that especially when they already know you, or know of you, or something about you, perhaps feel there's someone they can trust'

Case S_U_Q p.4. 83-86.

'it's a very stressful sort of situation and you've actually, although all of them are different and I'm different, I can change which way I'm facing at the time its um it's a relatively personal relationship you got to get under their skin, you got to get on with them even if you're not buddies'

Case S_U_Q , p.5. 118-121.

Similarly, Case A_{R_H} above highlighted how the informal *[Evaluation of client]* is influenced by *[Client attributes]*, as *Client circumstances [Client attributes]* influence the practitioner's assessment, which may also have implications for other decisions, such as determining fees.

There is evidence within the cases to suggest that the use of informal approaches to the *[Evaluation of clients]* has been a conscious, informed decision as these methods are

deemed to provide information that fulfils practitioners' requirements, and that are appropriate for the circumstances. There is not a lack of awareness regarding formal evaluative approaches, rather informal approaches enable the practitioner to incorporate *[Practitioner attributes]* and *[Firm attributes]* within their evaluation. The aforementioned survey based research would not have recognised these informal approaches or explored practitioners' rationales for them.

Whilst there are independent, causal explanations for the validity of informal approaches evident above, findings also identified practitioners' awareness of formalised approaches, and the circumstances that might determine their use. As can be seen in earlier discussion of Case A_W, a key causal influence upon the decision to use formal methods of credit evaluation, would be whether the client is new. This causal factor is captured under the axial code *[Client profile]* which has proved to be a significant causal influence upon *[Evaluation of client]*, with evidence of practitioners' use of formalised evaluation methods being prompted by or adapted accordingly.

Case S_A exhibited differences to other cases within the same profession, being the only solicitors firm to refer explicitly to the *[Evaluation of client]*. The practitioner within this case demonstrated their awareness of formalised methods but stated that they had not employed such methods as they have not taken on any large, new clients. In addition, case S_A affirmed the causal influence of *[Practitioner attributes]* upon *[Evaluation of client]*, highlighting that *Practitioner experience [Practitioner attributes]* had exposed them to 'best practice', but that the nature of their client base implied that formalised evaluation methods had not been considered appropriate. If clients were known to the firm formal assessments were considered unnecessary and this approach is sometimes extended to referred clients whereby the 'referrer' is perceived to signal to the practitioner information regarding **Risk**, with varying results:

'we do quite a lot of work for estate agents and came through one of our regular estate agent clients who recommends us for a lot of work. There was no reason to feel that they were a problem'

Case AR_F, p.6. 347-349.

'yes I'm on companies house direct, riskbiz, that sort of thing, credit searches and so on so I can verify things that way – when I say I took it at face value , I made one or two assumptions which I shouldn't have done it

was stupid of me...normally I take anything that's said to me with a pinch of salt until I've seen it verified but when this particular person introduced the bloke to me, told me the situation, because it came from that source, I didn't treat it with the pinch of salt that I should have done – if the guy himself had come straight off the street I would have interrogated him far more closely and probably caught him out but I didn't feel it was necessary to cross examine the person who had referred the work – I shall have to be very careful in the future if he refers any more work to me'

Case A_T , p.14. 443-454.

Practitioners are concerned with what is known about a client; *Repeat clients*, [*Client profile*], are thereby evaluated on the basis of past experience, with *New clients*, [*Client profile*], whom little may be known about, perceived to be riskier, therefore warranting the use of formalised credit evaluation methods. There is also evidence to suggest that reliance upon the information signalling qualities of [*Client profile*] may not always prove effective, with the practitioner above regretting relying upon the fact that a particular client was referred by what he considered a reputable source. It is clear that in retrospect, the practitioner would have been more rigorous in both their formal and informal evaluations. Another aspect of [*Client profile*] perceived to signal information to the practitioner regarding **Risk** is the *Type of client*:

'I get the sort of sense, being caught once or twice, he's only done that within the last couple of years, he will do a check. Say it's a particular client with – still got some ongoing work with but was a bit anxious because it was a very large project and being an individual – obviously when you're dealing with a health authority they are much more secure. I mean sometimes you have to wait but you know it will come'

Case AR_F , p.7. 358-363.

Discussion of the influence of [*Client profile*] upon [*Evaluation of client*] has highlighted practitioners' awareness of formal methods of evaluation, and in what circumstances they are considered appropriate. [*Client profile*] captures the **Risk** perceptions of practitioners; the organising meta-level construct of **Risk** explains the significant causal influence of [*Client profile*] and the impact upon [*Evaluation of client*]. Practitioner accounts of practice have demonstrated their awareness of formal methods of client evaluation, and their willingness to use such approaches where deemed appropriate. A survey asking if respondents checked credit worthiness, or ranked customers according to solvency risk,

would not necessarily reveal this awareness, or the conditions under which such methods may potentially be selected.

Where formalised aspects of *[Evaluation of client]* were used, these were sometimes attributed by practitioners to the *[Professional environment]* and *[Regulatory environment]*, with practices adopted, for example, in response to the demands of professional associations, therefore providing evidence of the **Regulation** influence of institutional structures. Practices and procedures were formalised with regards to the *[Evaluation of client]*, but did not necessarily involve, for example, credit checking clients:

'asking the questions really, part of the engagement...I do have a checklist to go through, that's the Institutes procedure and questions to ask but I generally ask a lot more and try to gather as much information as I possibly can'

Case A_U, p.3. 66-69.

Interestingly, there was also evidence of practitioners making conscious decisions not to use formal methods of *[Evaluation of client]*, with concern expressed regarding *[Firm reputation]* and the potential impact upon commercial **Motivation**:

'it would be very, very rare for us to do any credit checks.....we think we take people on trust. If we don't, if we're not actually happy with somebody - more recently we might ask for a payment on account before we start work but that's quite a new idea and even that, we're slightly reluctant to do that because it doesn't match the impression that we like to give people. The impression of the organisation.'

Case AR_C, p.2. 112-122.

For the practitioner above, the *[Firm reputation]*, is of more importance than credit checking clients. The perceived negative associations with the use of credit checking are considered influential enough to ensure the firm uses them only occasionally, preferring instead to take clients *'on trust'*, in order to maintain a particular public image. Commercial **Motivation** is likely to be an implicit influence within such an approach to the *[Evaluation of client]*, of which further explicit evidence can be provided below:

'I don't think that we get any references, I think they've been introduced by other clients or they have just contacted them and just talked to them without getting any reference they decided to take them, mind you at the moment in the construction industry there is a big competition you can't afford to lose a client I suppose sometimes even if you think OK this client

may not be able to pay us it's still worth it to take it on otherwise you'd be sitting here doing nothing, are you with me? I think that's the reason that's putting pressure on them to not always get a reference, and things like that'

Case S_L, p.10, 224-231.

The [*Competitive environment*] can be observed to influence [*Evaluation of client*] as practitioners chose not to pursue credit references, but instead secure the client and the business, and accept the potential **Risk** associated with the client paying. In addition, the causal influence of [*Client profile*] can again be observed, with the referral of clients perceived to signal information regarding their reliability. The evidence above suggests that practitioners are aware of formalised approaches to the [*Evaluation of client*] but have consciously decided not to use credit references as the result of persuasive influences captured by the axial codes discussed, and which are ultimately associated with the commercial **Motivation** of firms and concern with jeopardising potential business. The above discussion has consolidated findings with regards to [*Evaluation of Client*], [*Evaluate risk of retrieving fee*], [*Selection of job*] and [*Decision to accept client*]. The following discussion is concerned with the [*Risk assessment of case*].

The discussion of firm practice above has concentrated upon the client as the focus for evaluation. However, solicitors' initial evaluations for particular [*Areas of practice*] were undertaken with regards to a 'case' as a whole, rather than with reference to a particular client or firm. For solicitors practices therefore the [*Risk assessment of case*] was observed to be an important aspect of practice and one that clearly reflected the causal influence of [*Areas of practice*].

Where solicitors take cases on a conditional fee basis, by definition there will be additional **Risk** associated with the fee payment; this is an aspect that requires evaluation by the practitioner before the case is accepted. The [*Risk assessment of case*] extends for some practitioners to a consideration of the proportion of the business that 'no win no fee' cases represent, and the potential impact upon the cash flow of the firm. Therefore, [*Areas of practice*] of solicitors' firms will determine the relative importance of the [*Risk assessment of case*].

A more generalised approach to the *[Risk assessment of case]* was observed in case S₁, where a formalised procedure was put in place in order to review the capabilities of the practitioner against the case being considered, and the potential risk to the firm. However, the assessment appeared to be little more than a tick box, record keeping exercise, performed retrospectively once the case had already been accepted on the basis of information obtained by the practitioner in conversation with the potential client. Despite representing what might be recognised as a formalised aspect of good practice, such an approach appeared to add little of value to the practitioner in their *[Risk assessment of case]*. The above discussion is particular to solicitors and concerned in the main with *[Areas of practice]* however all solicitors, along with some of the accounting and architectural firms, discussed how more generalised considerations of **Risk** are reflected within their *[Decision to request money on account]*.

The *[Decision to request money on account]* was a key aspect of practice for solicitors, with all firms adopting such an approach when dealing with clients. Within the remaining three professions only two accountants and one architect discussed requesting funds on account. For solicitors, such requests appear to be a long established feature of business that clients had come to expect and that therefore represented payment *Norms*. There were two approaches to the *[Decision to request money on account]* which require differentiation; requests for funds on account that are made of clients initially at the outset, and further requests made as work was undertaken and costs incurred. Initial requests for funds on account are often determined by *[Areas of practice]* whose influence can be explained with reference to associated **Risk** and **Experiential learning**. *[Areas of practice]* signalled information to the practitioner and firm regarding the **Risk** associated with the client, and the nature of the process in terms of securing payment. For conveyancing, the established processes ensured that the solicitor was reasonably certain of receipt of payment; clients are requested to provide money on account, and the solicitor's fee is retrieved before the job is completed. For *[Areas of practice]* where perhaps the payment methods and processes are not as firmly established, practitioners have introduced requests for money on account, as the result of *[Firm attributes]*, whereby **Experiential learning** has influenced the *[Decision to request money on account]*. It is also apparent that *[Practitioner attributes]* influenced firm practice, and in this case the *[Decision to request money on account]*, with the practitioner in Case S_A referencing approaches within their

previous practice to demonstrate their appreciation of the circumstances within which requests for funds on account are likely to be made.

When considering further requests for money on account occurring after the initial agreement, additional axial codes influence decision making in interesting ways that reflect the dynamics of client-firm interactions and practitioners' implicit evaluations of clients, which are often based upon tacit expectations of client payment behaviour. The [*Decision to request money on account*] in this context therefore captured the interplay of complex factors that might not be surfaced with other methodological approaches.

Case S_I demonstrated how the practitioner used the [*Decision to request money on account*] as a means of exerting some level of control over the client, often in response to the [*Firms exposure*]. The [*Decision to request money on account*] therefore provided a mechanism through which the practitioner signalled to the client the costs incurred, whilst testing their payment intentions. Such requests for funds therefore allow practitioners to proactively manage *Client expectations* [*Client attributes*], and provide the opportunity for the practitioner to engage proactively with the clients payment behaviour. The interplay between the client and practitioner in terms of the dynamics of the relationship and **Power** was further evidenced in case S_R, where the practitioner used the [*Decision to request money on account*] as a means of leveraging payment from the client by also accompanying the request with a threat to halt work on the case. Practitioners identified an opportunity to exploit their leverage with clients and surface payment intentions. However, there was also evidence of a collaborative influence upon practice, with practitioners identifying how their [*Decision to request money on account*] was in part a response to *Client preferences* [*Client attributes*], and *Client expectations* [*Client attributes*], and that frequent requests for funds allowed clients to plan and manage cash flows.

Finally, with regards to the [*Decision to request money on account*] for solicitors, consideration of the influence of *Type of client* [*Client profile*] highlighted how a practitioner's evaluation identifies implications for payment, and therefore partly determined their approach within case S_I. For the practitioner there were standard amounts set for money on account that were determined in part by the *Type of client* [*Client profile*], yet for clients where practical difficulties with payments were anticipated, the practitioner was happy to incur costs and act before payment was received as, in their

experience, there was a different attitude to payment. The [*Decision to request money on account*] for solicitors is therefore a complex one that reflects tacitly derived evaluations of client and case, and the influence of numerous axial codes. Within the analysis, the organising meta-level constructs of **Power** and **Risk** provide cross cutting explanations as to the influence of the axial codes discussed.

For the remaining professions, the [*Decision to request money on account*] was of significantly less importance to practice, with no surveyors at all making reference to it within interviews, and only one architect, case AR_C, referring to it, identifying a reluctance to use such an approach:

'more recently we might ask for a payment on account before we start work but that's quite a new idea and even that, we're slightly reluctant to do that because it doesn't match the impression that we like to give people. The impression of the organisation.'

Case AR_C, p.2. 112-122.

For solicitors, the practice of requesting money on account appears to be an ingrained norm of the profession, with which clients are familiar. However, for architects such requests are perceived as potentially damaging to the [*Firm reputation*] and are used only rarely by one architect. For the accountant in case A_w, the [*Decision to request money on account*] was taken with reference to the *Complexities of fee arrangements*, [*Professional environment*], this would introduce, and the *Resource constraints*, [*Firm attributes*], within the firm:

'there are some of my competitors who are very, very money focused, now they may well be making more money than me I could say but I'm not convinced that the reward is worth the extra....the difficulty that they ran into is what work each payment related to, so if suddenly the client decides to leave, have they paid up front for some accounts they haven't had? Or if they started paying by standing order and their accounts were a year late, how soon did it catch up? There were also various attitudes about saying 'right it's a fixed fee and we'll charge you X and we'll review it next year' and then a great negotiation goes on every time – I could be getting on with doing work, its horses for courses'

Case A_w, p.5. 114-125.

For the case A_w above practical issues and *Resource constraints* [*Firm attributes*], converged with the result that the practitioner was reluctant to request funds on account. In

contrast for case A_U, the practitioner identified that although not a normal feature of practice, that they would adopt such an approach with particular clients with whom they had experienced payment problems in the past, thus *Firm experience*, [*Firm attributes*], influenced the [*Decision to request money on account*]:

‘and he explained that they were having a very bad time, there was no money coming into the business and so we set up a monthly payment scheme so that they could put in the money they could afford and they’d pay me on a monthly basis – well generally every two months I have to phone them after about 6 weeks and say...and that client I’m not going to work for them again unless they give me the money in advance’

Case A_U, p.1. 10-14.

The [*Decision to request money on account*] can therefore be seen as a normative feature of practice for solicitors, but one that is less established for the other professions whose work processes might be less conducive to such an approach.

6.2.2 Initial evaluation of client: Summary

The elements of practice discussed above were grouped together and discussed under the heading of ‘Initial evaluation of client’ as this is the broad area with which they are primarily concerned. As highlighted within the above discussion, previous research has tended to focus investigation of this area upon the uptake of formalised practice. Typically, surveys have included questions regarding the uptake of, for example, credit worthiness checks and categorisation of customers accounts according to solvency/late payment risk, (Peel et al, 2000), and the frequency of review or use of aspects of practice, such as customer credit risk, (Peel and Wilson, 1996; Howorth and Westhead 2003; Howorth and Reber 2003). Howorth and Wilson (1999) used case studies to complement survey results when investigating late payment and the small firm, and found that both formal and informal pre sale aspects of credit management were associated with reducing the perceived problem of late payment.

This research has investigated how practitioners approach the initial evaluation of clients from a grounded, qualitative perspective, and has shown it to be an important aspect of trade credit management that might be underestimated if emphasis is placed solely upon formalised aspects, representative of best practice. Practitioners’ discussion of their approaches has allowed the unveiling of complexities within client evaluation, which also

manifest themselves in related decisions. Informal dimensions of practice have been shown to be particularly important to practitioners, with evidence that informally gathered information is considered as superior to, and more appropriate than, formal sources. Practice therefore extends beyond that of, for example, credit checking potential clients, and can be observed to be influenced by a range of axial codes.

The organising meta-level constructs of **Risk**, **Power**, **Motivation**, **Norms** and **Regulation** were apparent within the analysis providing useful mechanisms with which to understand and conceptualise the influence of axial codes. Both **Norms** and **Regulation** exhibited structural dimensions that could be considered imposed upon the firm. **Norms** reflected the nature of generally accepted payment practices associated with *[Areas of practice]*, whilst **Regulation** reflected institutional structures which prescribed elements of firm practice. Through their actions practitioner’s instantiated **Norms** to uphold and engrain them, requesting money on account accordingly. However, firm practice reflected the important role of informal practice which highlighted practitioners as reflexive agents, able to exercise their agency and approach the evaluation of client in a manner that fits with their objectives.

6.2.3 Establishing terms and agreements

Aspect of practice	Case Identifier
[Establish terms of business]	Accountants: A _U , A _V , A _W
	Architects: AR _B , AR _C , AR _H
	Solicitors: S _I , S _N , S _R
	Surveyors: SU _L , SU _M , SU _Q
[Agree fees]	Accountants: A _V
	Architects: AR _B , AR _C , AR _F , AR _H
[Determine payment method]	Accountants: A _V
[Communicate terms of business to client]	Architects: AR _B , AR _H
	Solicitors: S _N , S _R
	Surveyors: SU _Q

Table 5: Axial Coding of Firm Practice: Establishing Terms and Agreements.

[Establish terms of business], [Agree fees], [Determine payment method] and [Communicate terms of business to client]

The importance for practitioners across professions of establishing an agreement with a client emerged as a significant aspect of practice. Discussion involved the following elements of practice; *[Establish terms of business]*, *[Agree fees]*, *[Determine payment*

method] and [*Communicate terms of business to client*] which are considered within this section. The majority of practitioners referred to [*Establish terms of business*], and the remaining elements could be considered as closely related to this functional, initial stage when dealing with clients. This discussion will therefore focus upon [*Establish terms of business*], whilst exploring the importance of the other related aspects of practice, where appropriate.

Evidence regarding establishing terms of business and small firm practice is limited, but this area has been explored by Chittenden et al (1998, p.10), who found that only 8% of time devoted to credit management was spent ‘approving credit requests and negotiating terms’ and that front end trade credit management, which included negotiating payment terms, was perceived as less important by respondents. Wilson and Summers (2002, p.381), in a supply side analysis of trade credit terms offered by SMEs, used survey data to evaluate decisions regarding, ‘whether to extend credit or require cash payment and, if credit is extended, whether to use two part terms’. Two part terms reflect the use of discounts to encourage prompt payment, however, perhaps because of the characteristics of professional firms, none of the practitioners interviewed referred to the use of explicit discounts. Wilson and Summers (2002) survey collected data that included evidence concerning credit policy and terms, and credit and financial management practices; where appropriate within the following discussion, their findings will be considered. In addition, Howorth and Wilson (1999) identified the importance for firms in mitigating the problem of late payment to establish payment terms prior to sale.

Across the professions, [*Establish terms of business*] provided the basis for the agreement with the client. Practice appeared in line with normative approaches, with [*Establish terms of business*] generally presenting the opportunity for the practitioner to define the terms and conditions of the agreement between the client and the firm:

‘I should imagine that’s in our letter of engagement that we send to all our clients, or if we agree to act for a client, or clients, at the time we issue a letter of engagement which formally sets out what we’re going to do and hopefully within that it does state something about fees....so it explains the basis on which our fees are calculated, so depending on the level of staff involved and their charge out rates, our terms relating to current account invoices, not covered by standing orders are strictly 30 days net – interest and compensation for recovery costs may be charged for all overdue debts at the local rate which is currently the bank of England base rate plus 8%

or the rate at the time of the commercial debts interest act so yes we do have some terms'

Case A_V , p.9. 197-207.

'an attachment to a letter that schedules with some care but not minute detail what I'm going to do, it says the amount of the fee which is often a fixed lump sum, occasionally an hourly rate, I'd love it all to be on an hourly rate but such is life, um is says what the fee is, what, it doesn't include VAT, whether it includes disbursements, or doesn't include disbursements, and I always put in an estimated fee cash flow both from my point of view and theirs so that no one can bleat and say I never expected to get so and so at so and so'

Case S_U_Q, p.7. 151-156.

At a general level, there was plentiful evidence of a systematic, formalised approach to *[Establish terms of business]* which appears to have been partly determined by the **Regulation** influence of professional bodies and their stipulated requirements for firm practice. These findings resonate with those of Wilson and Summers (2002), who found that 48% of firms surveyed always agreed terms in writing prior to sale. The influence of professional bodies was observed across the professions and therefore the *[Professional environment]* was observed as a dominant influence upon *[Establish terms of business]*:

'Well I first of all set out my appointment and we agree the terms of business from the outset....the RIBA set out kind of typical terms of business and its standard for all appointments and it's basically a document that you have to fill out but the thing is its quite a big document, I mean it is a contract, so it's so much to take in that for some jobs or if you know the client well enough, and you're working with a professional client you might not have a standard form of appointment so in most cases, in fact I've never used a SFA (standard form of appointment) I use an exchange of letters, the letter will refer to the terms and conditions of the standard form of appointment to cover things like copyright, what they're actually getting for the service.....I could print off a typical letter of appointment but basically it sets up a % of the potential contract value'

Case A_R_B , p.3. 129-151.

'there's a standard term of agreement and conditions produced by the royal institution of chartered surveyors for project management and there's a standard one produced by the association of project managers which is better and then we get all sort of, it's the classic thing, there's an agreement and a set of definitions the agreement is linking, binding the set of definitions, the services that will be provided in relation to different levels

of service and different types of project and that sort of thing, so I had a look at those very carefully and I decided I didn't like either of them'

Case SU_Q, p.6. 130-136.

As can be seen above, the [*Professional environment*] exerts a considerable structural influence upon firm practice, and is prescriptive with regards to [*Establish terms of business*]. This was also evident within solicitors firms, for example case S_N. However, practitioners' resistance to adopting these agreements in their entirety is also evident, with practitioners reflexively adapting professional body recommendations into a form they consider fit for purpose. Practitioners' evaluations of professional body recommendations identify these prescribed agreements as cumbersome and failing to communicate terms of business clearly and succinctly to clients. The adaptation of these agreements can therefore be observed to be driven by the practitioners need to [*Communicate terms of business to client*], and establish clarity in business terms and payment schedules:

'or maybe there things in it that you couldn't possibly – like there's a pricing, there's something that says – there's two things you can cross out – its either 'we will price it for you or get QS (quantity surveyor) to price it for you' well a QS costs a lot of money for a small client and us pricing it, we can't, we don't have the knowledge to price, so basically just say for smaller jobs once you've got to building regs you can give it to a builder to price. And that's when you know, which is not perfect but for small jobs that's better form'.

Case AR_H, p.3. 140-145.

'now I would say something like that as being the basis of pretty well every appointment, it's the same, sometimes, I mean it really, the definitions are no longer than that, sometimes they're shorter like for example this property developer I deal with in Kent – the services are now the same whatever the project so if you give me the project I write a quick chatty note saying oh well so and so its 5K same services as normal and draw down pattern x, no more than that'

Case SU_Q, p.7. 171-176.

'I set out the terms of business. If they wanted to change the terms of business I mean I'd consider it, unless there's any good reason why I wouldn't do that. I mean you have to kind of, people aren't used to employing architects, many people have never employed an architect, unless they're a professional client like a developer and so you have to educate them as to what you're doing and how you will add value to their house.....you have to make sure they understand the whole process for them

to agree with it so I set out in my letter of appointment what I'm doing, what the services of an architect involve, and how much I'm going to charge'

Case AR_B, p.7. 314-329.

[Client profile] influenced both *[Establish terms of business]* and *[Communicate terms of business to client]*. The extent that agreements are adapted is in part a response to, for example, the *Scale of the job [Client profile]*, whilst the experience and familiarity of the client with the processes involved is captured by the *Type of client [Client profile]*, which partly determines the nature and formality of the agreement between practitioner and client. The practitioner within case AR_B above clearly articulates the need to communicate effectively with clients, and how the informational requirements of the client will vary in accordance with the *Type of client [Client profile]*, and therefore the extent of their prior experience of working with architects. The *[Client profile]* and the *[Professional environment]* are important axial codes when considering *[Establish terms of business]* and related areas of practice.

The importance to practitioners of establishing and formally expressing, terms of business is further highlighted below, where *[Establish terms of business]* acts as a point of reference and protection for firms should problems arise:

'Well, they've got a statement, they've got all our terms and conditions in our engagement letter we say 'terms of payment of amount of invoices not covered by standing order where appropriate are strictly 30 days net – any queries regarding an invoice are to be raised within this 30 day period – that's a little bit tongue in cheek on our part but at least if somebody comes back 6 months later we can throw that back at them'

Case A_w, p.3. 64-69.

'Firstly having an undisputed fee, so that means an acceptable explanation of what's been done and why it has cost what it has. And then you go from there into your credit control procedures – as I said we're talking about our engagement letters – you know queries must be raised within 30 days, you used to find that if you didn't have credit control procedures people wouldn't actually come back to you and say 'I'm not happy with that' they just wouldn't pay it.'

Case A_w, p.10. 239-244.

In the case above, the potential for disputes regarding the fee and the implications for *Client satisfaction [Client attributes]* provides an incentive for the practitioner to have clearly expressed terms of business, and an explicitly defined time period within which queries associated with the work must be raised. Howorth and Wilson (1999) similarly identify *[Establish terms of business]* in this context provides acknowledged protection in the later stages of fee collection for the practitioner and firm, whilst further evidence below adds an additional dimension in understanding and mapping the actual practice of respondents. The consideration and interaction of *[Client attributes]* and *[Client profile]* can be observed to create proactive, collaborative responses within practice that extend to *[Determine payment method]* and include the level of information provision for *[Establish terms of business]*:

'I sort of say 'this is the price for doing it and it covers me for a year so you can phone me and ask questions.....there's never any surprises or I try not to let there be any surprises. They will know how much the invoice is for before it comes along because we've agreed a fee and the fee doesn't change and if it does change at any point they know in advance, there's never any surprises coming along'

Case A_U, p.9. 207-217.

'We will offer clients the chance to pay by direct debit standing order so if a new client comes in, just to help them sometimes because it allows them to spread the cost equally over the year, we can give them an estimate of what we think the annual cost is going to be so they can set up a standing order and pay that divide that by 12 and pay that off and perhaps have a one off top up bill to cover any additional costs that have occurred during the course of the year. That helps us because we can get a regular income stream from that because they then haven't got to go out and.....sometimes on smaller businesses to fork out a one off cost....'

Case A_V, p.10. 247-256.

[Establish terms of business] provides the opportunity to formally state payment terms, and provide the client with fee information. Facilitating *Client control of costs [Client attributes]*, and consideration of the impact upon *Client cash flow [Client attributes]* is considered relevant for practitioners when establishing terms, as is offering different payment methods, *[Determine payment method]*, to a *New client [Client profile]*, and small clients, *Size of client [Client profile]*, in order to avoid potential payment problems. This collaborative, proactive approach is also evident when considering how practitioners *[Agree fees]*:

'what will happen with a new client is...somebody runs a company, you're not going to be able to produce accounts for the first year and then file them two months after so it could be x months down the line so perhaps I'll do some number crunching work for you – so in that sense you probably don't bill for quite a while and what costs you might have incurred in the meantime you probably write off because you might just send one bill initially if you've helped with the company formation then there'll be a bit of a breather so they get a fairly hefty discount in the first year.....Goodwill it's a question of goodwill – obviously it's a case of being there and giving them some confidence, perhaps it helps them to some extent if their income stream is fairly low at the time, the last thing...they're aware that they have to pay accounts and things but it can be difficult'

Case A_V, p.18. 413-430.

The practitioner's objective to establish goodwill with the client demonstrates the causal influence of the *[Client firm relationship]* upon *[Agrees fee]* and partly explains the discounted fee in the first year, again indicating a collaborative approach mindful of the operating conditions for firms in their initial years of formation. However, commercial **Motivation** that reflects the nature of the *[Competitive environment]* is also implicitly associated with the agreement of fees and determination of terms of business and was apparent for the practitioner below:

'well architects talk to each other and I know that when I was working for a practice, the practice downstairs actually, they used to, they'd work out the RIBA hourly rates and then they straight away just take 20% of everything and it didn't matter.... because we're aware it's a competitive process...I mean you hear stories of people actually buying jobs and when they say they've bought a job it means they've put in a fee quotation which they can't actually, they can't do it for the amount they're being paid for it so they're making a discount and it's like a loss leader. You know, they want the job because it might be a very prestigious job and it might bring in other jobs so, or they want this particular clients business so they on the first job they might go in incredibly cheap where they can't actually deliver the service for that price but they just want the business'

Case AR_B, p.12. 571-593.

A variety of factors captured by the *[Competitive environment]* are apparent above and reflect the desire to win particular jobs, even at a loss, in the expectation that this may prove beneficial in securing future business, highlighting the causal influence of *[Client profile]*. For case S_N, changes in the nature of the *[Competitive environment]* posed potential challenges with the expansion of supermarkets into the provision of professional services.

'They're not all like that but they almost regard discussing fees and money as slightly dirty words, I think where its changed is that up until the 1980's it was this sort of, there was not much competition, you couldn't necessarily charge what you want but large scales of fees, plenty of work, generally um and they could afford to do that because property prices were very high and then competition increased, affected the fee scales and competitions started to affect all our lives and that means to my mind we have to be mindful of this as well and some people slightly raised their eyebrows but my argument is that I'm going to be partially managing your money so why shouldn't I mention my money as well?'

Case SU_Q, p.16. 394-401.

'Yeah I know that you know on something like this that although the RIBA say 12% because I've done so many of these jobs before because I know all of the builders in the area I know that I'm not going to have to, I'm not cutting corners, but the lessons I've learnt of previous jobs apply to this one so I can be more efficient and so I can afford to go in cheap and I know I'll get the job'

Case AR_B, p.12. 597-603.

Practitioners can be seen to be responsive to changes, for example in adapting provision of cost information in accordance with client demands, and the revision of fee scales. In terms of *[Agree fees]*, unsurprisingly the *[Competitive environment]* is a dominant influence with practitioners acknowledging the impact of competition upon fees and recognising the sometimes complex **Motivation** involved in securing a job. Interestingly, the surveyor in case SU_Q above indicates that explicit, upfront discussion of fees and payment arrangements was considered by participants to be a difficult aspect of business, but that they found it useful to establish this at the outset.

In addition to the *[Competitive environment]*, *[Practitioner attributes]*, can also be observed in case AR_B above as a causal influence upon *[Agree fees]*, with *Practitioners experience* and increased efficiency allowing fees to be discounted to secure clients. Similarly a range of *[Firm attributes]* were identified that influenced *[Establish terms of business]* and related aspects of practice. For case AR_C below the *Firm experience [Firm attributes]* of previous payment problems prompted a tightening up of procedures and the introduction of guidelines for clients regarding fees:

'I think it's probably fair to say now, is that's quite an old example and we have tightened up our organisation considerably. Going through the IIP

process, investing in people. We're working towards QNS, but in order to overcome problems that you might experience a few years ago, you wouldn't embark on a project without actually giving them an accurate guide of what fees might be. Because there's some clients who you get very friendly with, you just do the work and then give them an account, well we don't do that now'

Case AR_C, p.2. 95-107.

As well as firm practice responding to **Experiential learning**, technological advances, *Use of IT [Firm attributes]*, have brought about improvements in firm efficiency and instigated changes in fee scales:

'interestingly when you look at the way we do conduct work now, fees probably have come down or stabilised because a) the clients now – computers have made a big difference so clients can keep much better records themselves so our involvement in the record keeping side is becoming less and we can generate in house soft ware that allows us to so that accounting work if we need to do it much quicker in terms of accounts production the software again allows us to work more efficiently as well... we tend to do jobs quicker – you find you can get in a job, turn it round and get it out signed, billed within say a three week period and for some reason you make more money on that than if it had taken six weeks'

Case A_V, p.15. 359-370.

The *Size of the firm [Firm attributes]* is an important determinant for the practitioner in case A_U, who identifies a camaraderie with clients, who are characterised as being '*small and beautiful clients*'. The practitioner identifies how they believe *[Firm attributes]* have had a causal influence upon the *Type of client [Client profile]* and how the smallness of the firm has enabled a relatively lower fee scale:

'ok my background is chartered accountant, I've always been in practice – I started up my own practice a year and a half ago now, I suppose two years and the clients I have are small clients but I generally have – the people who come to me are female clients, quite a few gay clients, clients that don't want to go to a middle class, white, middle aged man, specifically people who...a lot of larger firms don't want my clients because they've got large overheads, so small and beautiful clients that perhaps other practices don't really want'

Case A_U, p.2. 42-48.

'you generally get people who – they just want somebody they can talk to, kind of like a friendly place and generally you ask them, and they say less than they expected it to be – I think I'm quite well priced because my

overheads are quite low and I'm just starting out and I'm like the human face of accountancy'

Case A_U, p.4. 77-81.

For the cases above firm experience, size, and use of technology have all influenced in some way, [*Establish terms of business*] and related aspects of practice. Finally, in the case below the *Ethical motivations of firm* [*Firm attributes*], coupled with [*Areas of practice*] can also be seen to influence [*Agree fees*], with the specific nature of the project determining the fee scale and form of agreement:

Often these are special needs cases so that if you've got - usually a member of the public or a child who has either learning difficulties or physical disability, they will be entitled to assistance from the local authority for house adaptations or major works. And we would historically we are interested in doing that sort of work because it's a good thing to do basically from an ethical point of view rather than financial.....So there's no - there's a maximum fee scale that they would normally accept which is 15% of the construction cost.'

Case AR_C, p.9. 491-504.

6.2.4 Establishing terms and agreements: Summary

Discussion of [*Establish terms of business*], [*Communicate terms of business*], [*Agree fees*] and [*Determine payment method*], has focused upon the nature and content of agreements drawn up at the outset of client engagement. Perhaps unsurprisingly, all practitioners referred to the use of initial agreements to some extent. Agreements were often adapted from professional body prescriptions, and the importance of communicating terms effectively was highlighted particularly for architects, solicitors and surveyors. Axial codes situated across the environmental levels captured influences upon firm practice, with [*Professional environment*] and [*Competitive environment*] featuring strongly, particularly with reference to fees and the regulatory influence of professional bodies.

In addition, both [*Firm attributes*] and [*Practitioner attributes*] have been discussed highlighting idiosyncratic firm practice as well as shared characteristics. Practice within some of the firms has evolved in reaction to payment problems, whilst for most firms a formalised, normative agreement with the client is a long established aspect of practice. Axial codes capturing the causal influence of clients were observed with practitioners discussing, for example, how [*Establish terms of business*] was adapted in sometimes

collaborative and accommodating ways. The causal influence of *[Client attributes]* and *[Client profile]* reflects the commercial **Motivation** and assessments of **Risk**, with the formality and content of agreements adapted for the type of client, and in order to meet their perceived informational needs.

Wilson and Summers (2002) investigation of trade credit terms explores why terms are varied; this is considered in more depth within discussion of *Management of amounts owed*, however it is worth highlighting here that they similarly identify customer related reasons as a key influence upon terms, which reflects the use of credit as a competitive tool. They particularly identify the influence of repeat and dominant customers in the extension of existing credit periods, and determination of terms. The dominance of clients was not an issue raised by practitioners when setting the terms of business initially, yet for *Repeat client [Client profile]* practitioners adapted agreements and were happy to engage with less formal terms. However, as previously noted, this will be considered further when discussing the *Management of amounts owed*, where the extension of credit periods in relation to, amongst other things, *[Client profile]*, is an issue that is explored.

As identified at the beginning of this section, there is sparse research in this area of firm practice in SMEs. However Chittenden et al (1998) identify a lack of emphasis upon front end trade credit management and Howorth and Wilson (1999) identify the importance of establishing payment terms prior to sale in mitigating the problem of late payment. For the practitioners interviewed within this research, the establishment of payment terms was generally undertaken in an appropriate and effective manner, with practitioners mindful of the need to communicate clearly with clients and create formalised agreements that could potentially afford them some protection should payment not be forthcoming in the future.

Within the analysis organising meta-level constructs emerged. Firm practice demonstrated the role of formal agreements, often determined by the *[Professional environment]*. However the **Regulation** of practice by social structures situated within firms operating environments was not simply imposed; practitioners exercised their individual agency and adapted agreements into appropriate forms. The need for clarity in agreements and their functionality in avoiding payment issues was also clear, as practitioners through **Experiential learning** reflected upon previous problems and the protection that clear unambiguous agreements afforded them and facilitated the proactive management of **Risk**.

Finally, *Motivation* provided an important embedded explanation of the causal influence of client related axial codes with practitioners focused upon long term commercial potential, adapting fees and agreements accordingly. The inter profession, cross case analysis of the Negotiation of terms of business will now consider the final aspect of firm practice, the payment period.

6.2.5 Payment period

Aspect of firm practice	Case Identifier
[Determine payment period]	Accountants: A _U , A _V , A _W
	Architects: AR _C , AR _F , AR _H
	Solicitors: S _A , S _N
	Surveyors: SU _E , SU _L , SU _M , SU _Q

Table 6: Axial Coding of Firm Practice: Payment period.

[Determine payment period]

The final aspect of practice to be considered within *Negotiation of terms of business* is *[Determine payment period]*. For the purposes of this research, this refers to the payment period as stipulated within the initial agreement with the client. Previous research has investigated the frequency of review of the debtors' payment period (Peel and Wilson, 2000; Peel and Wilson, 1996) within firms but a key consideration of research within this area is the exploration of the influence of industry norms. Indeed, Wilson and Summers (2002, p.333) identify that the 'offering of particular credit terms is often put down to standard industry practice'. Within their research, Wilson and Summers (2002) gathered respondents perceptions regarding the influence of industry norms upon credit terms, and found that small firms were under considerable pressure to conform to these standardised conventions.

Similarly, Jarvis et al (1996, p.36), in a consideration of rationality in credit decisions in small firms, identified that 'credit periods allowed to customers were often strongly influenced by industry wide norms' and that 'shared expectations' amongst those in the industry 'provide reasons for action which lie outside the calculation of costs and benefits'. Jarvis et al (1996) further discuss how industry norms act as a guide to the determination of the credit period, yet how under particular circumstances the credit period might be altered,

for example in reaction to the perceived risk, or relative power of a particular client. These findings resonate with this research, as will now be explored.

As previous research has suggested, [*Industry norms*] can be observed as a dominant influence upon [*Determine payment period*] for practitioners across professions. [*Industry norms*] also captures *Historic precedent*, as this reflects an aspect of practice often passively accepted within the firm, and based upon a perception of external industry norms and practices.

'because it's sort of like a standard credit facility most of the firms give people 30 days credit I think that's what we have always been doing and we never changed it, I personally think because for example in July we do the work during the July and we invoice at the end of July'

Case SU_L, p.5., 112-114.

'Because I think it's a perfectly reasonable amount, I think 14 days is really pushing it much as I'd love to be paid quicker but I think any longer than 30 is too slow and it seems to be the convention about so many things. You can't relate it to any business cycle from my point of view it's not related to the way I might work or anything like that, it just seemed to be the norm'

Case SU_Q, p.9., 216-220.

'30 days purely because I see it on all the invoices I get. I mean we have changed that a little bit, we now put 'interest payable on overdue accounts''

Case SU_E, p.4., 208-209.

'and we allow 30 days so really by the time the invoice has been raised the moneys due really. Its historical. Trading in sort of pattern. And some people we work for, they have similar ones where they pay at the end of the month following the month of invoice. So if you sent an invoice out in say February then would expect to pay at the end of March. Just an old fashioned way of doing things. A month after the trading month.

Case AR_C , p.10, 628-638.

There is plentiful evidence of the persuasive influence of [*Industry norms*] upon [*Determine payment period*] that is formally stated within firms' terms of business. Payment periods are determined and perpetuated with reference to the observed practice of others and perceptions of payment *Norms*. When establishing payment periods and business terms there is therefore evidence to suggest firms consider the practices of their

suppliers and clients, offering terms to match trading conditions. The influence of normalised expectations can be seen where, despite shorter payment terms being stipulated by a firm, action is only taken when payment falls outside of the perceived [*Industry norm*]:

'yes its actually 14 days for invoice but we don't, I mean we tend to run to 30 days, but it is stated on the invoice its 14, and interest does start accruing at 14 days. We charge interest if they don't pay after the 14 but what normally would happen is the first time its gets crossed out, where its left on the invoice but we cross it out to give them warning that it's there but we're not looking for it because it's under 30 days, because I think generally 30 days is an acceptable time scale for paying accounts, most people say 30 days'

Case AR_F, p.3., 166-175.

Across the professions, solicitors made fewer references to [*Industry norms*] in [*Determine payment period*]. However, there was some evidence to suggest the implicit influence of *Norms* as payment periods for two cases, case S_A and case S_N, appeared to represent practitioner assumptions of what was considered acceptable. Case S_A also illustrated how the practitioner determined the payment period following consideration of the *Type of Client* [*Client profile*], and the associated risk with the receipt of payment, and the impact upon the VAT payable. For solicitors therefore, [*Industry norms*] appeared less persuasive.

A minority of practitioners demonstrated a lack of reference to [*Industry Norms*], instead requiring payment on demand, depending upon the [*Areas of practice*] and the opportunity to exert leverage over the client:

'we're kind of doing it as we go along I guess. I mean we have been like...on a flat we get banking enquiries from the solicitor but we usually say we're not going to answer that question until we get the money'

Case SU_M, p.7., 150-153.

Some payment periods are determined largely by the nature of the processes involved in a particular [*Areas of practice*] and are the product of this rather than the influence of norms:

'and all our maintenance properties have their own individual bank account which we have full control. Now our money we get rent commission which we take and remit the balance to the landlord so we don't have any problem with that.....But some of our fee work – we might have you know we do have fee work – where we would do the work before we get money in so we do have a few'

Case SU_M, p.3., 52-61.

In general terms, there appears to be a willingness to adopt practices considered to be in line with [*Industry norms*] and the approach used by both clients and suppliers; [*Industry norms*] are therefore a key factor influencing the formal expression of a firm's payment period. These **Norms** are entrenched by a desire to conform to accepted practice and client/supplier expectations. It is this wish to conform that explains the influence of [*Industry norms*] upon the *Negotiation of terms of business*, as Jarvis et al (1996, p.9) identify 'actors act in certain ways because there are social norms regulating behaviour'. [*Industry norms*] therefore are explained by the organising meta-level construct **Norms** and represent an important influence upon [*Determine payment period*]. Jarvis et al (1996) note the importance and influence of [*Industry norms*] upon the credit period, concluding that the 'credit decision' is driven by convention, providing an example of procedural rationality. This research therefore resonates with these findings, and those of Curran et al (1997) who found instrumental, procedural and expressive rationality had a role to play in small firm owner manager practices.

However, despite the acknowledged impact of [*Industry norms*] upon formal expressions of a firm's payment period, their real impact is limited. In practice, numerous other factors influence the *effective* payment period, so that formal credit terms are rarely applied. For example, *Repeat clients* [*Client profile*] are offered the same formally expressed, payment period as other clients but there is evidence that they are extended longer credit periods, perhaps partly due to commercial **Motivation**, partly to the mitigation of **Risk**. Similar influences are also observable when considering the *Type of client* [*Client profile*]:

'Not at all, we don't really strictly apply 30 days to anybody. We will send out a reminder to – I mean, one off clients, yeah, we'll send out a reminder on the 30days. But to our repeat clients, yeah, they can probably have up to two months'

Case SU_E, p.8. 420-425.

'Um most people pay in the region of 30 days, I wouldn't expect them to pay any quicker because also I have to say conventional property developers will hang it out a bit longer with my previous hat on I would say that most property developers tend to pay between 60-90 days um I would find 90 intolerable, 60 I could live with, so I think I have to say whatever the letter says that it is applied very subjectively rather than objectively'

Case SU_Q, p.9., 208-212.

6.2.6 Payment period: Summary

Although Jarvis et al (1996) acknowledge that credit norms were not always observed, citing examples whereby administration procedures, perceived risk and the power of the customer obviated their influence, this research adds to our understanding of the actual impact of [*Industry norms*] upon practice. There is evidence to suggest that the interplay of commercial **Motivation** and evaluations of **Risk** impact upon the determination of actual credit periods to a greater extent, and that the real impact of [*Industry norms*] is in effect limited to formally identified payment terms which are applied to few clients. This will be explored in more depth in the following chapter, concerning the *Management of amounts owed*.

The above discussion has highlighted the nature of the causal influence of [*Industry norms*] upon [*Determine payment period*]. Formal expressions of payment periods reproduce the social structures, **Norms**, of which practitioners demonstrate awareness. **Norms** are therefore instantiated and entrenched through the actions of practitioners. However, the actual application of [*Industry norms*] reveals how **Risk** and **Motivation** reflect informal dimensions of practice that demonstrate the agency of practitioners and their reflexive responses to imposed [*Industry norms*]. Practitioners might formally state their payment periods in accordance with perceptions of [*Industry norms*] but their ability to act otherwise is evident. Inter profession cross case analysis of the *Negotiation of terms of business* will now conclude.

6.3 Negotiation of terms of business: Conclusions

As identified earlier, the *Negotiation of terms of business* is concerned with the initial stages of dealing with clients, with firm practice and decision making broadly concerned with the initial evaluation of the risks associated with clients, the establishment of

agreements with clients, and the determination of payment periods. Discussion of firm practice firstly considered front end evaluations of risk, and the decision to take on a client or case. With some notable exceptions, previous research concerning credit management practices within small firms has tended to adopt a deductive, quantitative approach reliant upon surveys to establish the uptake of working capital routines (Peel and Wilson, 1996; Peel et al, 2000). Such research may provide information regarding the adoption of formalised practices, but does not intend to unveil the complexity of actual firm practice and the significance of informal approaches. The importance of both formal and informal client evaluations was highlighted across accountants, surveyors and architects. However, despite practitioners demonstrating awareness of 'best practice', formal techniques to evaluate clients, informal approaches were considered superior in terms of the quality and usefulness of the information provided. Research concerning the uptake of formal trade credit management practices will record just that; what has emerged from practitioner accounts of practice within this research is the perceived utility of the information gathered through informal mechanisms, and practitioners' preferences for such approaches. The application of informal rather than formal techniques to *[Evaluation of client]* does not therefore necessarily imply un-informed or naive trade credit management practice.

Surrounding practitioners' *[Evaluation of client]*, axial codes captured causal influences. Within the firms internal operating environment both *[Practitioner attributes]* and *[Firm attributes]* highlighted the influence of practitioner experience, intuition and objectives, particularly in relation to informal approaches that provided the flexibility to incorporate complex objectives, not solely concerned with profit maximisation. There was also evidence to suggest that perceived negative associations with the use of credit checking were considered important enough to take clients on trust, thus maintaining a particular public image. Similarly, within the firms operating environment the causal influence of client related codes, for example the *[Client firm relationship]*, indicated the importance of building client trust and providing for the reciprocal evaluation of both client and firm, which reinforced the importance of the initial, informal first meeting. However, client related codes were also seen to instigate the adoption of formalised approaches, whereby, for example, *[Client profile]* signalled information to the practitioner regarding **Risk**, and prompted the up-take of formalised evaluation methods where considered appropriate. Additionally, the causal influence of axial codes within the operating environment for the firm promoted the adoption of formal techniques, with firms responding to the **Regulation**

influence of institutional structures. Finally within the operating environment, the causal influence of the [*Competitive environment*] was observed, where the **Motivation** to secure new clients superseded the [*Evaluation of client*], with the practitioner accepting of the implications for the **Risk** of non payment.

The [*Evaluation of client*] was an important aspect of practice for accountants, architects and surveyors. However, for solicitors [*Risk assessment of case*] was central to their evaluations, rather than the client, highlighting a distinct difference in practice across the professions. Assessments were undertaken with reference to [*Areas of practice*] as an important indicator of the **Risk** inherent with accepting the case, with fees adjusted accordingly. Whilst there was some evidence of general, formalised practice, there was also evidence to suggest this was considered little more than a procedural, box ticking exercise of secondary value to the information obtained from discussion with a potential client. A dominant aspect of the *Negotiation of terms of business* for solicitors, which reflected more generalised considerations of risk when taking on clients, was the [*Decision to request money on account*], which was an aspect of practice also referred to by some accountants and architects.

All solicitor firms made initial requests for money on account, or made reference to such requests, as part of their approach to the *Negotiation of terms of business*, and this appeared to constitute an anticipated and long established feature of business. Again for solicitors [*Areas of practice*] was a key determinant of the funds requested, reflecting the **Risk** associated with a particular case and the nature of the process for securing payment. The experience of both the firm and the practitioner was also important to the [*Decision to request money on account*], with **Experiential learning** at a practitioner, [*Practitioner attributes*] and firm level, [*Firm attributes*], both contributing to firm practice. On-going requests for funds were also made by solicitors firms, which reflected the dynamics of client-firm interactions and practitioners' implicit evaluation of clients, based partly upon tacit expectations of client payment behaviour, determined in part by the [*Client profile*]. Requests for funds provided the mechanism by which practitioners signalled to clients the incurrance of costs, tested client payment intentions, and exerted a degree of **Power** over the client through the leveraging of payment. The [*Decision to request money on account*] therefore allows practitioners to manage *Client expectations* [*Client attributes*], and proactively engage with clients' payment behaviour.

Further evidence highlighted a collaborative dimension to the firms decision, highlighting how frequent requests for funds allowed clients to manage cash flows, and were therefore in part a response to *Client preferences [Client attributes]*. Whereas for solicitors the *[Decision to request money on account]* could be considered as established practice embedded within payment *Norms*, for the minority of practitioners within accountancy and architectural firms who referred to the *[Decision to request money on account]*, there was a reluctance to adopt such an approach, with requests perceived to be potentially damaging to the *Firm reputation [Firm attributes]*, or involving a disproportionate investment of firm resources, *[Firm attributes]* in complex fee arrangements.

The above discussion has reviewed the initial evaluation of clients within small professional firms, demonstrating its importance within firm practice, the role of informal approaches, and highlighting differences across the professions. Practice extends beyond that of formal techniques, and the causal influence of axial codes can be observed within the complex client evaluation and decision making of practitioners. The next area within the *Negotiation of terms of business* that was analysed concerned the establishment of terms and agreements, and the discussion shall now turn to a review of this area.

Evidence regarding the establishing of terms of business within small firm practice is limited, but research has considered the trade credit terms offered by SMEs and the importance of establishing payment terms prior to sale (Wilson and Summers, 2002). Generally, across the professions there was plentiful evidence of normative, formal practice in line with what might be considered 'best practice'. The influence of the *[Professional environment]* was a particularly dominant causal influence upon firm practice, with professional bodies prescribing approaches for practitioners to adopt in a regulatory manner. However practitioners' resistance to the use of these agreements in their lengthy, full form was also evident, with agreements adapted into appropriate versions, fit for purpose and with the ability to communicate terms clearly and succinctly to clients. The circumstances and characteristics of each job determined the extent to which agreements were adapted, with *[Client profile]* an important causal influence in terms of the nature and formality of the agreement. Additionally, practitioners widely recognised the importance of clearly expressed terms of business for the avoidance and prompt

settling of payment disputes, from their perspective, and from that of *Client satisfaction* [*Client attributes*], findings which resonated with existing research.

Discussion of [*Establish terms of business*] surfaced the causal influence and interaction of [*Client profile*] and [*Client attributes*] that generated proactive and collaborative responses from practitioners, whereby the information provided to clients was designed to enable them to manage costs and cash flows, thus avoiding payment problems. Similarly, there was some evidence to suggest that attempts to establish an ongoing [*Client firm relationship*] influenced the charging of fees in the initial stages of the relationship, highlighting a collaborative approach mindful of the operating conditions for firms in their first years of formation. However, it is also likely that long term commercial **Motivation** is implicitly associated with the agreement of fees and the determination of terms of business. Indeed, the causal influence of the [*Competitive environment*] highlighted how the evolving nature of the market place and increasingly competitive conditions sometimes meant that fee scales were revised and jobs taken at a loss in the hope of securing future business.

Within the internal environment both [*Firm attributes*] and [*Practitioner attributes*] captured causal influences upon the agreement of fees with clients. The experience and efficiency of practitioners was perceived to allow them to charge lower fees, whilst experience of payment problems prompted increased clarity for clients regarding fees. The *Size of the firm* [*Firm attributes*] was attributed to the ability to set competitive fees, and attract particular types of clients, [*Client profile*], with whom collaborative, emphatic relationships were established.

Discussion of the establishment of terms of business has identified the uptake of formalised practice, with all practitioners referring to some form of initial agreement with a client. The use of formal agreements is in part driven by the causal influence of the [*Professional environment*], but these agreements are often adapted in order to provide effective means of communication in a manner appropriate to the nature of the job. Axial codes from across environments have captured influences upon this aspect of practice, with firm approaches developing with both shared characteristics and idiosyncratic dimensions. Within the existing research, customer related reasons are identified as a key influence upon terms, reflecting the use of credit as a competitive tool, and highlighting the influence

of repeat and dominant customers (Wilson and Summers, 2002). Evidence within this research suggests that whilst dominance was not explicitly referred to by respondents, the influence of *Repeat clients [Client profile]* was clear, with agreements adapted accordingly and formality slackened. Practitioners generally appeared to approach the establishment of payment terms in appropriate ways, with the need to communicate effectively with clients a primary concern and the importance of formalised agreements in affording payment protection recognised.

The final aspect of the *Negotiation of terms of business* to be considered was [*Determine payment period*]. A key consideration of research within this area has been the exploration of the influence of [*Industry norms*], with the credit terms offered often attributed to standard industry practice. Research also acknowledges how under particular circumstances the credit period might be altered, which resonated with the findings of this research (Jarvis et al, 1996). Indeed, [*Industry norms*] were identified as a dominant causal influence upon the payment period with payment periods determined and perpetuated with reference to the observed practice of others and perceptions of payment *Norms*.

For solicitors, the causal influence of [*Industry norms*] was less persuasive, whilst other evidence was presented whereby the payment period of firms was determined following consideration of [*Client profile*] and therefore the associated risks. In general terms, there was a willingness to adopt formal expressions of payment periods that were consistent with [*Industry norms*] and entrenched through a desire to conform to both accepted practices and the expectations of both clients and suppliers. However, the real impact of [*Industry norms*] upon the payment periods of firms was seen to be mitigated by a number of causal influences, so that the formally expressed credit terms were rarely applied. *Repeat clients [Client profile]*, were informally extended longer credit periods and particular *Types of client [Client profile]* were also subject to the informal imposition of varying payment periods. This research therefore adds to our understanding of the actual impact of [*Industry norms*] upon practice, with evidence suggesting that the interplay of commercial *Motivation* and evaluations of *Risk* impact upon the determination of actual credit periods to a greater extent, with the real impact limited to formally expressed payment terms imposed upon a limited number of clients.

The above discussion reviews the cross profession analysis of the *Negotiation of terms of business* that has surfaced informal and formal small professional firm practice, and highlighted the influence of axial codes and the complexity of practitioner decision making. Organising meta-level constructs provide an additional dimension to analysis with regards to the causal influence of the axial codes. The concluding discussion above has highlighted clearly how a number of the axial codes signal information to the practitioner regarding **Risk** when dealing with the *Negotiation of terms of business*. For example, when evaluating clients, the *[Client profile]* is perceived to signal to the practitioner information concerning **Risk**, as does the *[Area of practice]* for solicitors when assessing the **Risk** of a case, or deciding to request money on account. **Risk** also partially explains the causal influence of, for example, the *[Client profile]* upon *[Establish terms of business]*. At a meta-level **Risk** is therefore central to explaining the causal influence of numerous axial codes upon different aspects of the *Negotiation of terms of business*. The inter play of **Risk** and **Power** can be observed when considering the *[Decision to request money on account]*, with the opportunity to exert **Power** within the client-firm relationship offering an additional explanation for firm requests for funds.

The regulatory influence of the *[Regulatory environment]* and the *[Professional environment]* was highlighted when practitioners undertook evaluations of clients and in particular when *[Establishing terms of business]*. **Regulation** at a meta-level provides a useful concept in understanding the causal influence of these aspects of the macro and operating environments. Also within the operating environment, *[Industry norms]* was identified as a key axial code in terms of formally expressed payment terms, with **Norms** at a meta-level providing a generic explanation as to the causal significance.

A number of client related axial codes were observed as significant influences upon the *Negotiation of terms of business*, and as has been discussed above contributed significantly to evaluations of **Risk**. However, as well as directly allowing practitioners to evaluate **Risk**, the information signalling qualities of these axial codes also allowed practitioners to develop their **Knowledge of client**, with practitioners anticipating potential payment behaviours and adapting practice accordingly. The **Knowledge of client** is therefore an additional organising meta-level construct that explains the causal significance of axial codes, including beyond those that relate directly to clients, for example *[Areas of practice]*.

Consideration of both [*Firm attributes*] and [*Practitioner attributes*] highlighted how the previous experience of practitioners and experience within the firm, shaped approaches to the *Negotiation of terms of business*. Practices were formalised and adapted, for example with regards to the evaluation of client or decisions to request money on account, demonstrating how through ***Experiential learning*** the approach of the firm developed. At a meta-level therefore ***Experiential learning*** explains the causal significance of the aforementioned axial codes. The causal influence upon the *Negotiation of terms of business* of, for example, the [*Competitive environment*] and the [*Client firm relationship*] can be explained with reference to commercial ***Motivation***, with ***Motivation*** providing an additional meta explanation of the influence of the axial codes upon firm practice.

Finally, at a meta-level the causal influence of axial codes can be explained by ***Expediency***. The axial codes inform practitioners and allow them to direct resources to their most efficient use, in the most appropriate manner, but not necessarily in accordance with what might be considered optimal. Often informal practices are considered to dominate formal practices in terms of their effectiveness and appropriateness, whilst ‘best practice’ approaches are adapted to be fit for purpose. The causal influence of the axial codes can also, therefore, be explained as expedient.

This chapter has been concerned with how practitioners approach the *Negotiation of terms of business* and has provided an inter profession, cross case discussion of approaches and practices within small professional firms. Discussion will now consider practice within the central area of the organising framework of the cross profession diagram, *Management of amounts owed*, in a similar manner within the following chapter.

Chapter 7: Cross Profession Analysis: Management of Amounts Owed

7.1 Introduction

The *Management of amounts owed* forms the central section of the organising framework, and captures aspects of practice primarily concerned with the ongoing payment relationship with the client, and subsequent implications for the firm. Decision making within these parameters has been observed to revolve around billing clients, extending credit, and financing the firm. As well as decision focused aspects of practice, functional areas emerged that captured practitioners' actions at a generalised level. In particular, practitioners referred to aspects of practice that related broadly to the organisation of credit management, and to the management of work in progress. This section of the chapter is structured accordingly, organised around functional aspects of practice, and those areas where decisions are commonly taken. As with chapter 6, this chapter is summarised by the central section of the intra profession diagrams, and the central section of the inter profession, cross case summary diagram. These diagrams therefore again provide a point of reference for this chapter. Following consideration of existing research findings, discussion of [*Management of amounts owed*] will begin with consideration of a functional area of practice whose relevance and importance can be seen across the professions; [*Organisation of credit management*].

7.2 Management of amounts owed

As previously established, qualitative research investigating the trade credit management practices of small and medium sized firms is scarce. A large proportion of the research is primarily concerned with the empirical testing of theories of trade credit extension, for example, Petersen and Rajan (1997); Wilson and Summers (2002), or the gathering of descriptive empirical data concerning working capital management practices through the use of surveys, for example, Peel and Wilson, (1996); Peel et al (2000). Howorth and Wilson (1999, p.310) used case studies to complement survey data and provide further evidence regarding the association between late payment by small firms and credit

management practices, the dominance of customers, and the use of trade credit by customers as a form of finance. Howorth and Reber (2003) also combined quantitative data with findings from case studies when considering small firms and the late payment of trade credit, in a demand side consideration of trade credit. However, the investigation into working capital management practices was largely dependent upon establishing the emphasis placed upon the area, with respondents asked ‘to indicate the frequency with which they reviewed eleven areas of working capital’ (Howorth and Reber, 2003, p.475). Chittenden et al (1998) provided interesting empirical findings regarding working capital management within small firms, identifying the factors respondents considered most important in determining credit decisions. These findings will be considered within subsequent discussion.

In contrast to quantitative approaches, Jarvis et al (1996) utilised an inductive, grounded theory approach to the investigation of cash flow management and explored rationality within credit decisions and the setting of credit periods. Similarly, this research offers rich, qualitative data that surfaces firm practice inductively from practitioner accounts of the *[Management of amounts owed]*, and explores the complexity of their credit management practices and decision making situated within the context of the firm. Findings, where appropriate, will be considered in light of research. Inductively grounded explanations for the extension of trade credit and the credit period offered that are emergent from the case studies will be considered against those deductively derived theoretical explanations that might resonate, whilst both formal and informal credit management practices adopted, and the causal influences upon their uptake, will be explored across profession. This discussion should therefore allow a more in-depth understanding of trade credit management practices utilised by practitioners to develop, alongside inductively derived causal explanations that reflect complex motivations. This chapter begins with consideration of the *[Organisation of credit management]* and closely related aspects of practice.

7.2.1 Organisation of credit management

Aspect of practice	Case Identifier
[Organisation of credit management]	Accountants: A _U , A _V , A _W
	Architects: AR _B , AR _C , AR _F , AR _H
	Solicitors: S _A , S _I , S _N , S _R
	Surveyors: SU _E , SU _L , SU _Q
[Cash flow planning]	Architects: AR _B , AR _F
	Surveyors: SU _L , SU _M , SU _Q
[Management of client costs]	Solicitors: S _R

Table 7: Axial Coding of Firm Practice: Organisation of Credit Management.

[Organisation of credit management], [Cash flow planning] and [Management of client costs]

Perhaps unsurprisingly, the majority of practitioners, across all professions, referred to practices that could be attributed to the *[Organisation of credit management]*. Within discussion of the *[Organisation of credit management]*, two other related aspects of practice will be considered, that of *[Cash flow planning]* and *[Management of client costs]*. For some practitioners *[Cash flow planning]* and *[Management of client costs]* were recognised as distinct areas of firm trade credit management practice, yet these are also intrinsically related to the *[Organisation of credit management]* and so are therefore situated within this discussion. As noted above, the *[Organisation of credit management]* is a functional area of practice and the discussion reflects this, focusing upon practices adopted by practitioners and the extent to which these have been formalised. It is worth noting initially that for all firms within this research, what Paul and Boden (2008, p.274) refer to as the ‘locus of management’ with regards to trade credit is wholly situated within the firm. Practitioners interviewed referred to the nature of the organisation of the credit management function within a firm and the degree of centralisation, which reflected a range of axial code influences, and is where discussion of the *[Organisation of credit management]* begins.

From across the professions, only two practitioners made very little reference to the *[Organisation of credit management]* which was clearly the result of the particular areas of practice that firms dealt with that were distinctive from those of the other firms within the profession. For case A_T, the accountancy practice primarily dealt with insolvency, whilst for case S_U_M the firm of surveyors largely acted as a letting and management agent. In these particular circumstances, credit was either not often extended, or the payment processes so tightly defined by the nature of the arrangement that credit management in itself was deemed unnecessary and payment considered a foregone conclusion, to be received at the appropriate point in the interaction:

'We have a bank account for maintenance standing orders, a bank account for rent standing orders, and all our maintenance properties have their own bank account which we have full control. Now our money, we get rent commissions which we take and remit the balance to the landlord so we don't have any problem with that. We haven't got any debts. We don't have, I mean we don't have debtors.'

Case S_U_M, p.3., 49-58.

'that's the easy bit because my debtors are just about zero – it's all work in progress really because I am liquidator, or trustee, or whatever, or supervisor I realise the assets – I set up the designated clients account which the money goes into so I have complete control of all the money all I have to do...getting creditors paid, investigating all those sorts of thing and then when the creditors eventually agree how much fees I can charge to get paid then all I have to do is write a cheque to myself'

Case A_T, p.8., 240-246.

Despite this seemingly straightforward process, other aspects of managing the payment relationship with clients, such as the *[Management of work in progress]*, surfaced interesting challenges for the practitioners with regards to the *Management of amounts owed* which are discussed later.

Exempting the two firms above, all practitioners referred to formalised aspects of the *[Organisation of credit management]*, typically discussing their use of information technology and software packages in order to organise their administration of trade credit and monitor amounts owed:

'Oh yes, we've got our own in here our time ledger system we'll do the receipt side we tend not to drive the things on that – my secretary she does the credit control – does a lot of things on excel, input throughout – then I'm also doing our own accounts in Quick books so I've got the aged debtors system, she and I sort of spend a few minutes once a week going through and deciding how we're going to tackle things'

Case A_w, p.6., 135-139.

'yes because we have an aged debtor report that you can print from the system on aged debtors. The report shows you the current invoices, 30 days, 60 days, 90 days, 120 days all over all in different colours so we know if someone, I personally, I know as soon as its over 30 days I send the first reminder I can't think, I can't send the first reminder before that because the money is not due, because if we give them 30 days, but the system produces a report for aged debtors'

Case S_U_L, p.6., 129-134.

'Well I've got a computer program which my accountant recommended to me, Sage, and so I basically whenever I send out an invoice I log the invoice and you're supposed to use it for when you actually spend money as well,

Case A_R_B, p.14., 654-657.

As is evidenced above and previously for solicitors in all cases, there is widespread use of systematic, formalised methods within the *[Organisation of credit management]* representative of what might be identified as 'best practice'. This resonates with the findings of Chittenden et al (1998, p.7), who found that 88% of the firms they sampled operated an internal finance function and that 85% of respondents operated 'a fully computerised accounting system'. Furthermore, Chittenden et al (1998) found that the utilisation of computers was lower in the smaller firms. In case A_R_B, the causal influence of *[External stakeholders]* is apparent, as the architect's accountant has provided guidance as to the type of software package that might be appropriate for the firm. The size of the firm did not appear to be a barrier in the uptake of formal systems for the *[Organisation of credit management]*, with even the smallest of practices demonstrating effective use of information technology and knowledge of 'best practice'. For example, the sole practitioner in case A_R_H has recently adopted a pipeline system that, despite not yet being fully utilised, allows the tracking of amounts owed:

'yes on a spreadsheet. I've just changed it to a pipeline system.....you list all your jobs and where they are and what status they are so now I've got a list that says 'invoices due', 'invoices that I need to do', but I need to get another one which is 'invoices to chase'. Well I've got one actually and also I've got a sheet of my income and I put the date when the invoice was sent in so I can also look at that'

Case AR_H, p.13., 756-762.

In addition to use of effective tools of administration, practitioners generally appear proactive in the monitoring of amounts owed, recognising the significance of regular reviews and in some practices reporting this information as a measure of performance:

'on Friday we sat down and went through the 6 monthly figures and we were looking at some slow payers, we did have some and so we did some chivvying each other along shall I say and that is important, as a business we run basically on ratios we look at the mix between our debtors and work in progress and try and keep that ratio to be ideally below 30% of our total turnover – just recently it's been a bit higher than that'

Case A_V, p.12., 277-282.

'a copy of the fee invoice goes in each project so I can literally do the monitoring of the project. We also like so many people monitor electronically and keep a paper master of fee invoices, we have notes about BACS payments, so that's what a fee invoice looks like and on the front of it there's no more in here than a hand written list of invoice numbers, who it's to, our project number, what the amount was and when its paid. So we look at this at least once a week and because, the missus is over there the two of us are in the same room and we both know a lot about them. We've also got, I've got an overall fee drawback schedule running there'

Case SU_Q, p.12., 293-300.

'This is our problem again, the most important bit about collecting debt is knowing who actually owes you the money, for example I know that someone saw a client last week, only a very small client, its turns out this guy hasn't paid his bill, it's only £600, but no one clicked no one thought to say 'so and so, does he owe us money?'

Case A_V, p.13., 300-304.

The above examples of practice demonstrate the central role that the monitoring of trade credit takes within the [*Organisation of credit management*]. Practitioners are sensitive to the implications where monitoring might be neglected, and the approaches adopted are effective and appropriate, even where descriptions might not use labels associated with

‘best practice’. A further important element of the [*Organisation of credit management*] that surfaced from practitioners accounts of practice is how responsibilities for this functional aspect of the firm are organised, which highlighted the degree of centralisation, and associated issues. Resonating once more with the findings of Chittenden et al (1998) discussed earlier and who also found that 3 in 4 respondent firms had a member of staff with a finance derived title, the degree of centralisation was more pronounced within larger firms that also sometimes employed practice managers, responsible primarily for administrative functions:

‘we used to, before I took over the credit function, credit control, because I always wanted to be in control of that, I wasn’t happy I wasn’t in control, so I decided to send statements twice a month, as normally used to send statements once a month and I wasn’t sure how the credit controller approaches the client, how often she chased, because I wasn’t happy with the amount that I knew we were receiving so I thought perhaps we can do things differently and send the statement twice a month and that would help us to receive more money. But since I’ve become responsible for credit control I’ve got the standard reminders, three reminders’

Case SU_L, p.2., 37-44.

‘H actually is the practice manager and she deals with all the accounts, wages, and prepares this information so we’ve a good overview of where we are, and we always refer to our debtors list and bank balance as a measure of how things stand’

Case AR_C, p.1., 19-29.

Larger firms that identified the need to centralise accounting functions have often done so in reaction to descriptive characteristics of the firm, captured under [*Firm attributes*]. As discussed within chapter 5 and evidenced within case S_N, *Resource constraints [Firm attributes]* provided a stimulus to the employment of a practice manager, and the *Role of practice manager [Firm attributes]* is important in shaping and developing the firms [*Organisation of credit management*], as highlighted within case SU_L. Case S_R demonstrated how a systematic approach to the [*Organisation of credit management*] was associated with the centralisation of credit management, and reflected a firms’ past experience, providing evidence of *Experiential learning*. However, a tension exists between the autonomy and informed position of the practitioner, and the degree of centralisation of credit management. For some firms of solicitors, it was important for the practitioner to maintain direct contact with the client, whilst for others a centralised

approach was perceived to be preferable, freeing up fee earners time and shifting responsibility for managing the fee owed. Similar issues emerged for the other professions, whereby practice managers, despite organising the credit function within a firm, required the input of the fee earner to manage the ongoing payment relationship with the client, given the fee earners access to information not captured within the centralised credit function:

'yeah I think it's one of those things that although we've tried to standardise it, it's difficult to standardise because if H gets charged with phoning somebody and they've got some cock and bull story about 'well this bit hasn't been done' or 'I haven't received this yet', H is at a bit of a disadvantage'

Case AR_C, p.11., 650-653.

'as regards issuing invoices, debt collection that is the responsibility of the individual offices, so that's not centralised, that is done by each office, albeit that we are presented with our ratios each meeting so people will get picked up if they're a bit slow collecting the debts or whatever'

Case AV, p.1., 11-14.

As can be seen above, within even the largest of the firms that have centralised accounting functions, the *[Organisation of credit management]* remains within the control of the responsible practitioners. For some practitioners an approach that ensures the 'optimal' use of resources is preferable, yet for others the approach to the *[Organisation of credit management]* is a pragmatic one, whereby practitioners react with **Expediency**, recognising the asymmetry of information that exists between the practitioner and practice manager and its relevance in managing the ongoing payment relationship with the client. This may reflect the personal, often bespoke service provided by professionals, and offer a persuasive explanation for the full retention of the credit management function within the firm.

Consideration of the *[Organisation of trade credit management]* within the *Management of amounts owed* has revealed plentiful evidence of the adoption of what might be considered formalised techniques of 'best practice'. Administration is effective and supported with appropriate systems, and practitioners are proactively monitoring debtors. The up-take of formalised, systematic approaches to the *[Organisation of credit management]* is perhaps unsurprising within professional firms, who given their

professional status could be reasonably expected to demonstrate familiarity with, for example, appropriate software packages and forms of monitoring. In addition, the *[Professional environment]* reflects certain aspects that can influence the management of firms in all respects, and therefore has important implications for the *[Organisation of trade credit management]*. This is particularly evident within interviews with solicitors (see case S_R) and architects as previous discussion of solicitors has established and highlights the influence of professional bodies and industry accreditation in the adoption of formal procedures considered representative of ‘best practice’:

‘I must say I never deal with it differently, I just, it’s because that’s the way the RIBA set out how you should do it, and because you learnt to become an architect and you do this, your professional exams, um and the RIBA is very sort of you need to do this you know, you have to keep certain standards, you’re almost impartial from the client in a way’

Case AR_B, p.10., 481- 486.

‘yes the whole way a practice is run is usually set out they set out guidelines, In fact they publish a book um it’s called the architects handbook I think, it basically sets out..... all of those services but I kind of simplify it into about 10 work stages um but then there’s 2 kind of governing bodies there’s the RIBA and the ARB and the ARB is the architects registration board and.....he’s basically making sure that the reputation of architects isn’t bought, um kind of downgraded’

Case AR_B, p.11., 518-529.

The causal influence of the *[Professional environment]* can therefore be considered through **Regulation**, whereby professional bodies encourage the up-take of ‘best practice’ through the establishment of professional codes of practice that extend to the trade credit management of the firm. The previous implications for case S_R of *Industry accreditation [Professional environment]* were similar; accreditation required the adoption of practices and procedures and so exerted a **Regulation** influence upon the firm. For firms of solicitors the regulatory influence of the *[Professional environment]* upon the *[Organisation of credit management]* was particularly significant, with much reference within interviews to how accounts of clients should be managed, *Management of client account [Organisation of credit management]*, and the implications for firm practice, as was evidenced in case S_N and case S_I.

Clearly the [*Professional environment*] for solicitors is a distinctive, causal influence upon practice, yet for accountants and surveyors the influence upon the [*Organisation of credit management*] appears less pronounced. This may be largely explained by the nature of the profession, with the need to protect client interests a particularly pertinent issue for the legal profession, and could also reflect the various roles and purposes of professional bodies in relation to this aspect of firm practice. Particularly for solicitors therefore, and to a lesser extent architects, **Regulation** at a meta-level explains the causal significance of the [*Professional environment*] for the [*Organisation of credit management*]. The [*Professional environment*] represents an axial code from within firms' operating environments that has both influenced and determined the adoption of formal techniques and approaches that are representative of 'best practice'. Choices regarding a firm's [*Areas of practice*] made within the firms internal environment can also be seen to have implications for the [*Organisation of credit management*] and it is here that the discussion now turns.

From the preceding discussion it is evident that for these small professional firms the [*Organisation of credit management*] appears to be largely compliant with formalised, systematic practice, which is partly explained with reference to contextual circumstances. As identified above, where firms choose to practice or specialise, [*Areas of practice*], also exerts an influence upon firm practice that originates from within firms internal environments. This can be seen when considering case SU_M, a surveying practice acting largely as a letting and management agent, where managing clients money appropriately, *Management of client account*, is an important determinant of practice and the respondent made this sole reference to the [*Organisation of credit management*]:

'very strict guidelines on what you can do with client's money – I expect its the same with solicitors – not allowed to – which is why we have separate accounts we didn't want to use the office account'

Case SU_M, p.10., 241-243.

However, with regards to the [*Organisation of credit management*], [*Areas of practice*] emerged mainly as an influence for solicitors, as discussion within chapter 5 explored, highlighting how the *Management of client account* [*Organisation of credit management*], and timing of associated cash flows is also partly determined by [*Areas of practice*]. Case

S_I provided evidence that demonstrated the implications for cash flow, disbursements and the *Management of client account of [Areas of practice]*.

To some extent, *[Areas of practice]* determine how and when payment is to be received, and the associated **Risk**. What could be regarded as traditionally established payment **Norms** are associated with particular *[Areas of practice]* and exist largely as the result of inductively derived practice, and an expedient and practical approach to the *[Organisation of credit management]*. Case S_A demonstrated how the influence of *[Areas of practice]* impacted upon the *[Organisation of credit management]* and aspects of practice concerned with *[Evaluate the ease of collection]* in an interconnected fashion. Evidence within case S_A suggested that the credit function was intrinsically related to **Risk** associated with receipt of payment. Evaluation of **Risk** associated with payment allowed the practitioner to behave with **Expediency**, focusing time and effort upon managing amounts owed perceived to pose greater **Risk**, and passively waiting for payment from clients with ‘secured’ funding, and thus highlighting the interaction of trade credit practice across the framework. At a meta-level, both **Risk** and **Expediency** as organising meta-level constructs offer explanations as to the causal significance of *[Areas of practice]*, which combines with the influence of the *[Professional environment]* to entrench and establish payment **Norms** and shape the *[Organisation of credit management]* within small professional firms.

The evidence of practice in general with regards to the *[Organisation of credit management]* has tended to suggest appropriate use of systematic approaches characteristic of what might be regarded as best practice. Consideration of the causal influence of the axial codes has identified particular conditions and circumstances that professional firms operate within, and their relationship with the uptake and encouragement of the use of formal, acknowledged, credit management practices. However, the rich, qualitative data collected within the interviews elicited how the application of these systematic approaches was sometimes compromised and practice adapted in response to causal influences.

Variation within the *[Organisation of credit management]* and the application of formal practices was observed when considering the practice of architects, solicitors and surveyors with explanations captured by axial codes present within all of the firms’ environmental levels. However, as discussed earlier, responses from accountants provided numerous examples of the use of formal systems for the management and monitoring of amounts

owed, but with little variation in practice, or reference to causal influences that might mean practice is adapted. This could perhaps in part be explained by the nature of the accounting profession; the perception of accounting practitioners may be that they ought to be fully aware of ‘best practice’ with regards to the *[Organisation of trade credit management]*, and so within their descriptions deviations from formally stipulated practice may not have been reported.

Within the firms internal environment *[Firm attributes]* has already been identified as an axial code capturing the influence of descriptive characteristics of the firm upon the *[Organisation of credit management]*. In particular, the influence of *Resource constraints [Firm attributes]* was identified as a stimulus to the appointment of a practice manager and a positive influence on the allocation of firm resources and use of formalised, systematic practices. However, *Resource constraints [Firm attributes]* can also mean that despite the use of formalised systems and a clearly demonstrated understanding of the importance of prompt payment from clients for the firm’s cash flow, invoicing and the *[Organisation of credit management]* is not prioritised:

‘um it’s very important to stay on top if it because you need a constant flow of money coming in. The quicker you get it in, the quicker you’re going to make – you can use it, you know and it just avoids getting overdrawn and things like that so and pooling other resources, so I really should keep on top of it’

Case AR_H, p.13., 733-736.

‘I’m just thinking, today, you know I really should, I should be sending out two or three invoices but you’re so busy working that you don’t get around to it, you know keeping all the eggs in the air’

Case AR_H, p.3., 162-164.

The practitioner within Case AR_H is aware of the importance of credit management to the cash flow of the business yet demands on the time of the practitioner, *Resource constraints [Firm attributes]*, imply that despite their awareness this area of practice management can be neglected. Further evidence within case AR_H also suggests that the practitioner has encountered difficulties with payment related to the *[Organisation of credit management]* in the past as the result of *[Firm attributes]*, and that these experiences have partly shaped

and instigated a review of practice, with the practitioner identifying problematic areas and adapting practice accordingly:

'I heard nothing and actually I was so busy at the beginning of this year, because this was in December, I didn't do anything about it for a couple of months. I sent them an invoice, then I sent them a second invoice, and then I finally rang them in June. And she said 'oh we tried to contact you, we sent you a letter and said we didn't quite like the design and it wasn't what we wanted and you didn't reply so...' and I said well I didn't get anything, it was all – I said did you not get my invoice? And she went 'no'. You know, so, it was just basically postal problems I presume.....it was just down to the fact that I should've chased them earlier kind of thing, so I just put that down to experience, not to let invoices go without a phone call I guess'

Case AR_H, p.6., 333-354.

'I think basically when I looked back at them, they've worked. I mean in the early days they were just a bit too loose to be, you know, so I've started to tighten up basically so that it doesn't seem ambiguous or there's not enough information there.....bit more hardnosed wouldn't go a miss'

Case AR_H, p.13., 775-805.

In the context above, the causal influence of [*Firm attributes*] can be understood with reference to the meta-level construct **Experiential learning**, an area that has been previously explored with reference to financial management in small and medium sized firms by Perren et al (1998), and Deakins et al (2002). Consideration of the [*Organisation of credit management*] within case AR_H tends to suggest an evolutionary development of practice that has been influenced by [*Firm attributes*] and shaped by the event of non payment by clients.

The above highlights how over time [*Firm attributes*] have influenced the practitioner's experiences, leading to the adaptation of the [*Organisation of credit management*] and an acknowledgement that this aspect of the business requires proactive management for the health of the firm. Similarly, there was substantial evidence of a proactive approach to [*Cash flow planning*] which was partly driven by *Resource constraints* [*Firm attributes*]. [*Cash flow planning*] captured firm specific, non standardised approaches appropriate to firm circumstances:

'it is for a small business because I think you know, cash flow isn't, you haven't got the resources, so you know if people aren't paying it means if you're in overdraft then it's costing you more money because you have pay

interest on that, so you, I mean it is quite worrying I think as well. There's always that element that well if you don't actually ever get it, it you know, then it could put the business down. We run on quite a tight budget actually'

Case AR_F, p.8., 449-454.

'I personally think small businesses they always build their business on an overdraft facility, they all have cash flow problems. I personally think if you don't chase, if they've got little money they pay the people who chase, they don't pay the people who don't pester them, that's why I think we should pester them. Because we have an overdraft, we need an overdraft facility to build our business, so why shouldn't we pester them, why shouldn't we be on top of their list of payment? So as soon as the 30 days is over the first month it goes and um if they are happy with the invoice they have no excuse not to pay it, we receive the money quickly'

SU_L, p.6., 139-146.

The above discussion of the *[Organisation of credit management]* highlights how a proactive approach to *[Cash flow planning]* is motivated by the restricted cash flow position of the firm, and the potential impact of non payment by clients. Here, *Resource constraints [Firm attributes]* act as a stimulus to practice, with practitioners utilising approaches intended to prioritise their payment expediently. Practitioners' clearly attribute their own financial management characteristics to their SME clients with an expectation that cash flow problems could delay their clients payment. This identity with SME clients is also observed elsewhere within firm practice, albeit in a more emphatic sense. Hence, the *[Organisation of credit management]* is also intrinsically related to aspects of practice captured within the *Collection of amounts owed*, as illustrated above where prompt invoicing is coupled with persistent chasing.

The discussion of *[Firm attributes]* thus far has identified how firms react proactively to limited resources and that as a result the *[Organisation of credit management]* is considered an important element of firm practice. However, further evidence of the influence of *Resource constraints [Firm attributes]* is provided within case SU_E. Here the practitioner behaves passively, with active credit management triggered only when funds are required, either externally by the bank, or by the practitioners own infrequent reference to their cash balance:

'So an invoice goes out with a 30 day payment in it, and depending on how low finance are is how fast we chase them...Basically if my banks sort of

saying 'no you can't pay the cheque' I will chase some clients and get some money put in. I mean other ones when I have the time basically I sit down and go through the invoices and say right 'you're a week overdue, you're two weeks overdue'

Case SU_E, p.3., 144-156.

'yeah basically once every couple of weeks I go through this, you know, I'll pick a date and I'll say right, OK, that's overdue and um it's like well I actually could do with that, fees are overdue'

Case SU_E, p.13., 754-756.

The [*Organisation of credit management*] for case SU_E is clearly not a priority for the practitioner and is certainly not representative of what would be considered a systematic or 'optimal' approach. However, it could be argued that the approach of the practitioner is driven by **Expediency**, with cash balances stimulating action when necessary. Reviews of amounts owed are conducted, but the regularity of these appears dependent upon the practitioner's available time. Although this approach is intrinsically passive and exposes the firm to risks associated with non payment, for the practitioner it might reflect their assessment of the most optimal use of their restricted time, and thus another limited resource within the firm. There is, therefore, evidence that [*Firm attributes*] are an important influence upon the [*Organisation of credit management*] with *Resource constraints* providing an incentive for both systematic approaches aptly applied, and for passive credit management, with actions triggered only when there are indications that cash flow balances are particularly low. When considering [*Firm attributes*], with particular reference to *Resource constraints*, both **Expediency** and **Experiential learning** provide meta-level constructs explaining the causal significance of the axial code.

Research (for example Westhead et al, 2001) has noted the impact of resource constraints upon small firms, particularly with regard to financial management. Howorth and Westhead (2003, p.96) tested 'whether the resource pools of small firms may be associated with the take up of particular types of working capital management routines' by hypothesising that larger and older firms would be positively associated with the adoption of such practices. A structured questionnaire asked respondents how often they reviewed different aspects of working capital. Howorth and Westhead (2003) concluded that resource constraints may not be a direct barrier to the adoption of working capital management techniques but that working capital routines might only be taken up when

considered worthwhile, and that practitioners decisions therefore reflected assessment of the perceived marginal returns on resources.

It appears within this research that the availability of resources does shape practice directly, however the discussion above resonates with Howorth and Westhead (2003), with practitioner decisions regarding the allocation of their time reflecting in part consideration of its best use. Using size and age as proxies to test whether older, larger, small businesses review their practices more often than smaller, younger businesses may not unveil evaluations of cash balances, or decisions regarding the allocation of practitioners' time. This research therefore adds depth to our understanding of the impact of *Resource Constraints [Firm attributes]* upon the working capital management practices of small firms. The final descriptive aspect of *[Firm attributes]* to be considered, concerns the attitude of the firm to the use of debt finance.

[Firm attributes] capture the characteristics of the firm, whilst *[Practitioner attributes]* similarly capture the characteristics of the practitioner. At times the boundary is blurred, and the following discussion deals with both of these axial codes together as the issue is fundamentally the same. The difference in coding occurred as one practitioner attributed the firm with an attitude to debt, *Firm attitude to debt*, whilst the other respondent was solely responsible for such decisions and so it was their attitude that was the dominant influence, *Practitioner attitude to debt*. For the practitioner in Case AR_B, *[Cash flow planning]* captured a holistic approach to the management of the firm, where the practitioner's aversion to the use of debt finance determined in part the cash balances held:

'well I've never been overdrawn I mean I can't understand how any business can run in an overdraft I'd just find that so stressful so I operate on quite a large float you know my turnover is I think my turnover this year will be about £100,000. Um but I'm paying two people out of that, me and somebody else and then I've got to pay all the business expenses out of that and all of those sort of things but my float is usually about I would say one fifth of turnover so I keep that in the bank that's about £20,000 I suppose. I don't see that as, I don't see that as that's the profit and at the end of the year I can take that out. I see it as I could run for four months without getting any income. The business costs me about, well paying me a modest salary, paying L his salary, paying all of my business expenses, we could just survive on £5000 a month. So I could work four months, it's like a kind of comfort zone and it costs me £20,000. I suppose if I had a more cavalier approach I could take that out of the business and be at zero and run the business with an overdraft but I'd just find that so stressful.....I don't have any loans or anything like that'

This resonates with the *Firm attitude to debt [Firm attributes]* within Case S_A, discussed in depth in the previous chapter. Here the firm of solicitors similarly considered the financial position of the firm holistically, with a disciplined approach to the *[Organisation of credit management]* attributed to a reluctance of the firm to use debt, thus linking credit management and overall financial planning objectives. For both firms, debt is perceived as having a behavioural impact with restricted use of external finance associated with tight financial control and the uptake of effective credit management practices.

This is particularly interesting if considered in light of Howorth and Wilson (1999) who identify a link between firms restricting external finance and their experience of the effects of late payment. Howorth and Wilson (1999) argue that firms who have restricted the use of external finance, or who are under capitalised, are more severely affected by late payment and more likely to pay their own suppliers late. Howorth and Westhead (2003) similarly found that the use of external sources of finance encouraged the uptake of working capital management routines, which they attributed to a hypothesised need to satisfy the requirements of external investors. However in contrast this research has found evidence of small professional firms purposefully avoiding the use of debt in order to maintain tight financial control.

The influence of the client base can also be observed with reference to the *[Organisation of amounts owed]*, with evidence illustrating how practice can be informed and developed with reference to the *Type of client [Client profile]*, and past experience of dealing with them, *Repeat client [Client profile]*:

'well an A client would be a reliable client who pays for who you do work which is on a reasonable fee scale, so you'd be well reimbursed. Also somebody who would be a repeat client, so you can expect them to come back, that's probably as much as you could hope for out of an A client. A B client would be somebody like we were just discussing, interesting work, reasonable sort of fee scales but maybe might not expect to be paid as promptly. Probably going into that category as well you'd have private clients. Because the problem with private clients is you have to educate them every time you work for them. So you start from zero and they have to then learn what the process is like. Sometime they come back so it's not so bad but it is much more work. Then a C client might be people who waste your time, people who don't have the real money so they come and exploit

you and people who advise them and they don't want to take your advice or leave you in sort of ignorance'

Case AR_C, p.8., 468-486.

The formal categorisation of clients within case AR_C above highlights firm practice that might not have been surfaced should other methodological approaches that consider pre determined techniques of best practice have been used. The categorisation reflects practitioners' assessments of the resource intensive nature of dealing with particular clients, with a key assessment criteria being the promptness of payment, thus identifying further evidence of how ***Experiential learning*** can, at a meta-level, aid our understanding of the causal influence of *[Client profile]*. Similarly, the *[Client profile]* can imply circumstances that later present payment difficulties, as the practitioner in case AR_H discussed:

'and with that one a key feature that I will learn is that you write them an agreement and you be very careful about going through other people that – I mean it was great because I just went straight into the job, I didn't actually have to get it, I didn't have to go and visit them, the free visit, I just basically went to see about it and started. So, yeah, but an agreement directly from them would have helped I suppose. I would've sat down and chatted with them maybe during that initial stage which might have ironed out some problems'

Case AR_H, p.11., 642-651.

With *Referred clients [Client profile]* the nature of the arrangement is altered which for the practitioner above proved problematic in that the management of the ongoing payment relationship was approached differently, and without an initial formal agreement to act as a point of reference. The reflection of the practitioner upon working with *Referred clients [Client profile]* again highlights ***Experiential learning*** in their approach to the *[Organisation of credit management]*. There is also wide spread evidence of *[Cash flow planning]* being instigated with reference to the informational requirements of both client and practitioner, partly in order to avoid potential disputes, ensure *Client satisfaction [Client attributes]* and manage *Client expectations [Client attributes]*:

'and I always put in an estimated fee cash flow both from my own point of view and theirs so no one can bleat and say I never expected to get so and so at so and so'

Case SU_Q, p.7., 155-156.

'yes so its partially from my point of view to be able to plan when the income comes into us its partially so they know when they're liable to pay me what amount. I've always thought that just when you get architects and engineers whatever writing you would say oh its RIBA stage a,b,c whatever, that doesn't necessarily mean anything to somebody if you say to somebody at the end of March they've got to pay you 3k and at the end of June they've got to pay you 5k its much clearer'

Case SU_Q, p.8., 181-186.

The provision of payment schedules serves a dual purpose; the client is kept informed of the payment expectations of the practitioner, and the practitioner is able to plan their cash flow. The practitioner's perception is that the clarity of the payment arrangement is crucial to managing clients and therefore [*Client attributes*] is an important axial code in terms of how a firm might approach the [*Organisation of credit management*]. Similarly for solicitor's firm case S_N, the practitioner identifies how a fee earners awareness of *Client circumstances* [*Client attributes*], determined in part by prior experience with the client, *Repeat clients* [*Client profile*], is an influence upon the [*Organisation of credit management*], with fee earners consulted prior to any communication with the client regarding payment. In this context, both [*Client profile*] and [*Client attributes*] allow the practitioner to form an assessment of the client's potential payment behaviour, thus providing the opportunity for the practitioner to proactively anticipate payment issues and organise practice accordingly. The axial codes inform the practitioner, and so at a meta-level **Knowledge of client** helps to explain their causal significance.

For solicitors there was one significant aspect of practice, considered here alongside the [*Organisation of credit management*], that was not apparent for the other professions, namely the [*Management of client costs*]. Solicitors made frequent reference to the particular rules regarding the *Management of client accounts* [*Organisation of credit management*], and these, coupled with the fact that solicitors often incur costs, or disbursements, on behalf of clients, implied that the [*Management of client costs*] was an important aspect of practice for solicitors in its own right. This has been previously considered in chapter 5, and discussion highlighted the interaction of [*Client attributes*] and [*Client profile*], providing further evidence as to the importance of effective communication with clients and the provision of regular cost information, which was considered compatible with *Client preferences* [*Client attributes*]. Practice was shaped by

the practitioner's evaluation of the information needs of clients, and their attempts to avoid disputes with clients regarding fees.

7.2.2 Organisation of credit management: Summary

The above discussion has considered aspects of firm practice focused around the *[Organisation of credit management]*. Substantial evidence highlighted the uptake of formalised procedures and administrative systems in even the smallest of the firms, with firms utilising approaches that were effective and appropriate. The influence of axial codes reflecting the contextual circumstances for small professional firms may partly explain practitioners' awareness and use of techniques familiar to those of 'best practice'. In particular, the *[Professional environment]* captured the **Regulation** influence of professional bodies and codes of conduct, and the resulting rules and guidance relating to practice management. These were further defined by a firm's choice as to *[Areas of practice]*, particularly for solicitors. Descriptive characteristics of the firm, *[Firm attributes]*, were seen to encourage effective practice in the *[Organisation of credit management]*, but also implied that for some practitioners it was an area neglected until resource requirements prompted action.

Firm practice therefore tended to conform to what might be expected from 'best practice', with evidence that for the majority of firms there were systematic reviews and monitoring of amounts owed. The richness of data also allowed practice to emerge that highlighted the role of clients in the approaches taken, and how *[Client attributes]* instigated the timely provision of information to clients that was complementary to the cash flow information needs of practitioners. Consideration of both *[Client attributes]* and *[Client profile]* allowed practitioners to proactively develop their understanding of client behaviour in order to anticipate payment patterns and issues, and to incorporate this into their *[Organisation of credit management]*. Respondents' accounts of practice reveal dimensions of their approach to the *[Organisation of credit management]* that previous research has not fully explored, providing evidence of the adoption of formal techniques representative of 'best practice', and of appropriate, sophisticated credit management that is responsive to the demands of the firms operating environment.

Cross profession discussion of how small professional firms organised their credit management functions has therefore revealed the role of informal and formal approaches. Formalised approaches reflect social structures enshrined within the *[Professional environment]*, whilst payment *Norms* predetermine credit management to some extent as practitioners adhere to client expectations and engrained practices. However, to enable a multi dimensional picture of firm practice to emerge, the role of informal practice that again highlights practitioners as responsive agents must also be considered. Practitioners build *Knowledge of client* and adapt practice accordingly in line with informal assessments of *Risk*. *Expediency* is evident within firm practice; practitioners approach credit management considering how best to allocate their resources, rather than necessarily adopting formalised, best practices. Again, the actions of practitioners are constrained by social structures and yet also uphold them, whilst their reflexive monitoring highlights their agency. Interestingly the functionality of formal practice with regards to trade credit management is particularly pronounced within this aspect of the *Management of amounts owed*, and practitioners could be regarded as responding accordingly and utilising formal procedures where they provide significant benefits. This discussion of the *Management of amounts owed* will now consider the *[Decision to extend credit]*.

7.2.3 Decision to extend credit

Aspect of firm practice	Case Identifier
[Decision to extend credit]	Accountants: A _U , A _V , A _W
	Architects: AR _B , AR _C
	Solicitors: S _A
	Surveyors: S _E , S _L

Table 8: Axial Coding of Firm Practice: Decision to Extend Credit

[Decision to extend credit]

Closely related to the *[Organisation of credit management]* and other aspects of a firms trade credit management, is the *[Decision to extend credit]* and the decision making of practitioners in this area shall now be considered. Much of the existing research concerning trade credit has considered the supply of trade credit, and the factors that influence the credit terms offered, for example; Petersen and Rajan (1997), Wilson and Summers (2002),

Paul and Wilson (2006). The methodological approach has at a general level been a deductive one, testing theoretically derived explanations for the extension of trade credit, and the credit period offered. As previously discussed within the literature review, such an approach may offer limited insights when considering the informal trade credit management practices of SMEs, as both their operating conditions and motivations can diverge widely from those of the large firms for whom theoretical explanations are derived, and who are considered to act as utility maximisers, adopting ‘best practice’ financial management techniques accordingly. Despite a difference in methodological approach, the findings of previous deductive research often resonate with inductively derived explanations that have emerged from this multiple case study analysis. Indeed, Paul and Wilson (2006, p.107), conclude from their multivariate analysis of credit granting and credit period decisions that despite some supporting evidence for trade credit theories, ‘more complex motivations such as marketing, customer concentration, power position, bargaining position, and commitment to industry are determinants of credit decisions’. Paul and Wilson (2006, p.107) go on to highlight that ‘further research that includes more qualitative variables will be desirable’. Therefore, within the following discussion, reference will be made where appropriate to previous research findings as differences in methodological approach may shine light at different angles, and in some respects findings may be complementary.

However before discussing firm practice with regards to the [*Decision to extend credit*] it is worth firstly explaining how this aspect of practice emerged from practitioners’ accounts and its position within the organising framework. An important, adjacent decision was discussed within *Negotiation of terms of business*, which considered [*Determine payment period*]. Practitioners identified that the majority of firms had formally stated terms of business that identified the credit period they were prepared to offer. Firms offered a period of time within which payment could be settled, and this was generally between fourteen to thirty days. There was little evidence of the formally expressed payment period being adapted or changed within initial agreements with clients. Substantial evidence did point to the influence of historical firm precedent and industry *Norms* in the determination of the payment period, and as Paul and Boden (2008, p.279) identify, this may result in passive credit management, with an emphasis upon ‘back end activities’. However, practitioners were asked to provide an over view of trade credit management practice from beginning to end, supplemented with discussion of examples of dealing with clients. These

detailed explanations of trade credit management highlighted how in some circumstances this initial, formally expressed payment period might well be extended, or re negotiated both implicitly and explicitly, and it is these circumstances that the discussion now focuses on, identifying causal influences. For example, the practitioner in case A_U below highlights how despite expecting payment from clients on receipt of invoice, the effective credit payment period extended reflects the practitioner's preconceptions regarding [*Industry norms*] and would fit with Paul and Boden's (2008) characterisation of passive firm practice:

'my invoice is payable on receipt, they're the credit terms, generally most people will pay within about two weeks, pretty much, end of November that would be...at the end of November I started to chase people who were 60 days...I just feel I'll give them the month, that seems to be standard, I generally know the reason behind it, they're changing the accounts or ...but...or it's a new company and they haven't got the right bank account open yet, things like that'

Case A_U, p.5. 107-113.

However, as stated above, the practitioners accounts of practice also revealed how in certain circumstances the formal, explicit payment terms, determined with reference to [*Industry norms*], were adapted or ignored, with effective payment periods reflecting for example, [*Client profile*] and [*Client attributes*], axial codes that shall be explored in more depth within later discussion:

'not at all we don't really apply 30 days to anybody. We will send out a reminder to – I mean one off clients yeah, we'll send out a reminder on the 30 days. But to our repeat clients, yeah they can probably have up to about 2 months. I probably shouldn't allow them that, but it's just their slack systems'

Case S_{U_E}, p.8., 420-424.

Analysis of the [*Decision to extend credit*] has revealed evidence highlighting the influence of clients, which is perhaps unsurprising considering the findings of earlier research, for example Summers and Wilson (2003) who identified firm willingness to vary credit terms for customer related reasons. The approach of firms to credit granting also reveals, as suggested by Paul and Wilson (2006), complex motivations. Evidence from solicitors demonstrated the causal influence of [*Client profile*] upon the period of credit granted. For case S_A a distinction was made between the *Type of client* [*Client profile*], and

expectations for payment. Some clients are allowed what is effectively an extended credit period, being allowed to ‘*run up big bills*’, but this is considered acceptable as the clients involved are *Repeat clients [Client profile]* and therefore likely to represent valued custom, with lower perceived **Risk**.

This approach is also evident within case SU_E, where the practitioner distinguishes between *Repeat clients [Client profile]*, and *One off clients [Client profile]*, and the effective credit period granted informally to a *Repeat client* is longer than that offered to *One off client*, as the result of efforts being directed towards collection from the *One off client* from whom receipt of payment is considered to be more risky:

Yeah if they’re an ongoing client then they do get, I suppose, an extension of credit because I’m not going to chase it. I would let’s say a one off’

Case SU_E, p.8., 464-465.

‘where you have these return clients, let’s say demolition contractors need a survey done before they knock the building down, or you have the developers or architects who need survey done before they re furbish a building. These are repeat clients, where it comes to payment obviously they know they will need to pay us before we do their next job. And so quite often, depending on how busy they are, is the speed of money we get’

Case SU_E, p.6., 323-328.

Interestingly, within case SU_E the practitioner identifies how the payment cycle is affected by *Repeat clients*, with payment often delayed until the services of the surveyor are again required thus providing an incentive for the client to pay. To some extent, this may occur as the result of passive credit management on behalf of the practitioner, who appears resigned in accepting this pattern, but who also demonstrates how previous experience of dealing with clients shapes approaches and sensitises practitioners to the likelihood of experiencing delayed payment:

No I mean its certain people, if they let’s say took a hell of a long time paying the first time, yeah, you would – I don’t know we’d give them their month but then we’d probably chase on the month, and depending on finances, depending how often we checked, you know, if it gets to the point we chase every day – it’s never happened – but that will hassle them enough so they should pay’

Case SU_E, p.5., 245-250.

The evidence suggests that if clients require repeat service, practitioners recognise that this provides them with leverage in terms of getting paid. Because clients require repeat service the practitioner has **Power** in their relationship as they have the ability to refuse to undertake further work until payment has been received, and this reduces the **Risk** associated with receiving payment. Where this incentive is absent, for instance *One off clients*, or where the turnover of jobs has slowed, clients are able to extend the credit period taken without repercussion and **Power** shifts to the client, with the leverage of the practitioner diminished. Practitioners recognise their lack of leverage in dealing with these clients and the greater **Risk** associated with them as a result. The leverage the practitioner has is, however, mitigated to a certain extent by their commercial motivations. For case AR_C, despite the client requiring a repeat service, the practitioner is effectively financing their activities, being drawn into the ongoing relationship by the opportunity of future projects, and with implications for work in progress:

'and because he's so close to the wind what tends to happen is you'll so a development and then once he can sell either the whole development or pieces of the development, he completes the flats and sells them. He's back in funds again. Has a knock on effect on other jobs which we might be working on. So this particular chap, we were working in a number of projects for him and although we agreed fee scales probably not actually when they were paid.....what tends to happen is that he'll only part with money on a job and then he'll introduce another job which is quite good work and you'll get started on the next job being owed for the first job...yeah he's – you're helping him to spread the load if you like and he has been quite dilatory in coming forward.....He does pay up eventually but not on the monthly basis that you might hope and we do call him and then he'll – they'll always be a, he might get us out of a predicament mightn't he? And what he'll do is he'll pay an amount towards what he owes you. He won't necessarily settle an invoice, some towards it.....He's got quite a big account, it's over several jobs, whereas mostly they're sort of one of things. Because he's got these others and there's always the next one coming along. So we allow him maybe more than we would like.....yeah it's more of a commercial decision basically. You can't really say 'I'm sorry we can't look at any more work for you because you owe us this money'. It probably wouldn't be a very good idea. So we just accept that he's that sort of payer'

Case AR_C, p.6., 348-403.

'and so we're quite happy to be involved in sort of cutting edge and doing sort of stuff which is refreshingly different. At the same time he overstretches himself so far that you're dragged into the speculation yourself by providing the service'

Case AR_C, p.7., 412-414.

In the case above, the role of leverage in extracting payment from a *Repeat client* is secondary to the perceived commercial benefit of maintaining the on-going relationship. The causal influence of the *[Client profile]* upon the firm's *[Decision to extend credit]* is clear; the firm implicitly allows this particular client these payment terms because of the scale of the fees involved and the potential for future business. The practitioner acknowledges that they are effectively drawn into the client's speculation, yet the associated **Risk** for the firm is traded off against these perceived commercial benefits. **Power** therefore provides a dynamic conceptual explanation as to the causal significance of *[Client profile]* for practitioners *[Decision to extend credit]*, shifting between client and firm according to the specific circumstances and inter play of commercial motivations. **Risk, Power** and **Motivation** can therefore be observed as organising meta-level constructs that explain the causal significance of *[Client profile]* upon the *[Decision to extend credit]*.

Discussion of **Power** when considering the extension of credit reflects to a certain extent issues of dominance between small professional firms and their clients. Previous research has explored the issue of dominant customers and the impact upon credit terms mainly by considering the size of the customer and their proportion of the businesses sales (for example, Howorth and Wilson, 1999). However it could be argued that 'dominance' as measured by the size of the customer, or the proportion of business they represent, does not reflect the complexity of the practitioner's decision making and the interplay of commercial **Motivation**. The practitioner accounts of practice highlight the different aspects of their decision making, which may evolve subtly with the client firm relationship. Therefore these variations in the *[Decision to extend credit]* are not formalised; formal terms reflect industry **Norms** as discussed previously, and full explanations may remain hidden with other methodological approaches.

For the practitioner within case SU_L, the dominance of the client and the proportion of business they represent is clearly an issue when considering the *[Decision to extend credit]*:

'they've been a client for a long time and they're never going to be a bad payer, we're never going to have to write off their invoices, eventually they'll pay, they are solicitors themselves you're definitely going to get the money, that's why we can't lose them, it's a large invoice of about £25/35,000 a year so we really can't lose them, this client, that's why you

know they're very sort of careful about how to handle them but um I don't know the exact story of why we have to give them 6 months, I think that can improve'

Case SU_L, p.10., 242-247.

The approach to the client is tentative, with the practitioner clearly concerned about the repercussions of pushing too hard for payment. The client's business is significant for the practice as the invoice is the firm's largest, and this coupled with the repeat nature of the relationship has led to the situation whereby the client is given six months to pay. Clearly, the client is in a dominant, powerful position yet from the practitioner's viewpoint the repeat nature of dealing with the client means that they are certain of receipt of payment and the lack of associated Risk in addition to the scale of the business may to some extent trade off against the delayed payment. Again, **Risk** and **Motivation** provide meta-level constructs that explain the significance of [Client profile] for the [Decision to extend credit].

Finally with regards to the influence of [Client profile] upon the [Decision to extend credit], Client status acts as a signal to practitioners about the potential associated risk, with practitioners informally extending longer credit periods to clients with a secured status and focusing attentions upon private individuals with the potential to withhold payment:

'more significant amount makes quite a difference, but – and also CC I give a certain amount of leeway to, I suppose, because I know that they will, they have to, it's a NHS trust, it's not someone like who's buying a house and then decides not to buy it and you've done the survey on the house and they say 'I'm not going to pay you''

Case SU_E, p.7., 409-413.

Discussion of the [Decision to extend credit] continues with a consideration of the causal influence of [Client attributes]:

'not at all we don't really apply 30 days to anybody. We will send out a reminder to – I mean one off clients yeah, we'll send out a reminder on the 30 days. But to our repeat clients, yeah they can probably have up to about 2 months. I probably shouldn't allow them that, but it's just their slack systems'

Case SU_E, p.8., 420-424.

The practitioner in case SU_E above articulates how their formally stated terms, determined with reference to *[Industry norms]*, are rarely enforced, highlighting that the effective payment period is largely determined informally and in reaction to both *[Client profile]* and *[Client attributes]*. Having discussed *[Client profile]* earlier, the point to highlight here is the practitioner's explanation that delayed payment from *Repeat clients* can be explained by *Client systems [Client attributes]* and so by default the *[Decision to extend credit]* incorporates these anticipated delays. The bureaucracy associated particularly with the public sector has often been blamed for late payment by firms and in case SU_E the client base included some NHS trusts. This area will also be discussed further when evaluating the *Collection of amounts owed*.

Client satisfaction [Client attributes] was also identified as an important factor regarding the time period taken before payment. For the practitioner in case AR_B, payment outside of month is considered unusual, and the expectation of the practitioner is that if the client is happy then they should pay immediately:

'well, I don't have clients who take a lot of credit, I think if you've actually done the work and you've done it to a standard that's good, and they're happy with it they tend to pay up straight away. I've never had people take more than a month's credit'

Case AR_B, p.6., 291-295.

'There's no difference in managing the income I mean as soon as I submit an invoice um so long as I've done the work than I expect to be paid within about a month and I usually am'

Case AR_B, p.9., 409-411.

For this practitioner, it would appear there is little variation in terms of the *[Decision to extend credit]* and that in general their clients are satisfied, which the practitioner considers reflected within their prompt payment. Finally for *[Client attributes]*, the causal influence of *Client circumstances* upon practice can be observed within case A_V, where the practitioner demonstrates a collaborative approach to the *[Decision to extend credit]* demonstrating flexibility and a consideration of the client's position:

'we will agree one thing were we can be flexible, I know I've got some clients, one new business for example, and they were struggling and its again, we were picking up the pieces for this particular firm, we did 2 or 3 years worth of accounts in one hit, we did tax forms, so it took a lot of time'

so of course it hurt them so we agreed to very generous credit terms in that sense so...we can be flexible but we're not a bank'

Case Av, p.17., 403-408.

The approach to the client above illustrates how practitioners may adapt credit terms where possible to support clients through difficult periods, perhaps entirely altruistically. However, another potential layer to this explanation could be that the firms' behaviour is motivated by a desire to secure future business with the client. To achieve this, the firm is willing to make an investment in the relationship with the client. For the firm above, this becomes more evident when considering the *[Decision to bill client]*, which will be discussed later within this chapter. The role of the *[Client firm relationship]* and its influence upon the *[Decision to extend credit]* can be seen in the case below, where the accountant discusses how relationships have developed with *Repeat clients* over time, so that the practitioner accepts their payment patterns:

'I suppose the truth is ones state of mind – is one frustrated by them? Have we had enough? Are we going to say 'look if you want us to do something it's going to be on our terms, not on your terms. If they walk, they walk – I mean that's the issue probably like that one who took 6 months credit, he was as good as gold – I could probably go to his office now and see there's a cheque for me that's been sitting there for a month and pick it up and he wouldn't do anything about it, but we've got that sort of relationship, but that's what they want fine – he sees it, if you like, that he's saving a bit on his bank overdraft – he happened to mention to me the other day that his bank manager complained he didn't use his overdraft enough. I was almost tempted to say 'well we can soon put that right'. You know it's very much horses for courses and you soon get downwind of people and know if they're being straightforward with you, if they're being evasive – there are some you just don't feel like that'

Case Aw, p.8., 182-194.

The informed practitioner waits apparently passively for payment from the client, and the client is allowed rather lengthy credit terms on the basis of the practitioners understanding of the client's business motivations. There is a precedent of being paid by the client, and so the associated **Risk** is low. The practitioners approach is one of pragmatism and **Expediency**; the client is considered worth keeping despite the lengthy credit period that they are effectively extended. However what is also clear is the practitioner's evaluation of the client which appears to be based upon the reciprocal nature of the relationship; if the client was perceived to be a nuisance in addition to paying late, the practitioner would

withdraw from the arrangement. The practitioner, in their assessment of all the conditions concerning dealing with the client, is happy to accept the clients' payment pattern.

For one of the practitioners, their own *[Firm attributes]* were perceived to influence the *[Decision to extend credit]* with the practitioner identifying how the *Firm size* allowed them to be flexible in the terms they offered and their application, as long as the client's attitude was considered helpful:

'there are those who will take extended credit shall we say and I think really it's a question of we're small enough and personal enough to be flexible about their needs. I mean they're not going to get extended credit if they're moaning about the fees'

Case A_w, p.7., 163-166.

'But we're not in a highly formalised, regimented system that suddenly says 'your account is suspended because you have taken an extra day than you should have done' or anything like that. I mean different if you're a big national organisation and you've got to have rules'

Case A_w, p.8., 176-179.

7.2.4 Decision to extend credit: Summary

The above discussion has illustrated how the firms *[Decision to extend credit]* is intrinsically related to *[Determine payment period]*; formally expressed terms are often extended and adapted as the result of causal influences concerned largely with clients. Practitioner's descriptions of dealing with clients have revealed the interplay of commercial **Motivation**, **Risk**, **Knowledge of clients**, and **Power**, which, along with **Expediency**, explain at a meta-level the causal significance of the axial codes discussed above. Clearly, in most cases *[Industry norms]* have provided a point of reference for practitioners and have informed the formal, explicit payment period for firms. However, discussion of axial codes has demonstrated that the effective credit period is responsive to the requirements of clients and the careful assessment by practitioners of commercial **Motivation** and the dynamic nature of **Power** in the client firm relationship. The chapter shall now move to consider the *[Management of work in progress]*, an element of trade credit management practice that is heavily influenced by other aspects of the *Management*

of amounts owed, in particular the *[Decision to bill client]*, and in turn has implications for related decisions.

7.2.5 Management of work in progress

Aspect of practice	Case Identifier
[Management of work in progress]	Accountants: A _T , A _V , A _W
	Architects: AR _C , AR _F
	Solicitors: S _I , S _N , S _R
	Surveyors: SU _E

Table 9: Axial Coding of Firm Practice: Management of Work in Progress.

[Management of work in progress]

At a macro level, for case S_I, the influence of the *[Regulatory environment]* was apparent for one practitioner, who explained how their particular *[Areas of practice]* had important implications for the level of work in progress, and that the requirement to pay VAT on work in progress created a difficult situation. The *[Regulatory environment]* and tax implications may well represent an implicit influence upon the *[Management of work in progress]* for other firms, however the practitioner in case S_I was the only practitioner to refer explicitly to the influence of VAT within the context of work in progress. Implications for the level of work in progress can also be observed for case S_I, where the practitioner attributes the level of costs and time to settlement to their particular *[Areas of practice]*.

For solicitors, as previously explored in depth in chapter 5, *[Areas of practice]* was seen to be a significant causal influence upon the *[Management of work in progress]*. Solicitors' accounts highlighted how firms' levels of work in progress in part depended upon payment schedules imposed by the nature of the case, and that funding arrangements similarly determined necessary levels of investment. The causal influence of *[Areas of practice]* across professions however was only observed for one architect with a particular ethical commitment, and one accountant, whom specialised in insolvency cases:

'before you even accept the job – far more than any other form of accountancy, I have to invest a considerable amount of time in any job before I even accept the appointment and then it may be weeks, months, or even years before I get paid....So it's completely different from the average,

you know bash out a set of accounts and your work in progress is as long as it takes you to do the accounts and then you might have a month or two of debtors on top but I may spend a long, long time at any rate in terms of hours chargeable hours, it may take weeks or months before I decide whether to take the appointment'

Case A_T, p.6., 181-191.

'it's all work in progress really because I as the liquidator, or trustee or whatever, or supervisor, I realise the assets – I set up a designated client account which the money goes into so I have complete control of all the money as I have to do, getting creditors paid, investigating, all those sort of things and then when the creditors eventually agree how much fees I can charge to get paid, then all I have to do is write a cheque to myself so once I've reached that point where I've got agreement to the fees we're talking about debtors not in terms of months, weeks or even days but hours or minutes'

Case A_T, p.8., 240-248.

The specialism of [*Areas of practice*] for the practitioner in Case A_T, implies that for them the [*Management of work in progress*] is a particularly important aspect of firm practice that dominates the *Management of amounts owed*. As a result, the practitioner has devised informal dimensions to their practice that effectively creates a fee safety margin, or element of slack:

'also I don't always, or haven't historically, always gone to the creditors as early as I could have done and say can I get paid yet so there's always a bit of fat in there if you like but if I am short I can say 'ah yes on that case I haven't got any fees agreed on that one so let's get those fees agrees and get that fee in' – probably not very sensible from a cash flow point of view but it saves me having to worry about it quite as much as I would otherwise'

Case A_T, p.8., 263-269.

For this practitioner, the specialism of the practice has had very significant implications for the management of trade credit overall and in particular, the [*Management of work in progress*]. Management of the payment cycle remains a critical area of practice management, but emphasis is shifted to the initial evaluation of the client and the subsequent decision to undertake the work, as discussed earlier. Once this decision has been made to take a client's case, the practitioner must then accept a substantial investment in work in progress. The practitioner's decision to work with a client is therefore paramount. The practitioner's description of their decision making process made reference

to *Practitioner intuition [Practitioner attributes]* and so in this particular context *[Practitioner attributes]* influence the *[Management of work in progress]*:

‘so anyway I said ‘I’ll give you 10K’ and he said ‘OK I’ll do it, provided you pay the bailiffs costs now’ instantly so I wrote out a personal cheque there and then.....suddenly I’m 2K out of pocket in the hope and I then had to give an undertaking to pay the first 10k worth of takings to the landlord – had a gut feeling that this might actually come off and in fact it did....so in the end we got something in the order of 50k for the stock, I paid off the landlord, repaid my out of pockets, I paid the director and his son a salary for working the closing down and we still ended up with 35k for the creditors which we’d never have got otherwise so I earned my fee for that – I don’t remember how much I charged for that but whatever it was it wasn’t enough – it was a brilliant job but only because I was prepared to take a chance a) on actually taking the appointment but also on writing the personal cheque’

Case A_T, p.12., 372-392.

The firm’s decision to undertake particular *[Areas of practice]* within case AR_C, appears driven by the *Ethical motivations of the firm [Firm attributes]* and again, due to associated payment schedules, has implications for the *[Management of work in progress]*. The decision within Case AR_C to participate in this *[Area of practice]* demonstrates the interaction of axial codes, and in particular the influence of *[Firm attributes]* upon *[Areas of practice]*:

‘projects which are grant assisted, often these are special needs cases so that if you’ve got - usually a member of the public or child who has either learning difficulties or physical disability, they will be entitled to assistance from the local authority for house adaptations or major works. And we would historically we are interested in doing that sort of work because it’s a good thing to do, basically from an ethical point of view rather than financial.....so you’ve gone 80% of the way through the job and then you’ll be entitled to draw down the first payment....you know that when you start the job that you’re going to have to put in a lot of work before you receive any payment for it’

Case AR_C, p.9., 491-505.

For solicitors therefore decisions regarding *[Areas of practice]* will have significant implications for the *[Management of working in progress]*. However, across the professions *[Areas of practice]* can be identified as an influence upon the *[Management of working in progress]* in only two firms, discussed above, who operate either within a very distinctive part of the profession, or have commitment to undertaking particular projects.

Within the discussion above, the causal influence of *[Firm attributes]* has also been highlighted, and another dimension of this can be observed within case A_V:

'interestingly when you look at the way we do conduct work now, fees probably, have come down or stabilised.....and we can generate in house accounting software that allows us to do that accounting work if we need to do it much quicker in terms of accounts production the software allows us to work more efficiently as well....the time we take to do jobs is less, we tend to do jobs quicker.....It might take the same amount of time but if it doesn't get finished for 6 weeks, any job attracts time for whatever reason that hasn't even finished and that's a few hundred pounds more on the clock and that's the difference between making a small profit or breaking even or even a small loss'

Case A_V, p.15., 359-374.

According to the practitioner above, advancements in information technology and skill sets have improved the efficiency of accounts production, lowering levels of work in progress and improving the profitability of the firm. In these circumstances therefore, *[Firm attributes]* have had a positive causal influence upon the *[Management of work in progress]*. Interestingly, given the improvement in *[Firm attributes]* relates to general educational development and improved competency in information technology, other accountancy practices might be expected to refer to this, yet explicit discussion of this was observed only within case A_V.

The final axial codes observed to influence the *[Management of work in progress]* relate to clients; *[Client profile]* and *[Client attributes]*. For pragmatic reasons, the *Scale of the job* *[Client profile]* unsurprisingly proved an important factor with practitioners discussing the issues of *[Managing work in progress]* for the firm, and the related *[Decision to bill client]*:

'the impact is in getting the bills out, bringing jobs to a conclusion, simply because I tend to bill when works done – there is an argument and I do it with some clients, we bill every quarter and I think on the larger ones you have to.....because you're carrying too much work in progress and also it's much easier for a client to digest a fee that relates to work done over the last 3 months than say work done over 9 months when they can't remember things being done – you know you've done some extras this, that and the other you know I always try to refer to meetings and things like that and it's surprising how many people get that'

Case A_W, p.10., 228-236.

The practitioner above identifies the need to manage the level of work in progress and that where the *Scale of the job [Client profile]* might be considered large by the firm, that billing is determined by time intervals, thus enabling the firm to manage the expectations of clients. The constraints upon the firm as the result of undertaking large jobs is also apparent for case SU_E below, where the practitioner highlights the firm's investment of resources required, and the implications for the *[Management of work in progress]*, where payment is received at the end of the job:

'we're working on a report at the moment where they have sort of stated its payment on demand so it's an ongoing job and we invoice them for the buildings, as we do buildings on their site. So we send out an invoice with each finished section of this report. They pay us, they've started off paying us fairly quickly but it's sort of slowed down a bit. Now its if we rang them up they would probably give us a cheque within a week, so they pay by BACs now but um, that's one of the ones where we've actually agreed to have it staggered over payments, We do other larger jobs, a site we've sat on for a long, long while doing a survey where we will invoice it at the very end which can be a bit of a nightmare obviously because its taking up time and resources and we're not getting any payment for it. Well, we will but not until the very end'

Case SU_E, p.5., 287-297.

The natural connection to the *[Decision to bill client]* is clear and is an area that will be discussed more fully later. However, it appears apparent above that for case SU_E in contrast to the solicitor above, it is the client who has determined the timing of the payment, and therefore the subsequent implications for the *[Management of work in progress]*, perhaps indicating a passive approach on behalf of the practitioner, which shall be discussed more fully in consideration of the *[Decision to bill client]*. Finally in terms of the causal influence of *[Client profile]* upon the *[Management of work in progress]*, case AR_F highlights how the *Type of client* may have implications for the level of work in progress, with public sector clients, although offering a perceived lower risk profile, often requiring longer to pay:

'say it's a particular client with still got some ongoing work with but was a bit anxious because it was a very large project and being an individual..obviously you are dealing with a health authority they are much more secure. I mean sometimes you have to wait but you know it will come'

Case AR_F, p.7., 359-363.

Issues related to the potential for delayed payment from particular types of clients are explored further within the following chapter 8, the *Collection of amounts owed*. The other client related axial code that influences the *[Management of work in progress]* is, as noted earlier, *[Client attributes]*. The solicitor within case S_I identified how the recovery of work in progress was partly dependent upon *Client expectations [Client attributes]* associated with particular *[Areas of practice]*. Indeed, the practitioner explained how **Motivation** and the potential for referred business implied that the costs associated with full recovery of work in progress sometimes outweighed the benefits. This demonstrates an implicit evaluation of work in progress by the practitioner, undertaken with reference to a holistic view of the business and future opportunities with clients. Similarly, case S_N highlighted the perceived importance for fee earners within solicitors' practices' to effectively *[Management of work in progress]* partly in reaction to *Client preferences [Client attributes]* for timely information. For solicitors therefore the *[Management of work in progress]* reflected the importance of *[Client attributes]* and the perceived need for proactive management of *Client preferences* and *Client expectations*, which may partly reflect the nature of this particular profession and the need to demonstrate the protection of client interests.

The above discussion has focused upon the causal influence of axial codes upon the *[Management of work in progress]*, and the nature of firm practice within this area. For some firms, this was an aspect of trade credit management practice that they did not refer to explicitly. However, the implications for work in progress can be observed with reference to other decision making areas, namely the *[Decision to bill client]*, which is itself intrinsically linked to the *[Decision to extend credit]*, as identified at the outset of this section. Before the discussion turns to focus upon the *[Decision to bill client]*, the interconnectedness of the areas will be briefly illustrated.

'yes I think unless we have an opportunity to re educate him and, though having said that I'm not sure if this is completely kosher but I think G does add in an additional amount to cover the inconvenience. So although the client isn't aware, it's not billed as interest or anything but it's work, includes the chasing and waiting elements, so that deflects some of the....'

Case AR_C, p.8., 445-454.

For the firm above, decisions regarding the extension of credit and the billing of the client are interrelated with the level of work in progress. For clients that expect a lengthy

extension of credit, and therefore represent a significant proportion of the firm's work in progress, the practitioner covertly charges an additional amount in an attempt to recoup some of the costs incurred, without stating this explicitly to the client. Trade credit management practice in this context is therefore by definition, informal. The practitioner has proactively devised an approach to dealing with this client that although may not represent 'best practice' allows the relationship to continue, arguably in the interests of both parties. Similarly, case A_w above highlights how effective billing of clients has implications for the level of work in progress the firm carries, and as would be expected, that prompt billing is regarded as an important aspect in addressing this.

7.2.6 Management of work in progress: Summary

Analysis of the *[Management of work in progress]* highlighted an area of firm practice intrinsically related to other decisions and thus the result of complex issues. However, distinct causal influences could be identified that reflected the **Regulation** influence of tax regimes captured within the *[Regulatory environment]*. *[Areas of practice]* were also found to influence payment schedules with practice specialism determining payment cycles with implications for the *[Management of work in progress]*. The causal influence of *[Client profile]* and *[Client attributes]* could once more be explained in terms of the signalling qualities of these axial codes for developing **Knowledge of client**, informing assessments of **Risk**, and managing firm **Motivation**. Practitioners can be seen to trade off investment in work-in-progress against the likelihood of securing future business and perceived levels of risk; larger investments are tolerated and rationalised with reference to business opportunities and security of payment. Discussion of *[Client attributes]* also highlighted how the need to manage client expectations and respond to client preferences influenced the *[Management of work in progress]* with practitioners recognising that in order to minimise subsequent payment issues timely information needs to be provided to clients. This concludes discussion of the *[Management of work in progress]* and the chapter will now consider the *[Decision to bill clients]*.

7.2.7 Decision to bill client

Aspect of practice	Case Identifier
[Decision to bill client]	Accountants: A _U , A _V , A _W
	Architects: AR _B , AR _C , AR _F , AR _H
	Solicitors: S _A , S _I , S _N , S _R
	Surveyors: SU _E , SU _M , SU _Q

Table 10: Axial Coding of Firm Practice: Decision to Bill Client.

[Decision to bill client]

Analysis of transcripts revealed the *[Decision to bill client]* to be a distinctive area of trade credit management, which reflected the complex interplay of numerous axial codes. Within the wider, macro environment the influence of the *[Regulatory environment]* was explicitly referred to by an accountant and solicitor (case S_N), whose billing was partly determined by VAT implications. For case S_N, the practitioner's evaluation of the potential for payment to be delayed was also apparent when dealing with a *New client [Client profile]*; the lack of payment history determined that a pro forma bill should be used to avoid incurring VAT. A similar approach was described within case A_V:

'we might request the payment, so we avoid having to pay VAT until such time we receive the cash, because we're providing an ongoing service, we're able to issue what we call a request for payment so we don't actually issue a receipt and tax invoice until such time we're paid'

Case A_V, p.8., 193-196.

Despite VAT and the *[Regulatory Environment]* being, by definition, a causal influence upon all the firms, as noted above this was only referred to explicitly within these two cases. **Regulation** at a meta-level explains the influence of the *[Regulatory environment]* upon the *[Decision to bill client]* and can be observed both above with reference to tax regimes, and below with regards to the influence of professional bodies.

Within the operating environment of firms the *[Professional environment]* proved a particularly important axial code for architects. For all the architectural firms interviewed the *[Professional environment]* exerted a significant influence upon the practitioner's *[Decision to bill client]*, with billing occurring in correspondence with work stages reached:

'this particular job is a £350,000 job so I've agreed a fixed fee of 9% of £350,000, so that's about £31,000 and again split into those 10 work stages, sketch designs, initial planning application, determination of application and so on'

Case AR_B, p.6., 262-266.

'into chunks of money so they can see where the moneys allocated. I think it helps and that's sort of when they pay as well. So they kind of have an indication that once the sketch things done you know, there's say £400 to pay instead of saying there's a lump sum of £2000 and they go 'oh my god', you now whereas that's allocated'

Case AR_H, p.3., 149-153.

The approach to billing for architects is broadly defined by the professional association and therefore *Work stages [Professional environment]* capture what is effectively representative of standard industry practice and therefore normalised behaviour. From the practitioner accounts of practice however, it is also clear that billing in accordance with work stages provides an expedient and pragmatic approach, whereby the payment dates can be clearly communicated to the client and represent formally recognised anniversaries. Such staggered payments reflect the potential length of the architectural process and avoid practitioners having to delay payment until the end, as well as providing a mechanism by which to manage *Client expectations [Client attributes]*:

'I think one of the things that frustrates clients is that we're used to a kind of retail approach, most contracts that people enter into generally, are when you're buying something like if you go to a shop and you buy a fridge you pay the money and you sign a contract and the fridge is delivered it's a very quick process, it's very quick exchange, whereas architectures not like that you're delivering something over the course of 18 months and parts of it might accelerate and go very quickly and parts of it might be very difficult to get a result, like there might be a planning problem and you won't get planning permission for 6 months and that's where people are frustrated because they think that as soon as they've said right OK go ahead they're not getting that quick kind of, like the product turns up the next day sort of thing so you've got to manage their expectations as well'

Case AR_B, p.9., 390-404.

Expediency, Regulation and Norms are therefore organising meta constructs that explain particularly for architectural firms, the influence of the *[Professional environment]* upon the *[Decision to bill client]*.

The influence of normalised forms of practice, originating from industry conditions is also apparent for case SU_M, whereby billing dates are considered pre determined by the nature of the business:

'it's to do with, its traditional really in this type of business, its four quarters and there are four quarter dates. 24th June, 29th September, 24th December, 25th March are our quarter dates'

Case SU_M, p.9., 198-200.

Similarly, pragmatic, expedient explanations for the *[Decision to bill client]* are observable where the 'finished product' can be considered a powerful signal to the client that payment is due. For accountants and surveyors, the nature of the service provision may generally be considered more tightly determined than for solicitors and architects, often ending with the provision of a survey or set of accounts that act as a distinct signal payment is due, rather than the outcome being reliant upon lengthy legal processes or planning decisions. The stages that are clearly delineated for architects exist to manage what could otherwise become a very lengthy payment cycle. For accountants and surveyors, the practical importance of a universally acknowledged point of payment is clear, and is often signposted with the 'finished product':

'it was basically keeping it all together. If I have to send out a survey and then make a note that I've got to invoice this person I'd probably forget. You know just keeps is all in one, and also the jobs done, so it's like it's a finished product so there's no need to send it out a week later. It's also speed of invoicing we will only invoice once the product is finished and so it can go out with the product a) it saves on posting b) it saves in time and effort and just makes a lot more sense'

Case SU_E, p.4., 193-198.

'the way we operate, we tend to, and obviously there may be an opportunity of the tax then to come up later, but if you're doing an audit or accounts job, the main bill will come out at the end of the work being completed'

Case A_V, p.10., 229-232.

'the bills that go out they say a little bit more than just 'professional services rendered', there will be an explanation that goes out with the bill but they've seen it in most instances what we've done – we'll have had someone out there doing an audit – basically they'll have physically seen it, ok they might get 5 bits of paper at the end of it here's your accounts but I think more of them appreciate the work involved and with the newer clients

we tend to, it's quite easy to show them what's involved so I'm quite happy to sit down and talk them through the accounts, try to get over to them that this isn't just a case of half an hour's work, it takes someone a few days to do this...and they can physically see the paperwork involved'

Case A_V, p.19., 465-475.

Similarly the practitioner within case A_w below identifies how the general approach within the firm is to bill once the work has been completed, yet in some circumstances where the *Scale of the job [Client profile]* warrants it alternative approaches may be used and this will be discussed in more depth later within this section, across professions:

'the impact is in getting the bills out, bringing the job to a conclusion, simply because I tend to bill when works done – there is an argument and I do it with some clients, we bill every quarter and I think on the larger ones you have to'

Case A_w, p.10., 228-230.

The evidence above illustrates how, where a distinct product or service is provided, billing can occur in straightforward fashion once the job is complete. Where further explanation is required, the practitioners provide it. However, the ongoing nature of the relationship with the client may determine that this is not always so, and in particular the practitioner within case A_V below highlights how the *[Decision to bill client]* can be used to exercise their discretion, an issue that will be explored further within a consideration of the causal influence of *[Client attributes]*:

'we're different to a usual trading business – I mean if you look at accounts and credit terms agreed we don't have terms of credit as such it's how much work will we do for you before we push for payment'

Case A_V, p.14., 336-338.

Prior to the discussion proceeding to consider further causal influences, it is worth highlighting how the pragmatic response of solicitors to a lengthy payment cycle is the use of interim billing. For architects work stages provide clearly defined billing opportunities; for surveyors and accountants billing is often determined by the provision of the 'finished product'. Within solicitors practices' there was also evidence that a potentially lengthy payment cycle is partly managed through the use of interim billing, for example case S_R.

The payment of an interim bill was identified by the practitioner within case S_R as a useful mechanism to surface the payment intentions of a client, and determine whether any further firm resources should be invested in the client's case. This formalised, explicit approach to the *[Decision to bill client]* demonstrates the practitioner's attempts to minimise future payment issues in a pragmatic, proactive fashion.

Further evidence of how the *[Decision to bill client]* is adapted by practitioners across all professions in response to causal influences, will be considered within the following discussion. Once more axial codes concerning clients can be observed to exert a predominant causal influence upon firm practice. Within the operating environment of the firm *[Client attributes]*, *[Client profile]* and the *[Client firm relationship]* have all been discussed by practitioners when explaining their *[Decision to bill client]* which indicates the relative importance of clients to practitioners when managing amounts owed. The following discussion will explore the complexities of these considerations, exploring the influence of each client related axial code in turn, beginning with *[Client attributes]*.

For the practitioner within case S_{U_E}, *Client systems [Client attributes]* have influenced the way in which the client is billed, and expectations regarding the promptness of payment, which shall be explored more fully within discussion of *Collection of amounts owed*. The negotiation of bureaucratic systems is particularly associated with public sector clients for this particular practitioner, and therefore in this context the *Type of client [Client profile]* partly determines *[Client attributes]*:

'I would send usually a copy of the invoice to the NHS. I wouldn't fax them because it goes to a huge department so I'd have to send it to the person I sent the invoice to, the problem there is the fact that the invoices will be to different people but I'll send them all to one person. So it would be sort of 'invoice Mr so and so projects department this job' so that the person who's coordinating those invoices will know that that persons commissioned the job. So I put as much detail as much information as possible on the invoice so that he can relate it back without having to contact me'

Case S_{U_E}, p.8., 434-441.

In the case above, the practitioner's knowledge of dealing with the NHS has shaped their approach to billing, with a recognised need for clarity and the targeting of an individual who can action payment. This tacit appreciation of the workings of the NHS appears to have developed over time and illustrates how practitioner's develop a knowledge base of

the payment behaviours of clients, and that this feeds back into their practice. Similarly, the knowledge base developed by practitioners through their interactions with clients can be observed within case AR_H, where the practitioner bills the client earlier than the normalised work stages as the result of previous experience of the client paying late:

'actually I did learn something from it because I invoiced him before building regs had been passed because I knew he was going to be slow and even then I didn't get it!'

Case AR_H, p.10., 584-586.

Substantial evidence across the profession indicates how the [*Decision to bill client*] is also taken with reference to anticipated *Client preferences* [*Client attributes*], and in particular the need for clients to manage both costs and cash flow. Case S_R highlighted how billing intervals and decisions appeared to have been decided upon collaboratively between client and firm, in order that payment could be better managed. This was reiterated within case S_A, where the practitioner identified that the need for clients to manage their cash flow [*Client attributes*] largely determined the timing of the bill, and therefore the [*Decision to bill client*].

Similarly for the accountant in case A_U, *Client control of costs* [*Client attributes*] is identified as driving the practitioners approach to billing clients, with fixed fees providing the basis for monthly standing orders considered to provide the clients with certainty and aid their management of costs:

'but a lot of my clients, I generally put them on a monthly standing order and that really helps. It helps them they like it....because they don't have a big bill to pay at the end of the year, it's a fixed fee, most of the clients like fixed fees, they don't like not knowing what's coming round the next corner...although it's something...it's the amount of money they can manage every month – accountancy fees for small businesses are quite high in relation to the turnover, so you keep it to a manageable amount'

Case A_U, p.2., 28-37.

The [*Decision to bill client*] is approached proactively in an attempt to prevent clients being exposed to unexpected fees. The practitioner emphasises the importance of keeping clients informed again in a collaborative spirit that allows the client to budget and manage the fee, but that is also likely to prevent issues regarding affordability arising, thus also providing the practitioner with some protection from non-payment. There is evidence that

when considering the *[Decision to bill client]*, practitioners consider the requirements of their clients and the implications for clients cash flow *Client preferences*. However, this may not be entirely altruistic, if the results of such an approach are that the client is able to afford payment, and payment issues arise less frequently, then from the practitioner's perspective this is likely to minimise payment issues. Practitioners are adapting the *[Decision to bill client]* in order to invest in the relationship with the client through actions that help to secure payment and the likelihood of on-going business.

In a similar vein, practitioners seek to manage *Client expectations [Client attributes]*, when making the *[Decision to bill client]*, identifying the need to create and maintain client awareness of billing dates, partly in order to provide the opportunity to recoup costs:

'also it gives you an opportunity to mop up if that makes sense because the risk is, if you only send out one bill, perhaps at a certain point in time, costs are incurred after that date and unless you've got an opportunity you might have to wait a full year – if people are used to just getting one a year you've got to be careful when you time the next one'

Case A_v, p.10., 240-244.

'you can educate the clients to getting used to receiving the bills on a more regular basis so we're able to pick up costs more frequently. We will offer clients the chance to pay by direct debit standing order so if a new client comes in just to help them sometimes because it allows them to spread the cost equally over the year, we can give them an estimate of what we think the annual cost is going to be so they can set up a standing order and pay that.....that helps us because we can get a regular income stream from that and some clients like that'

Case A_v, p.11., 246-254.

For the practitioner below it is important to bill when the client still associates with the work undertaken, which helps to ensure *Client satisfaction [Client attributes]* and manage *Client expectations [Client attributes]*:

'because you're carrying too much work in progress and also it's much easier for a client to digest a fee that relates to work done over the last 3 months than say work done over 9 months when they can't remember things being done – you know you've done some extras this and that and the other – you know I always try to refer to meetings and things like that and it's surprising how many people get that'

Case A_w, p.10., 232-236.

Practitioners billing practices have been informed by [*Client attributes*], with the [*Decision to bill client*] incorporating both *Client expectations* and *Client preferences* in order to both minimise client payment problems and ensure prompt payment. For the practitioner in case AR_B below, *Client satisfaction* is a key element to the [*Decision to bill client*], with invoices submitted once the client has confirmed they are satisfied with the work undertaken:

Its work stages when we've actually agreed a work stage, so if I'm instructed, after preparing sketch designs, if I'm asked to submit a planning application then that is the signal that they have agreed the sketch designs at that point then I can say to them, so that signals the end of the work stage so do you mind if I invoice you for that? And so long as they're happy then they invite you to submit an invoice'

Case AR_B, p.7., 299-309.

Discussion of [*Client attributes*] and the causal influence upon the [*Decision to bill client*] has identified proactive billing decisions designed to reduce payment issues and respond to the payment information needs of clients. However there is further evidence that highlights the role of the [*Decision to bill client*] in terms of responding to *Client circumstances* [*Client attributes*] and building the [*Client firm relationship*], which in addition demonstrates the combined causal influence of both these axial codes, and their interaction:

'so in that sense you probably don't bill for quite a while and what costs you might have incurred in the meantime you probably right off because you might just send one bill initially if you've helped with the company formation then there'll be a bit of a breather so they get a fairly hefty discount in the first year.....Goodwill, it's a question of goodwill – obviously it's a case of being there and giving them some confidence, perhaps it helps them to some extent if their income stream is fairly low at the time, they're aware that they have to pay accounts and things but it can be difficult'

Case A_V, p.18., 421-430.

'there might well be unbilled work in progress because obviously what will happen is – that's at the discretion of the partner so we might spend a bit of time and it's a nice bit of discretion to say 'I won't bill you for that time' so we can take it, it doesn't actually have to get as far as a bill, we can say to the client 'right I can help you out here, as you know I've had to do quite a considerable bit of work so let's call it at that and we'll sort something out later'.....I mean you'd like to think its exceptional circumstances – so it's got to be a reason, again we're not going to do that all the time because that

doesn't make us any money so yes there is a degree of genuine thought or a genuine belief that they can probably trade out of it or that what you're doing is for the good and might actually help them and obviously help our position at a later date and their position because at the end of the day if we can keep them, going and get them out of a rut that must help us and demonstrate a certain degree of goodwill that we're not just going to cast people aside because they're having a stretch of bad luck, we're well aware of what's going on out there and various clients have certain circumstances so we try and help them out as much as possible''

Case A_v, p.20., 487-505.

For the practitioner above, consideration of *Client circumstances* [*Client attributes*] is a causal influence upon the [*Decision to bill client*]. Billing offers an opportunity for the practitioner to use their discretion and support the client through difficult circumstances by reducing the bill, or consciously choosing not to bill the client for all the charges incurred, as with new clients. Additionally, this helps build the [*Client firm relationship*], of which the practitioner is aware, identifying how reducing the bill allows 'goodwill' to be developed with the client, signalling to the client that the practitioner is willing to invest in the relationship in order to help them continue in business. The mutual benefit of this approach to billing is clear; the client pays less and receives support in times of restricted cash flow, whilst the practitioner hopes to secure the clients ongoing business, whilst helping maintain the client in business also increases their likelihood of being paid should circumstances become difficult. The interaction of the [*Client firm relationship*] with [*Client attributes*] was also demonstrated within case S₁, where the *Client attitude* [*Client attributes*] to payment caused the practitioner to adapt their approach to billing as the result of [*Client firm relationship*] that was established over repeated interactions.

[*Client attributes*] can therefore be seen to have a significant influence upon the [*Decision to bill client*]. Aspects of trade credit management are implicit within this decision and reflect practitioners' considerations of numerous issues. Discussion has highlighted the often proactive and informal nature of approaches that reflect evaluations of the situation of clients, and anticipate potential payment issues. The **Motivation** of practitioners to invest in the [*Client firm relationship*] is clear, and although reflecting commercial sense and the hope of securing ongoing business, they are also collaborative and emphatic, highlighting reciprocal dimensions of the practitioners [*Decision to bill client*].

The discussion will now consider the *[Client profile]*, and the *[Decision to bill client]*. Previous discussion of the practice of solicitors, highlighted the interplay of *[Client profile]* and *[Client attributes]*, and the implications for the *[Decision to bill client]*, where, for case S_I, the *Clients attitude [Client attributes]* is largely attributed to the *Type of client [Client profile]*. Whilst the indirect influence of the *[Client profile]* upon the *[Decision to bill client]* was observed in case S_I, for cases S_A and S_N aspects of the *[Client profile]* had a direct effect upon the *[Decision to bill client]*. For example, when deciding to bill *Repeat clients [Client profile]*, the practitioner within case S_A paid particular regard to the timing of the bill, with the practitioner's assessment reflecting the intangible and ongoing nature of the advice being provided, and the need for billing to occur whilst the client recognised the work with which it was associated. In response to this and other case specific causal influences, such as *Client cash flow [Client attributes]* as discussed earlier, the practitioner established triggers to billing *Repeat clients [Client profile]* that were either related to the time the amount has been owed, or to the size of the bill. This resonates with earlier discussion within case A_w regarding the need to bill clients when they can still associate with the work undertaken, which is of particular importance for professional firms, given the often intangible nature of the advice provided. For case A_w, the important issue in securing payment was managing *Client satisfaction [Client attributes]* and avoiding payment disputes. For case S_A, the key factor was dealing with *Repeat Clients [Client profile]*, hence the difference in axial coding.

The *[Client profile]* could also be observed to influence the *[Decision to bill client]* in other direct ways. The *Scale of the job [Client profile]* highlighted work in progress issues for Case S_{U_E}, discussed earlier, that also influenced the practitioner's *[Decision to bill client]*. Similarly, the *Scale of the job [Client profile]* can be seen to influence the *[Decision to bill client]* within the cases below:

'If it's a normal domestic one then they usually get two accounts, one after the planning application's been submitted and the other one at the end....invariably you don't supervise with some of the smaller work so they maybe probably get two accounts covering –but if its large, like a new build house...then you send out monthly accounts'

Case AR_F, p.3., 149-155.

'usually I bill once I've put in for planning permission. Once building regs has been agreed, has been passed un that's because we can't - and then and then it would be once I'm on site, it would be a monthly, probably a

monthly stage.....sometimes I'll charge them after doing a sketch design it depends how big the job is I mean if I'm doing a whole house it could be a lot of work'

Case AR_H, p.3., 169-174.

'the main ones , we usually do the larger jobs, saying that, it's a cycle thing, as we're driven by this monthly thing, if we're half way through a job at the end of the month if we, we will quite often look to bill. If you feel happy that the client knows you've done some work, all you're doing is issuing a bill on that work there's no reason why we shouldn't do that...it means rather than waiting 6 weeks we will bill up to 2 weeks and perhaps after 4 weeks rather than waiting 6 weeks and doing it that way'

Case AV, p.10., 234-240.

Billing practices are established that offer pragmatic approaches for the *Scale of the job [Client profile]* involved. For all the practitioners above, where the job involves large commitments of resources and is likely to be lengthy, monthly billing appears to offer a suitable alternative to, for example, work stages, or billing when the 'finished product' is delivered. The *[Decision to bill client]* therefore reflects the adoption of approaches that adapt according to the circumstances, with practitioners recognising the potential problems on larger jobs of receiving payment in accordance with normal patterns of business. A related issue is highlighted within case AU where the practitioner identifies that the *Size of client [Client profile]* may influence the *[Decision to bill client]*, with larger clients engaged with monthly standing orders, whilst other clients are billed when in receipt of the 'finished product':

'my billing process – what I do is, I do it in two ways, I have my monthly standing order clients, my large clients, they're not the sort of people to, if you see what I mean, and once I've got the engagement letter signed and done the anti money laundering and done all the pre requisite side of things and they've agreed to have a standing order direct into my account and I've told them what the monthly fee is and that invoice we say services for October, services for November, services for....it's a very standard procedure and I like those. My other clients I basically raise an invoice when I've done something for them which is generally draft accounts, tax returns to be signed, anything I've produced for them basically so if I'm doing management accounts, if I send them management accounts I send my bill then, I don't generally get money in advance, I don't really ask for it but as soon as I've produced a piece of work obviously...'

Case AU, p.4., 93-105.

The practitioner in case A_U encourages clients considered large enough to organise a monthly standing order which therefore provides practitioners with a reliable, predictable cash flow.

For some practitioners the *Type of client [Client profile]* influenced the *[Decision to bill client]*. For example, both the architect and surveyor below discuss their business interactions with property developers, highlighting how different billing arrangements can be organised, and the adaptability of the practitioner to the client:

'the works are beginning on site, there's 40% of the fee outstanding which is I suppose about £15,000 and we know it's going to be 10-12 months on site so it's basically the remainder of the fee divided by 12 months, and then paid per month, so it's a retainer then. So it's just like I'm picking up a regular salary, except I have to pay my own tax. And that's great, it's really great when it becomes that sort of arrangement because then I've got a regular income and the more jobs you can get on a retainer its brilliant because then you can rely on it'

Case AR_B, p.5., 202-211.

'in a very rigid way because they're money people who understand about money. Basically very simple agreements, very carefully worded. Now there is one of those two who is technically a bit slow but I know why and I've agreed to it and I've got a letter saying and I suppose the truth of it is as long as we're getting money monthly but if the original cycle is set I don't mind so much but if it was 60 days each time and we're only being paid at the 60 days I would regard it as intolerable'

Case SU_Q, p.15., 363-369.

As within earlier discussion of billing arrangements, the practitioner in case AR_B is happy to secure a regular monthly payment which reduces **Risk** and creates stability, whilst within case SU_Q the practitioner discusses how payment patterns can be accommodated, when the practitioner is kept informed of the circumstances.

The final element of *[Client profile]* observed to exert a causal influence upon the *[Decision to bill client]* is where a *New client [Client profile]* is perceived to present a higher level of risk, with implications for the practitioners approach to billing. This was highlighted within case S_N and discussed in full within the previous chapter. Clearly, knowledge of a *New client [Client profile]* is restricted and this contributes to the perceived **Risk** associated with receipt of payment. The *[Decision to bill client]* was

therefore adapted to reflect this, with organising meta level constructs of **Risk** and **Knowledge of client** explaining the influence of [*Client profile*] upon the [*Decision to bill client*].

Consideration of the causal influence of [*Client profile*] upon the [*Decision to bill client*] has highlighted practitioners' assessments of a range of complex and interrelating factors. Practice is often explained by **Expediency**, with billing occurring not necessarily at pre determined optimum points, but as the result of practitioners' evaluations of individual clients, and assessments of **Risk** based upon their **Knowledge of client**. These assessments inform practitioners' decisions, and should enable them to evaluate when billing should occur, either in response to the increased **Risk** associated with escalating amounts owed, or before the client disassociates the fee from the work undertaken. **Motivation** also provides an organising meta-level construct that explains the careful management of the client, and the collaborative way in which billing decisions are made. Thus the [*Decision to bill client*] is not taken with reference to standardised criteria, yet reflects a thoughtful and appropriate approach, with the bill providing a timely signal to the client of amounts owed.

The final axial codes in relation to the [*Decision to bill client*] concern factors within the firm's internal environment. They relate to [*Area of practice*], and descriptive characteristics concerning the firm, [*Firm attributes*], and the practitioners, [*Practitioner attributes*]. Each is dealt with in turn beginning firstly with [*Areas of practice*]. Discussion of the [*Decision to bill client*] for solicitors highlighted how the nature of the case was a key influence upon the point of billing, and that this is normally associated with prevailing payment **Norms** determined by [*Areas of practice*], and with recognised implications for work in progress. The surveyor within case SU_M operates within distinctive [*Areas of practice*] and similarly discussed the causal influence of established payment processes upon the [*Decision to bill client*]:

'we get maintenance monies in because people have to pay a service charge. We get rent in also ground rent. We get ordinary rent in per year, we've got a few left of tenants but most of its rental. We have them in cheque, cash. We have a bank account for standing orders, a bank account for rent standing orders. And all our maintenance properties have their own individual bank account which we have full control. Now our money, we get rent commission which we take and remit the balance to the landlord so we don't have any problem with that'

Case SU_M, p.2., 42-56.

To some extent therefore [*Areas of practice*] determine billing events for practitioners implying that the [*Decision to bill client*] is in some respects a passive one, with practitioners accepting industry expectations regarding payment. Similar issues can be observed for the accountant below, where the [*Areas of practice*] determine pragmatically the billing point:

'for accounts and tax yes. The way we operate we tend to, and obviously there may be an opportunity perhaps for the tax then to come up later but if you're doing an audit or accounts job, the main bill will come out at the end of the work being completed, we can do an interim bill'

Case A_v, p.10., 229-232.

The [*Decision to bill client*] for the practitioner within case A_w is also taken with reference to when a job is completed with billing occurring with delivery of the 'finished product':

'almost a personal tax case, a lady who has her own fashion consultancy, we only bill once a year, when we do her figures and so her tax return and this year we billed her on the 8th November and had her cheque back on the 16th so it was simple....another one, limited company one I've acted for 20 years, again no queries on fees we tend to bill them once or twice a year in the main our work is annual accounts or tax associated with that so there may only be one billing opportunity...we're not doing on account billing we are billing for what has actually been done'

Case A_w, p.1., 13-23.

However, the practitioners [*Decision to bill client*] at the end of the job is one that has been taken with due consideration and is not necessarily simply the result of expected payment structures being passively accepted:

'There are some of my competitors who want the money up front who are very, very money focused, now they may well be making more money than me I couldn't say but I'm not convinced that the reward is worth the extra.....they had almost everybody on standing order, but the difficulty they ran into is what work each payment related to, so if suddenly a client decides to leave, have they paid upfront for some accounts, or haven't had? Or if they started paying by standing order and their accounts were a year late, how soon did it catch up?....there's a great negotiation that goes on every time' – I could be getting on with work, its horses for courses'

Case A_w, p.5., 114-125.

Clearly the practitioner in case A_W above has evaluated the issues associated with upfront billing, and rather than face the negotiation process regarding payment that might arise at the termination of the business relationship with the client, has decided their time is best spent elsewhere.

For solicitor's practices' *Client funding [Areas of practice]* was significant in determining payment schedules, with evidence provided by cases S_A and S_R indicating how *Client funding* signalled information regarding **Risk** associated with payment. Across the professions, however there was little evidence of the causal influence of *Client funding [Areas of practice]* upon the *[Decision to bill client]*, apart from within case AR_C, where grant assisted projects determined associated payment schedules, as discussed earlier when considering the *[Management of work in progress]*. The practitioner is aware payment will be delayed until the end of the process but is willing to effectively fund the work until then because of their ethical commitment *[Firm attributes]* to the *[Areas of practice]*:

'and strictly speaking the client should arrange for a loan or something to pay us until the money arrives. But because the situation is that the client doesn't have the means in the first place, hence why they qualify for the grant, but they can't actually arrange a loan to pay you anyway. So it's out of the good nature of our hearts that we actually entertain that arrangement'

Case AR_C, p.9., 535-539.

Within case S_R, *Control of process [Areas of practice]* was found to enable firms to exercise leverage to secure payment, and surface payment intentions through the *[Decision to bill client]*, however this was only identified as a causal influence for this case, with no further evidence found across the professions.

Indeed, considering the evidence across the four professions the causal influence of *[Areas of practice]* was a dominant influence for solicitors, but of less importance for the other professions. The implications of *[Areas of practice]* for solicitors are more fundamental, often determining funding and payment **Norms**. It is however possible to observe how the *[Decision to bill client]* has been influenced by payment **Norms** dependent upon *[Areas of practice]* for other professions, but to a lesser extent. For case A_W above, the acceptance of the billing patterns determined by *[Areas of practice]* was a conscious decision that reflected the evaluation of alternatives, rather than a passive response. In addition for

solicitors, what could be regarded as the imposition of payment *Norms* was partly managed through their ability to evaluate the *Risk* associated with the client on the basis of their funding, and so some aspects of the [*Decision to bill client*] exhibit *Expediency*, with practitioners trading off *Risk* and potential delays in payment. Finally, elements of *Power* were apparent for one solicitor, who utilised the [*Decision to bill client*] proactively in order to surface payment intentions and inform their evaluation of *Risk*, leveraging payment with the refusal to undertake more work unless payment was made. The organising meta-level constructs *Power*, *Expediency*, *Risk* and *Norms* therefore interact to provide explanations of the influence of [*Areas of practice*] upon the [*Decision to bill clients*].

The final axial codes in relation to practitioners [*Decision to bill client*] relate to descriptive characteristics associated with the firm and the practitioner, namely [*Firm attributes*] and [*Practitioner attributes*]. Within case S_N, interesting intra firm dynamics were revealed with the distinction between the fee earners and partners within the firm with regards to the [*Decision to bill client*]. The *Motivation of the practitioner* [*Practitioner attributes*] was identified as a causal influence upon the [*Decision to bill client*], with the implication that the partner's billing of clients is more frequent and mindful of amounts owed, as a direct result of their position as 'owners'. Fee earners by definition had different profiles with regards to motivation, and as a result their billing was considered less prompt. The influence of [*Practitioner attributes*] surfaced as an issue only within this firm and is potentially related to the fact that case S_N is one of the larger solicitors firms within the sample. Ultimately, the issue is one of *Motivation* which at a meta-level, explains the causal influence of [*Practitioner attributes*] upon the [*Decision to bill client*] within case S_N.

At a firm level, for case S_R, the *Firms experience of payment problems* [*Firm attributes*] directly influenced the [*Decision to bill client*], with the firm reviewing practices and tightening billing procedures in order to reduce payment problems. Across accountants, architects and surveyors one common aspect of [*Firm attributes*] identified to influence the [*Decision to bill client*] was *Resource constraints*. Practitioners identified how billing could be constrained by the availability of time, but also how expedient billing procedures had been adopted that represented efficient use of limited resources:

'it was basically keeping it all together. If I have to send out a survey and then make a note that I've got to invoice this person I'd probably forget. You know just keeps it all in one, and also the jobs done, so it's like it's a finished product so there's no need to send it out a week later. It's also speed of invoicing we will only invoice once the product is finished and so it can go out with the product a) it saves on posting b) it saves in time and effort and just makes a lot more sense'

Case SU_E, p.4., 193-198.

I'm just thinking today you know, I really should, I should be sending out two or three invoices but you're so busy working that you don't get around to it, you know the same old thing, keeping all the eggs in the air'

Case AR_H, p.3., 162-164.

'no with our various productive staff, if I can say that, it's actually a fixed overhead the level of salaries, so you really need to bill a certain figure every month if you can and not always do the right jobs come through to get there. It might have to be an awful lot of little ones if there's not big ones coming through and there's a certain amount of time spent on finalising a set of accounts, doing the letter and everything else'

Case A_w, p.11., 246-251.

The close relationship between the areas discussed within the *Management of amounts owed* means that some of the evidence highlighted above has also supported earlier analysis, yet the causal influence of *[Firm attributes]* upon the *[Decision to bill client]* is also apparent, with the practitioner in case SU_E identifying efficient, expedient approaches in order to save time, whilst for the practitioner in case AR_H, billing clients is not always prioritised as a result of time constraints. Interestingly for case A_w, employee wages are identified as a stimulus to billing, as they represent a benchmark amount that must be paid. Constraints upon resources within the firm therefore imply that for this practitioner, the *[Decision to bill client]* is in part driven by the need to cover overheads.

7.2.8 Decision to bill client: Summary

The approach to the *[Decision to bill client]* results in part from *Expediency*, with billing occurring in line with *Norms* of practice, and payment anniversaries, often established as the result of their practicality. *Regulation* at a meta-level helps to explain the influence of the *[Professional environment]*, with practitioners to some extent developing their practice in line with that determined by professional bodies, or in order to manage VAT.

Consideration of client related axial codes highlights that generally firms have approached the *[Decision to bill clients]* in a collaborative, consultative manner reminiscent of an approach to the *Management of amounts owed* that although not necessarily optimal, is informed and productive, with problems regarding payment avoided for both client and firm. Firms are often proactive, engaging with the client to create billing schedules that suit the requirements of both. Practitioners are happy to make investments in the client firm relationship in the hope of securing on-going business, and the *[Decision to bill client]* has for some provided the means with which to achieve this, reflecting therefore the influence of *[Client profile]*, *[Client attributes]* and the *[Client firm relationship]*. The dominant causal influence of client orientated axial codes can therefore be explained with reference to numerous meta-level concepts.

Commercial **Motivation** is particularly significant, as is the importance of developing practitioner **Knowledge of client**, with an understanding of a client's attitude and preferences enabling firms to proactively manage anticipated payment behaviour. This in turn contributes to the evaluation of **Risk**, which is also evident at an explanatory meta-level when considering client related axial codes. Additionally, interactions with clients over time allow practitioners to reflect on their experiences with clients and adapt practices accordingly, thus providing evidence of **Experiential learning**. **Expediency** provides a partial explanation of firms' interactions with clients, with the adoption of practices that although not necessarily optimal, are effective and appropriate for the context. *[Areas of practice]* embodied the influence of associated payment **Norms**, particularly for solicitors, but also reflected aspects of **Risk**, **Power** and **Expediency**. To some extent the descriptive characteristics of the firm and practitioner also influenced the *[Decision to bill client]*, with past experience and resource constraints highlighting **Experiential learning** within firms, and the pragmatic, expedient way with which the *[Decision to bill client]* was often taken. There are therefore numerous organising meta-level constructs that explain the causal influence of axial codes upon the *[Decision to bill client]*. One final area of decision making within the *Management of amounts owed* remains to be discussed and it is here that the discussion now shifts.

7.2.9 Firm financing decision

Aspect of practice	Case Identifier
[Firm financing decision]	Accountants: A _T , A _W
	Solicitors: S _A , S _I , S _R
	Surveyors: S _{U_L} , S _{U_M}

Table 11: Axial Coding of Firm Practice: Firm Financing Decision

[Firm financing decision]

From a cross profession perspective, practitioners within three of the professions referred explicitly to financing decisions when discussing the *Management of amounts owed*, these were; solicitors, surveyors and accountants. These practitioner accounts of practice highlighted how, when asked to discuss trade credit management, they naturally referred to the overall financial position of the firm, taking a holistic view of cash flow within the firm and the *Management of amounts owed*. Earlier discussion of the *[Organisation of credit management]* highlighted how the *Practitioners attitude to debt [Practitioners attributes]* within case AR_B influenced their approach to cash flow management, which resonates with this discussion. However, in the following cases, the *[Firm financing decision]* is a distinct aspect of firm practice when *Managing amounts owed*, with practitioners identifying how a key focus of practice is to minimise the use of overdrafts and debt finance.

For the practitioner within case S_A, the *Firm attitude to debt [Firm attributes]* was identified as a key influence upon the *[Firm financing decision]*, and an integral part of overall trade credit management. However for case A_T, it is the *Practitioner attitude to debt [Practitioner attributes]* that is attributed to the *[Firm financing decision]*:

‘but as I said to start with I was very fortunate when I started it was at the depths of the recession or the beginning of the recession and I managed to build up enough working capital in the first year or two so that I’m not having to rely overly on banks to support me – inevitably I have had to borrow some money at various periods of time and so no but generally speaking it’s something I’ve been able to control’

Case A_T, p.8., 258-263.

In their overall approach to the [*Firm financing decision*], the practitioner demonstrates the relationship between the *Management of amounts owed* and cash flow within the firm, and the practitioner's incentive to maintain financial control. For case A_T, this is aided by their relationship with their banker, *Banking relationship [External stakeholders]*:

'I haven't at the moment, I have the facility and a very understanding bank manager, he's very, very good, he and his predecessor have seen the way the practice has been run and operated and my bank is very comfortable'

Case A_T, p.8., 271-274.

Additionally, practitioners in cases S_I, S_R, S_{U_L}, S_{U_M} and A_W all refer to how a preference to *Minimise use of overdraft [Firm financing decision]* is an important aspect of their financial management practice within the *Management of amounts owed*, highlighting the emphasis within firms upon financial control, for example:

'I have an overdraft but I tend not to – why use the banks money, they make enough money'

Case A_W, p.11., 254-255.

Earlier discussion of the [*Firm financing decision*] for solicitors highlighted how [*Areas of practice*] had implications for the [*Organisation of credit management*], which subsequently impacted upon the firms attempts to *Minimise use of overdraft [Firm financing decision]*. In addition, for case S_N, management of the timing differentials regarding the incurrence of costs and disbursements was revealed as a focus for the practitioner in order to [*Minimise use of overdraft*]. Therefore the [*Firm financing decision*] can be seen as an important element within the *Management of amounts owed*, with both [*Practitioner attributes*] and [*Firm attributes*] influencing the decision, and the [*Professional environment*] and [*Areas of practice*] exerting an indirect influence. There is evidence of financial control and a conservative approach to running the businesses; cash flow is seen holistically, with some practitioners reluctant to use debt financing and, as was discussed within chapter 5, credit management viewed as an important part of overall financial control. Generally, cash flow management is linked to overall financial planning objectives, illustrating a holistic perspective of the business finances and the role of credit management within it.

7.2.10 Firm financing decision: Summary

A disciplined, controlled approach to managing the finances of the business is associated with a reluctance to use debt, with debt perceived as having a behavioural impact, creating what was referred to within case S_A as a '*false sense of security*'. This is particularly interesting if considered in light of Howorth and Wilson (1999) who identify a link between firms restricting external finance and their experience of the effects of late payment. Howorth and Wilson (1999) argue that firms who have restricted the use of external finance, or who are under capitalised, are more severely affected by late payment and more likely to pay their own suppliers late. Howorth and Westhead (2003) similarly found that the use of external sources of finance encouraged the up-take of working capital management routines, which they attribute to a hypothesised need to satisfy the requirements of external investors.

However, this research has found that small professional firms may purposefully avoid the use of debt in order to minimise risk and maintain tight financial control. The implication is that avoidance of debt, and the restriction of the use of external finance, creates an incentive for tight financial control and the uptake of effective credit management practices. There is evidence of effective methods of financial control and recognition of the importance of this in terms of overall financial planning. This research therefore supports the findings of Perren et al (1998) and Jarvis et al (1996) that small firms have methods of control that are 'crude...but which are efficient and effective' (Perren et al (1998), p.356). **Risk** and **Motivation** explain at a meta-level the significance of the axial codes discussed above upon the [*Firm financing decision*]. The **Motivation** to avoid debt finance and maintain conservative cash balances demands control of finances; a proactive approach to financial control acts as a stimulus to the management and collection of amounts owed.

7.3 Management of amounts owed: Conclusions

Practice within the central section of the framework captured aspects of practice concerned with the ongoing payment relationship with the client and subsequent implications for the firm. In particular decision making was seen to revolve around billing clients, extending credit and financing the firm whilst functional areas of practice included the organisation of credit management and the management of work in progress. The existing research tends to be focused upon the empirical testing of theories of trade credit extension or the gathering of descriptive data concerning working capital management practices. The

intention of this research was to surface actual firm practice inductively from rich qualitative data, allowing a more in-depth understanding of trade credit management practice to emerge, alongside inductively derived causal explanations.

The first functional aspect of practice to be considered was the [*Organisation of credit management*], which was referred to by the majority of practitioners across all professions. In all cases, the trade credit management function was wholly retained within the business, and practitioner's made some reference to the degree of centralisation. The role of technology and software in organising the credit management function was evident, and considered beneficial for firm administration. In addition, there was widespread evidence that pointed to formalised [*Organisation of credit management*] that could be identified as 'best practice'. The monitoring of amounts owed was proactively undertaken, with the use of effective and appropriate methods. Interestingly, the size of the firm did not appear to be a barrier in terms of the use of formal systems with even the smallest of practices demonstrating effective use of information technology and knowledge of 'best practice'. However, the degree of centralisation was more pronounced for larger firms who identified a need to centralise their accounting functions in reaction to the descriptive characteristics of the firm, [*Firm attributes*], and the firms past payment experiences. *Resource constraints* [*Firm attributes*], were also seen to provide a stimulus to the formalisation of procedures.

The [*Organisation of credit management*] was partly determined by a tension between the centralisation of functions and the autonomy and informed position of the practitioner. With even the largest of the firms amongst the sample, responsibility for the [*Organisation of credit management*] remained ultimately under the control of the responsible practitioner. For some practitioners the tension was weighted more towards an 'optimal' use of resources in their approach to the [*Organisation of credit management*], whilst for others the approach was pragmatic with practitioners reacting expediently, recognising the asymmetry of information that exists between the practitioners and practice manager and its relevance in managing the ongoing payment relationship with the client. This could potentially be explained by the nature of the bespoke, personal service provided by professionals.

The formalised, systematic approach to the *[Organisation of credit management]* clearly evidenced within the discussion could be considered unsurprising within professional firms. Further evidence is provided of the regulatory influence of the *[Professional environment]* particularly for solicitors and architects, where professional bodies and industry accreditation promote the adoption of formal ‘best practice’ procedures in the management and organisation of professional firms. For solicitors in particular, the causal influence of the *[Professional environment]* was particularly pronounced, with the need to protect client interests a pertinent issue for the legal profession.

[Areas of practice] was also identified as an important axial code concerning the *[Organisation of credit management]*. This was a particularly important causal influence for solicitors, where the *[Areas of practice]* determined payment **Norms** and associated **Risk**. The evaluation of **Risk** associated with the *[Areas of practice]* enabled practitioners to behave with **Expediency**, focusing efforts upon managing amounts owed perceived to hold more **Risk** and passively waiting for payment from clients with secured funding. The causal influence of *[Area of practice]* combined with the influence of *[Professional environment]* to entrench and establish payment **Norms** and shape the *[Organisation of credit management]* particularly within solicitors firms.

Discussion thus far concerning the *[Organisation of credit management]* has tended to highlight the uptake of systematic, formal credit management practices and the causal influences that promoted them. However, the richness of the data and the descriptions of practitioners’ dealings with clients elicited how within architects, surveyors, and solicitors the application of formal approaches was compromised and adapted. For accountants, there was little evidence of variation in practice, which perhaps could be because deviations in practice were not discussed.

The *Resource constraints [Firm attributes]* of the small professional firms were observed to influence practice with demands upon, for example, the time of the practitioners implying that the *[Organisation of credit management]* could sometimes be neglected. Firms managed cash flows proactively, making use of non standardised, firm specific approaches in order to manage this scarce resource. However further evidence of the causal influence of resource constraints has identified how for some practitioners, active credit management is prompted only when either cash flow constraints become restrictive, or the

practitioners demands on time are slackened. For the practitioner, the approach is an expedient one, reflecting their assessment of the most optimal use of their restricted time. Previous research has noted the impact of resource constraints upon working capital management within small firms, with some findings indicating that resource constraints may not be a direct barrier to the adoption of working capital management techniques, but that active working capital management reflects assessments of marginal returns, with efforts focused accordingly (Howorth and Westhead, 2003). Within this research however, it is evident that the availability of time and cash does shape practice, but the evidence also highlights how practitioner's actions are triggered by the problems likely to be otherwise encountered. The research methodologies of existing research may not have unveiled informal evaluations of cash balances, and decisions regarding the allocation of practitioner's time. This research therefore adds depth to our understanding regarding the implications of resource constraints for small firm practice.

Further evidence highlighted how [*Client profile*] informed practice, with approaches developed and adapted to reflect the perceived resource intensity of clients and other aspects of the [*Client profile*] that informed practitioners as the result of their previous experience. The causal influence of [*Client attributes*] was also evident in signalling the information requirements of clients to practitioners. Indeed, the need to manage *Client expectations* [*Client attributes*] and *Client satisfaction* [*Client attributes*] instigated practitioners to provide information of mutual benefit to both client and firm, ensuring clarity in the payment expectations of both. [*Client attributes*] and [*Client profile*] had a distinct causal influence upon the [*Organisation of credit management*], allowing practitioners to form assessments of clients potential payment behaviour, and therefore providing the opportunity for practitioners to proactively anticipate payment issues and organise practice accordingly.

For small, professional firms there was therefore clear evidence of the uptake of formalised procedures and administrative systems in even the smallest of firms. The influence of regulatory, axial codes highlighted partly explained the use of techniques representative of 'best practice', whilst for solicitors in particular the [*Areas of practice*] was a further important causal influence. The richness of data allowed practice to emerge that highlighted the role of clients in the approaches taken, and instigated the timely provision of information to clients that was complementary to the cash flow needs of practitioners.

Respondents accounts of practice have therefore revealed dimensions that previous research has not fully explored, providing evidence of appropriate and sophisticated credit management that is responsive to the demands of firms' operating environments.

The next decision area to have surfaced from the practitioners accounts of practice was the *[Decision to extend credit]*. Again, the existing research is dominated by deductive methodological approaches that have tested theoretically derived explanations for the extension of trade credit; an approach considered to offer limited insight when considering the financial management practice of SMEs. However, the findings of previous deductive research resonated in places with the inductively derived explanations that emerged from this multiple case study analysis, with different methodological approaches shining light at different angles.

Consideration was paid to the adaptation of the formally expressed payment period, with the focus upon the effective payment period extended to clients. There was some evidence of passive firm practice in response to the influence of *[Industry norms]*, however the causal influence of the *[Client profile]* was also apparent and highlighted how effective payment periods were determined. Practitioners assessed the degree of leverage that existed within the relationship with the client in terms of extracting payment, which was counter balanced against commercial **Motivation** and the potential future benefits of maintaining an ongoing business arrangement, and the risks involved. Although previous research has explored issues of customer dominance and the impact upon credit terms, this has been considered mainly in terms of the size of the customer and the proportion of business. The practitioner accounts of practice however provided evidence of complex decision making that although providing some evidence of dominant customers leading to tentative credit management, also reflected evaluations of commercial **Motivation** and **Risk** that evolved subtly with the client firm relationship. These variations in credit terms, and the complex rationales for them, may remain implicit and unexplored within other methodological approaches.

The descriptive characteristics of clients, as captured by *[Client attributes]*, highlighted how practitioners anticipated payment delays attributed to client systems, and incorporated these within payment expectations. Again a collaborative approach to dealing with clients was evident where practitioners considered client circumstances and applied credit terms in

a flexible manner, in part hoping to secure an ongoing business relationship for which they were willing to make an investment in the client. The development of a *[Client firm relationship]* with repeat clients further informed the practitioner as to clients payment behaviours and associated risk, with lengthy credit periods accepted pragmatically as the commercial benefits were considered acceptable. Evaluations highlighted the reciprocal perception of the nature of the relationship, with informed practitioners accepting longer payment periods to maintain and secure a future commercial relationship.

Analysis of practitioner accounts therefore revealed the complexities within the *[Decision to extend credit]*. Formal, publicised payment periods are determined with reference to *[Industry norms]* yet the complex interplay of axial codes implies that the effective credit period is responsive to the requirements of clients and careful assessment of commercial options and the dynamic nature of **Power** and **Risk** within the client firm relationship. Therefore at a meta-level of analysis **Power**, **Motivation** and **Risk** offer persuasive explanations as to the causal influence of the axial codes. Furthermore, the causal influence of client related codes can be explained in terms of their contribution to firm knowledge of client payment behaviours, thus **Knowledge of client** at a meta-level provides an explanation as to the causal significance of the axial codes. Finally, evaluations within firm decision making highlight approaches and complexities that are implicit and informal, and often reflect **Expediency**; practitioners will extend credit periods informally where payment has been evaluated as reasonably certain and expectations of an ongoing commercial arrangement imply it is potentially worthwhile. **Expediency** therefore further explains the causal influence and interaction of axial codes at a meta-level where practice might appear on the surface to be less than optimal.

The *[Management of work in progress]* was an aspect of practice that emerged from the cases, yet is intrinsically linked to other decisions within the *Management of amounts owed*, such as the *[Decision to bill client]*. For solicitors and professional firms with a particular specialism, choices regarding *[Areas of practice]* were observed to influence work in progress, with payment schedules and levels of investment imposed by the nature of the case, or the aspect of work. Consideration of *[Firm attributes]* provided additional insight into the *[Management of work in progress]*, with ethical motivations providing incentives to undertake particular jobs with work in progress implications, and

developments in information technology and skill sets attributed to lower levels of work in progress and an associated improvement in firm profitability.

Additionally, *[Client profile]* was observed to influence firm practice, with the *Scale of the job* and the *Type of client* pragmatically determining potential levels of firm investment in work in progress. Practitioner responses were passive and proactive; some firms accepted payment schedules imposed by clients and the subsequent implications for work in progress, whilst others actively managed the expectations of clients. Indeed, there was also evidence to suggest *Client expectations [Client attributes]* directly influenced implicit evaluations of work in progress, with the full retrieval of work in progress traded off against commercial implications and the prospect of future business opportunities with clients. For solicitors in particular the *[Management of work in progress]* reflected the importance of *[Client attributes]* and the perceived need for proactive management of *Client preferences* and *Client expectations*.

For the *[Management of work in progress]* the *[Area of practice]* imposed payment *Norms* and schedules. *Norms* therefore at a meta-level provided an explanation of the causal influence of *[Areas of practice]*. Practitioners *[Management of work in progress]* also depicts *Expediency*, with levels of work in progress tolerated and supported in anticipation of future commercial opportunities, highlighting how *Motivation* further explains practitioner decision making at a meta-level. *Motivation* also explains partially the causal influence of *[Firm attributes]*, with firm choices regarding jobs determining to some extent levels of work in progress.

As identified above, the *[Decision to bill client]* was an aspect of firm practice closely connected to the *[Management of work in progress]* and the *[Decision to extend credit]*, with firm practice reflecting informal, interrelated decisions, proactively devised to manage the implications. However, the *[Decision to bill client]* was also a distinctive area of trade credit management in its own right and reflected the complex interplay of numerous axial codes. At a macro level the causal influence of the *[Regulatory environment]* was observed, as billing was partly determined by the implications of VAT. The *[Professional environment]* imposed payment *Norms* particularly for architects, where pragmatically established work stages represented standard industry practice and normalised payment behaviours, and offered a mechanism by which to manage *[Client*

expectations]. Where the nature of the service provision may be less well defined, practitioners often used the ‘finished product’ as a prompt to bill clients, however the *[Decision to bill client]* is also used by practitioners as an opportunity to exercise their discretion in managing clients. Within solicitors practices’, interim billing was used to manage a potentially lengthy payment cycle and surface the payment intentions of clients. Generally, evidence suggested the use of formalised approaches to billing that attempted to minimise future payment issues in a pragmatic, proactive fashion.

However, evidence also suggested that the *[Decision to bill clients]* was often adapted in response to the influence of axial codes. The practitioner’s awareness of *Client systems [Client attributes]* shaped approaches to billing with the negotiation of bureaucratic systems and tacit appreciation of the internal functioning of clients an important element that illustrated the development of practitioners *Knowledge of client*. Similarly, billing was constructed in order to manage clients known to pay late, and with reference to client preferences, providing billing intervals designed to enable clients to manage cash flows and control costs in a proactive, collaborative manner. Clearly the approach to billing is not entirely altruistic, approaches that enable clients to anticipate and manage their cash flows are also likely to minimise payment problems for the firm. Again, practitioners can be seen to be investing in the relationship with the client through actions that help to secure payment and the likelihood of on-going business.

The informal client evaluations that underpin the *[Decision to bill client]* also manifested themselves through careful management of client expectations and client satisfaction, with billing dates selected to ensure the client associates with the work undertaken. Further evidence highlighted firm responsiveness to client circumstances as the *[Decision to bill client]* provided the opportunity for practitioners to use their discretion and support clients by reducing bills, in turn developing client goodwill and the *[Client firm relationship]* in the hope of securing future business. The mutual benefit is again clear; the practitioner invests in the relationship in the hope of securing future business whilst the client receives support in times of restricted cash flow. *[Client attributes]* have a significant causal influence upon the *[Decision to bill client]*, with aspects of trade credit management implicit within this decision, and reflecting practitioners assessments of numerous issues. Decision making reflects commercial *Motivation* yet is also collaborative and emphatic, highlighting reciprocal dimensions.

Aspects of the causal influence of *[Client profile]* upon the *[Decision to bill client]* resonated with the discussion above, with repeat clients in particular being billed in a timely fashion by solicitors in order that they associated with the bill, whilst the scale of the job undertaken also determined billing intervals, with implications for the *[Management of work in progress]*. Billing therefore to some extent, reflected the adoption of approaches that were adapted according to the circumstances, with practitioners recognising the potential problems on larger jobs of receiving payment in accordance with normal patterns of business. In some instances the *[Decision to bill client]* reflected the *Type of client [Client profile]*. Practice with regards to the causal influence of *[Client profile]* was observed to be expedient, with billing occurring not necessarily at optimal points, but resulting from practitioners evaluations of individual clients and assessment of **Risk** based upon their **Knowledge of client**.

Within the internal operating environment, the influence of *[Areas of practice]* upon the *[Decision to bill client]* was apparent particularly for solicitors, where prevailing payment **Norms** already referred to, determined billing intervals. Within solicitors firms, *Client funding [Area of practice]* signalled information regarding the **Risk** associated with payment and often determined the nature of payment schedules. For solicitors, what could be considered as the imposition of payment **Norms** was partly managed through evaluations of **Risk** associated with the client on the basis of their funding, and a trade-off between **Risk** and potential delays in payment. Elements of **Power** were also apparent for one practitioner who utilised the *[Decision to bill client]* proactively in order to surface payment intentions, leveraging payment with the refusal to undertake more work unless payment was made.

Finally, with regards to the *[Decision to bill client]*, both *[Practitioner attributes]* and *[Firm attributes]* influenced firm practice. For one of the larger firms of solicitors, motivational discrepancies as the result of ownership interests were identified, with partners perceived to bill more frequently. Firm experience of payment problems was also highlighted with billing procedures tightened in reaction. *Resource constraints [Firm attributes]* were a causal influence upon billing across professions, with billing sometimes constrained by the availability of practitioners time, and expedient procedures adopted that represented efficient use of limited resources.

The [*Decision to bill client*] can therefore be considered at a meta-level through *Expediency* with billing, occurring in line with standardised payment *Norms* in pragmatic fashion. The meta-level *Regulation* influence of both the [*Professional environment*] and the [*Regulatory environment*] has also been discussed and highlighted. Firms have approached billing decisions in a collaborative manner in order to minimise payment problems for both client and firm. Clearly, through the [*Decision to bill client*] practitioners are willing to invest in the client firm relationship with the intention of securing ongoing business, highlighting the significance of commercial *Motivation*, with *Motivation* providing a meta-level explanation of the causal influence of client related axial codes. Client related axial codes also perform an important role in informing practitioners as to client circumstances and position, with repeated interactions allowing reflection upon firm experiences and practice to develop accordingly. *Experiential learning* and *Knowledge of client* are further organising meta-level, constructs that explain the causal significance of client orientated axial codes. For solicitors in particular the [*Area of practice*] reinforced the influence of payment *Norms* reflecting at a meta-level, aspects of *Risk*, *Power* and *Expediency*.

The final area of decision making within the *Management of amount owed* that surfaced from accounts of practice, was the [*Firm financing decision*], which highlighted for some practitioners a holistic view of the financial position of the firm and its cash flow. In some cases the practitioner was attributed a particular attitude to debt, whilst in other cases the firms attitude was dominant. In either case, financing decisions were considered an integral element of trade credit management, with the incentive to maintain financial control the determining factor. For some firms there was evidence of tight financial control and a conservative approach with debt and overdrafts avoided where possible. At a general level, cash flow management was considered linked to overall financial planning objectives, illustrating an integrated perspective of the businesses finances and the role of credit management within it. As previously discussed, this provides an alternative view to existing research which posits a relationship between the uptake of working capital requirements and the need to satisfy the requirements of external investors. Evidence within this research suggests that the *Motivation* to avoid debt and maintain conservative cash balances demands control of finances and acts as a stimulus to the management of amounts owed.

The above review of the *Management of amounts owed* has attempted to consolidate and represent firm practice across the professions. Practice can be seen to have important informal and formal dimensions, with nuances in approach and complexity in decision making explained with reference to the causal influence of axial codes. The qualitative data has revealed how formal procedures representative of espoused practice are often adopted within small professional firms, yet their application is adapted to particular circumstances, and in accordance with the assessments and motivations of practitioners. Generally, firm practice is often appropriate for the complex reality of small professional firms. Discussion of organising meta-level constructs enfolded above established an explanatory discussion of the causal influence of the axial codes which will further deepen existing understanding of small firm trade credit management practice. This chapter has been concerned with how practitioners approach the *Management of amounts owed* and has provided a cross profession discussion of approaches and practices within small professional firms, exploring the influence of axial codes where appropriate. Chapter 8 will consider practice within the final area of the organising framework of the cross profession diagram, *Collection of amounts owed*.

Chapter 8: Cross Profession Analysis: Collection of amounts owed

8.1 Introduction

The final section of the organising framework is concerned with the *Collection of amounts owed*, and captures aspects of practice associated with the back end functions of trade credit management. In particular decision making was observed to revolve around the following key aspects of practice that will be discussed in turn; [*Evaluate ease of collection*], [*Assessment of amounts outstanding*], and [*Determine methods of collection*]. As with chapters 6 and 7, the discussion will explore how firms approach the *Collection of amounts owed* and the actual practices utilised, whilst tracing the causal influence of axial codes. Before a consideration of cross profession firm practice, discussion will reflect briefly upon existing research findings relevant to this area of the organising framework.

As previously discussed, much of the literature concerning trade credit management within SMEs has adopted a deductive research approach and been primarily concerned with asking respondents how often practices are reviewed (Peel and Wilson, 1996; Howorth and Westhead, 2003). Amongst these practices are elements that would be considered particularly concerned with the *Collection of amounts owed*, such as the use of discounts, factoring and review of both doubtful and bad debts. Whilst these findings inform as to the regularity of review of these aspects of working capital management, they do not explore informal dimensions of practice, or the complexity of the practitioners decision making.

However, there are some areas of research that could be considered to be particularly concerned with the *Collection of amounts owed*, such as investigations into the late payment of commercial debt, and the implications for firms from both a demand and supply side perspective (Howorth and Reber, 2003; Peel and Wilson, 2000; Howorth and Wilson, 1999; Chittenden and Bragg, 1997). Howorth and Wilson (1999) found late payment to pose the biggest problem for small firms that utilised a variety of short term finance for working capital and who were also characterised by unsystematic credit management. Late payment was found not to be due to dominant customers.

Correspondingly, firms who managed late payment effectively were characterised with systematic credit management procedures, were informed as to when to expect payment from clients, and used long term sources of finance. Although the research combines the use of qualitative and quantitative data, consideration of working capital management relies upon survey evidence regarding the frequency of review of practices. Similarly, Peel et al (2000) report survey based evidence that included asking firms about the use of discounts, credit insurance, factoring and formal analysis into late payment. Peel and Wilson (2000) found that for micro firms there was less evidence of active working capital management as procedures were reviewed less frequently than for larger firms, and that this may be explained by resources constraints, or alternatively because micro firms are less susceptible to late payment and bad debts.

Chittenden et al (1998) found that the emphasis for trade credit management was placed upon back end activities which left firms vulnerable to late payment problems. With the use of in-depth qualitative data and an inductive methodological approach, this research hopes to offer new insights into back end trade credit management, the practices adopted and why, and the nature of practice in both a formal and informal context.

8.2 Collection of amounts owed

8.2.1 Evaluate ease of collection

Aspect of practice	Case Identifier
[Evaluate ease of collection]	Accountants: A _T , A _U , A _V , A _W
	Architects: AR _B , AR _C , AR _F , AR _H
	Solicitors: S _A , S _I , S _N , S _R
	Surveyors: SU _E , SU _L , SU _Q
[Decision to request fee]	Accountants: A _T

Table 12: Axial Coding of Firm Practice: Evaluate Ease of Collection

[Evaluate ease of collection] and [Decision to request fee]

The first of the three key aspects to be considered is *[Evaluate ease of collection]*, which was referred to in some respect by all but one firm, across all professions. *[Evaluate ease*

of collection] is concerned with the practitioner's assessment of retrieving payment. For case A_T only, the [*Decision to request fee*] emerged as an aspect of practice related to [*Evaluate ease of collection*] and will also be discussed within this section of the chapter. At the macro level, the [*Regulatory environment*] is identified as a causal influence upon practice for one firm only in terms of [*Evaluate ease of collection*], where the threat of the inland revenue acts as an incentive for clients to pay, requiring as they will the future service of the accountant:

'once they've got the revenue chasing them or something like that because they do start coming up with the goods and paying because they know they can't do the work themselves without us'

Case A_V, p.14., 331-334.

The causal influence of the [*Regulatory environment*] provides the accountant with leverage in securing payment, and the client with an incentive to pay; in these circumstances the power in the relationship resides with the practitioner as their services are required to meet the demands of the external party. Within the operating environment, the importance of the [*Professional environment*] is also highlighted by just one practitioner as influencing [*Evaluate ease of collection*], surfacing similar issues regarding leverage and control:

'what it isn't like is like when solicitors say uh here's a document you give me the money and you can have the document, I'm not in that position, and sometimes I get a bit of a dilemma because the building contractors for example that signed up will say that I as project manager contract administrator have to do certain things now that's a separately binding legal agreement if the client isn't paying me I'm still technically obliged to do certain things which is a dilemma so you need to be scrupulously fair now what I would try to do frankly is to do some of those things as quickly as possible and resolve differences'

Case SU_Q, p.8., 197-204.

In case SU_Q above, the surveyor's perception is that the lack of leverage in the relationship with the client, as the result of the [*Professional environment*], leaves them in a more vulnerable position than that of other professions. When engaging with project management this can potentially leave them in difficult circumstances; the practitioners approach is to manage this carefully, with emphasis upon the resolution of any disputes.

Power at a meta-level explains the causal significance of the *[Professional environment]* upon *[Evaluate ease of collection]*.

Cross profession analysis of *[Evaluate ease of collection]* has also identified the significant causal influence of *[Client attributes]*, *[Client profile]* and the *[Client-firm relationship]* from within firms' operating environments, again highlighting the dominant influence upon practice of client related axial codes. Discussion shall first consider the causal influence of *[Client attributes]* upon *[Evaluate ease of collection]* beginning with *Client attitude [Client attributes]*.

For solicitors, *Client attitude [Client attributes]* informed practitioners' evaluations and was demonstrated in some circumstances to be determined by the *Type of client [Client profile]*. For example, within Case S_I, the *Type of client [Client profile]* implied a particular *Client attitude [Client attributes]* to payment, with commercial clients perceived to pay promptly, and the fee considered secure. As a result of their payment attitude, these clients are particularly valued within the practice, and this is reflected within *[Evaluate ease of collection]*. Similarly, Case S_A presented evidence of the influence of *Client attitude [Client attributes]* upon *[Evaluate ease of collection]*, where the interaction of *[Client profile]* and *[Client relationship]* was perceived to create a responsive, collaborative client approach to payment. For case S_A, when dealing with *Repeat clients [Client profile]*, a *[Client firm relationship]* was established, and this was perceived to provide reciprocal benefit to both client and practitioner, with the client receiving value for money and the practitioner rewarded with repeat custom and reliable, prompt payment. The *[Client firm relationship]* and the *Type of client [Client profile]* were both therefore perceived by the practitioner to contribute to the determination of the *Client attitude [Client attributes]*, which ultimately influenced *[Evaluate ease of collection]*.

Discussion of the causal influence of *Client attitude [Client attributes]* upon *[Evaluate ease of collection]* within solicitors' practices has tended to identify positive experiences, however the causal influence of *Client attitude* has also been identified with two architect practices that offer a different perspective:

'no different people are different aren't they? You know I mean there are a lot of astute business people would hang on it to it until the very last minute so that they were obviously getting interest on the money before they part

with it. Um people who can ill afford it are usually the ones who are quick to pay, and the ones that can afford it take longer'

Case AR_F, p.4., 209-213.

But it's funny I sort of have this theory that the richer they are the harder it is to get them to pay! Whereas you know the people who've got less money or who are middle – you know sort of middle class, not upper, are very good at paying. The richer they are, the less they value you I think, what you do'

Case AR_H, p.8., 452-455.

Whereas solicitor's perspectives regarding the influence of *Client attitude* upon [Evaluate ease of collection] are situated within practitioner's experiences of clients and reflect the interplay of other axial codes, the architects above consider *Client attitude* from a more generalised perspective that reflects their societal views. For case AR_F, the *Size of client [Client profile]* also had a role to play in determining the *Client attitude*:

'no I don't think it was a big problem for them really, it was just again the way that they operate you know they're big enough that they can think they can get away with it'

Case AR_F, p.6., 301-303.

This offers a contrasting view as to the influence of *Client attitude* upon [Evaluate ease of collection]. For the architects, there are expectations that payment might well be delayed because of *Client attitude*, which reflects the broader preconceptions of the practitioner. However, if the interplay of [Areas of practice] upon *Client attitude [Client attributes]* is also considered, solicitors identify the potential for disagreement with the fee and a reluctance to pay that is in part explained by practitioners experience of client responses to case outcomes, for example with case S_A and case S_N. The practitioner's expectations of payment problems that could potentially result from the *Client attitude*, are informed by [Areas of practice]. Developing **Knowledge of client** at a meta-level explains the causal influence of [Areas of practice] and [Client attributes] upon [Evaluate ease of collection] and the interplay of axial codes. **Risk** is also evident at an explanatory, meta-level as the *Client attitude* to some extent indicates the likelihood of payment issues in the future whilst for architects prevailing **Norms** of behaviour attributed at a macro-level inform their evaluations.

For the practitioner within case S_A, awareness of *Client cash flow [Client attributes]* position demonstrated a collaborative perspective, whereby the practitioner interpreted the client's payment behaviour with respect to their cash flow situation. Similarly for one other architect, [*Evaluate ease of collection*] reflected consideration of the *Client cash flow*:

'yeah I mean sometimes we do, um there's things like if you've got a couple, one of them will lose it you know they'll put it on their desk at work. That's ok, I can understand that, or sometimes when they've got a lot of money going out, they might not be able to pay, but you know, it's never more than a few days'

Case AR_F, p.4., 188-191.

Knowledge of client is again important for the practitioner. When interpreting payment behaviour of clients, practitioner's evaluations indicate that their awareness of client cash flow circumstances can result in a supportive approach that recognises short term difficulties.

Architects, surveyors and accountants made reference to the issues associated with navigating *Client systems [Client attributes]* when [*Evaluating ease of collection*]. For the architects below, bureaucratic systems and complex procedures pose particular payment issues that are associated with dealing with particular clients, and inform practitioners as to the potential for payment to be delayed:

'yes it's just sometimes, you know, it's the bureaucracy of it and trying to sort of go through their system and that, people very often sort of sit on accounts and forget to hand them on so they have delays in getting into their sort of system'

Case AR_F, p.7., 367-369.

'it just gets caught up in the system and, as I say, they have their procedures and that they have to go through and very often there's perhaps too many people involved and to talk to and the time to sort of get it ratified or whatever'

Case AR_F, p.7., 375-377.

'and it doesn't always add up to what we were sending. Even down to reference numbers that don't correspond with anything. They do, yeah, they do payment by BACs and the system that they have means that you get a form saying this has been paid into your account and you've just got no reference which tells you what job it's for, so if you've got four or five jobs on...They tend to – I have to ring them up and say look we've got this and then you can hear them actually going through folders to see oh this is

against this job and this is when you get this sort of 20 figure reference which doesn't actually mean anything'

Case AR_C, p.10., 561-570.

In the cases above, *Client systems [Client attributes]* inform practitioners [*Evaluate ease of collection*] by adding to their knowledge of the payment behaviours of clients and allowing them to anticipate payment delays. However what is also evident within practitioner accounts is an acknowledgement that client's who pay swiftly without delay, often do so as the result of effective *Client systems [Client attributes]*. Knowledge of *Client systems* therefore further informs [*Evaluate ease of collection*]. The surveyor within case SU_E also highlights that where payment is made on behalf of a third party this may also explain prompt payment:

'I think they have a very, very, organised accounts department and also it's not their money that they're spending. They can take it straight out of the management budgets for all these other properties that they're managing on behalf of the client'

Case SU_E, p.11., 654-656.

'I don't know I find that incredible. They tend to be perhaps the old school who perhaps – large businesses which have probably even got their own purchase ledger system'

Case AV, p.9., 211-213.

Architects and surveyors also highlighted how [*Evaluate ease of collection*] was undertaken with reference to *Client satisfaction [Client attributes]* with practitioners expecting prompt payment to be forthcoming where clients were satisfied with the work undertaken:

'ok just keeping the client happy, it's kind of, so long as they are, I mean you've got to be trustworthy I suppose you can't let them feel at any time that you're not doing exactly what you set out to do. You know if they got the feeling you were ripping them off for any reason, which I've never....and I mean its honesty, commitment, enthusiasm, for what you're doing, doing a good job and making sure you couldn't do it any better'

Case AR_B, p.8., 371-380.

'If people are unhappy then I kind of, I always take the principle that if they're unhappy then they should tell me and then I'll do something about it but I rarely have kind of sort of difficult conversations like that with clients'

Case AR_B, p.14., 676-679.

Again, the importance of proactive communication with the client is highlighted, with the practitioner managing the relationship with the client in order to deliver *Client satisfaction* and therefore secure payment. In case SU_Q below the practitioner is discussing why they believe their clients pay them promptly:

'I don't know Catherine, I don't know whether it's the scale of the business, because we can do the scale different, I don't know whether it's because we're relatively firm without being officious, I mean there are other people doing what I do and not paying it and going to someone else next time, so it's not as if I've got the magic, unique thing to offer...although there aren't many one man band people like me, I think it's possible they are actually getting much, they know they're getting much better value for money'

Case SU_Q, p.12., 283-289.

For case SU_Q, *Client satisfaction [Client attributes]* interacts with *[Practitioner attributes]*; the practitioner has previously discussed how their fee scales are competitive, which reflects personal decisions regarding work-loads, the type of work they agree to take on, and comparatively lower levels of overheads. This enables the practitioner to deliver value for money which is perceived to be recognised by the client, resulting in prompt payment. Clearly, *Client satisfaction* is considered a causal influence upon *[Evaluate ease of collection]* by these practitioners, with prompt payment explained in part through proactive engagement with the client. Interestingly, Chittenden et al (1998) identified how resolving disputes was an aspect of back end trade credit management of particular importance, ranked just after the chasing of overdue payments. Case SU_Q below however highlights how *Client satisfaction* can also be leveraged by the client to delay payment, providing the client with the means to legitimise their procrastination:

'I'm asking them either to pay if they're happy with it or get in touch you see, so we can help them, so if they haven't received an invoice we fax them then we send it again in the post and if they're happy with it they pay it, and sometimes they dispute the fee for some reason, then I know who's the fee manager so I get in touch with him and ask him to phone them and to resolve their query, and soon after they resolve their query and perhaps they have invoiced too much, or perhaps they wanted more information, about the layout of the invoice, the description of why they are invoicing them, there is always something and as soon as all that is resolved then they pay'

Case SU_L, p.4., 58-65.

The above discussion has considered the causal influence of [Client attributes] upon [Evaluate ease of collection], highlighting particularly **Knowledge of client** and **Risk** for the evaluations of the practitioner. The above discussion also highlighted the interaction of [Client attributes] with [Practitioner attributes] and similar interplay can be observed within case A_U, where *Practitioner empathy* [Practitioner attributes], [Client attributes], [Client profile] and [Client firm relationship] all interact to influence [Evaluate ease of collection]:

'and the clients I have are small clients but I generally have – the people who come to me are female clients, quite a few gay clients, clients that generally don't want to go to a middle class white middle aged man, specifically people who, a lot of larger firms don't want my clients because they've got larger overheads, so small beautiful clients that perhaps other practices don't really want'

Case A_U, p.2., 43-48.

'I think it's because of the personal relationship I have with my clients – it sounds really bigheaded but they really like me – they're always really grateful for everything I do, 'oh that's great', I suppose it's because of the size of my businesses. I'm actually dealing with the person who does the, and who'll be signing the cheques. I'm not dealing with accounts clerks and ledgers and I'm talking to the person who runs the business and I believe they get quite good value of money because I'm on a fixed fee and I just sit and chat to them about all the different things that are going on so I try to give a bit of added value I suppose and they also know I'm new in business, I'm just setting up, they know my situation, generally they don't try to...see both sides'

Case A_U, p.6., 126-134.

The reciprocal understanding between the client and firm within case A_U can be observed above and is attributed to the [*Ease of collection*] by the practitioner when explaining why for them late payment had not proved to be a problem. [*Firm attributes*] and [*Practitioner attributes*], within case A_U cause particular *Types of client* [*Client profile*] to engage the practitioner, which results in the development of a strong [*Client firm relationship*], which the practitioner attributes to promptness of payment.

Consideration of [*Client profile*], highlights the interplay with [*Client attributes*] and other related axial codes. Discussion of solicitors practice within chapter 5 highlighted in particular the interplay of [*Client profile*] with [*Client attributes*] and [*Client firm relationship*], with [*Client profile*] having a limited direct causal influence upon solicitors [*Evaluate ease of collection*], but an important indirect causal influence upon other axial codes. A particularly important aspect of [*Client profile*] for [*Evaluate ease of collection*] was whether the client was a *Repeat Client* [*Client profile*], and the direct causal influence of this could be observed in both accountants and surveyors:

'we think we know most of our clients, we occasionally have a few surprises, but I've got people I've dealt with for 25/30 years who've never queried a fee so there's no problem'

Case A_W, p.1., 10-12.

'They've been a client for a long time and they're never going to be a bad payer, we're never going to have to write off their invoices, eventually they will pay'

Case S_U_L, p.10., 242-243.

Often *Repeat clients* [*Client profile*] are long standing clients with a prompt payment history, as can be seen in case A_W above, with little associated **Risk**. However, case S_U_L highlights that *Repeat clients* may also have a history of delayed payment but that this is tolerated and incorporated within [*Evaluate ease of collection*] due to their long standing and the knowledge of the practitioner that the client will eventually pay, identifying again a pragmatic, **Expediency**. Practice here represents a somewhat passive approach yet for the practitioner this may reflect an appropriate use of resources, as the associated **Risk** with the client is considered negligible. **Power** explains the causal significance of *Repeat clients* [*Client profile*] for case S_U_E, with the practitioner identifying job turnover as a key factor in determining the ease of collection and the promptness of client payment:

'where you have these return clients, let's say the demolition contractors who need a survey done before they knock the building down, or you have the developers or architects who need a survey done before they refurbish a building. These are repeat clients, where it comes to payment obviously they know they will need to pay us before we do their next job. And so quite often, depending on how busy they are, is the speed of money we get. So if they're busy and they need another survey done, they'll pay on time. Otherwise we'll say 'well you haven't paid for the last one'

Case SU_E, p.6., 323-333.

'I think because they are requiring repeat service they will pay. If they didn't want any more work done then yeah they can hold off that payment. We've had that at the end of clientand obviously at that point, at the cut off point they didn't really require our service any more, that sort of final few last payments was dragged out for a very long time. So they didn't need to keep us sweet at all. So they just, you know, kept it going for as long as possible'

Case SU_E, p.11., 605-616.

The practitioner above identifies how *Repeat clients* by definition will return and that this provides the practitioner with leverage in securing payment; the practitioner can refuse to begin a new job before being paid for the last. The cycle of payment is attributed to the job turnover of the client, in what could be regarded as a rather passive approach to [*Evaluate ease of collection*], indeed the practitioner identifies how, when the incentive for *Repeat clients* to pay is removed, that payment can be '*dragged out*'. The implication is that the practitioner depends to some extent on the job turnover of the client to determine payment, and highlights also how more resources might need to be devoted to those clients for whom this incentive does not exist:

'And they disappear in the end or they go bankrupt if they are a company because only people, people who don't pay, are the people who don't have the money to pay'

Case SU_L, p.8., 175-177.

'But the one offs yeah, they'll drag it out sometimes but they always end up paying if you hassle them enough'

Case SU_E, p.13., 748-749.

One off clients [Client profile] therefore pose particular challenges for practitioners, influencing *[Evaluate ease of collection]* as practitioners expect payment issues to be more likely to occur with clients lacking an incentive to pay, and practitioners without the leverage they can exert upon *Repeat clients*. For an individual, one off client, practitioners are equally mindful of their ability to disappear without paying in a way that is more difficult for companies or organisations.

Interestingly within case A_v below, the causal influence of *Repeat clients* upon *[Evaluate ease of collection]* is perceived by the practitioner to be a two way process, with, over time, clients whose business is retained representing self selecting clients who are likely to pay without issue:

‘I suppose over the years what would happen is the clients who are more likely to cause you problems just disappear because going back to the outset, HF brought in lots of fees, so a mixed bag inevitably those clients who don’t want or can’t afford your services move on so there’s no – it’s a case of being very honest with people, saying ‘this is what it’s going to cost you, do you want us or not?’

Case A_v, p.22., 540-546.

‘so historically the clients who say ‘we’ll come back to you, we’ll come back to you’, those who can do so will stay and after that it’s down to you and even if they’re going to go, they’re always going to pay you for it on that basis’

Case A_v, p.23., 549-553.

The causal influence of *Repeat clients* upon *[Evaluate the ease of collection]* has again highlighted organising meta-level constructs. In particular, *Repeat clients* signal to the practitioner information regarding **Risk** and the likelihood of encountering payment problems, therefore informing practitioner’s **Knowledge of client** often resulting in expedient approaches to *[Evaluate ease of collection]*. Consideration of the causal influence of *Repeat clients* upon *[Evaluate ease of collection]* has also surfaced issues of leverage between client and firm, with practitioners aware of shifting dynamics and their corresponding ability to exercise **Power** when repeat service is required, and the incentive this provides for the client to pay. Discussion will now consider the *Type of client [Client profile]* and its significance for *[Evaluate ease of collection]*.

The *Type of client [Client profile]* can be observed to directly influence [*Evaluate ease of collection*], with, for example, public sector organisations signalling to practitioners information regarding the status of the client and the subsequent implications for risk associated with the payment:

'and also CC I give a certain amount of leeway to, I suppose, because I know that they will, they have to, it's an NHS trust, it's not someone like who's buying a house and then decides not to buy it and you've done the survey on the house and they say 'I'm not going to pay you', or they move house and you haven't got their address or something'

Case SU_E, p.7., 409-414.

'say it's a particular client with, still got some ongoing work with but was a bit anxious because it was a very large project and being an individual – obviously when you are dealing with a health authority they are much more secure. I mean sometimes you still have to wait but you know it will come'

Case AR_F, p.7., 359-363.

For the practitioners above, the status of the client is an important element in [*Evaluate ease of collection*]. Although delays in payment maybe anticipated, practitioners are happy to accept these and even extend payment periods as they consider payment to be certain, again demonstrating the evaluation of **Risk** in trade credit management practice, and resulting **Expediency** in the decision making of the practitioner.

'all property developers don't like releasing money to anybody, its different for the local authorities who are sitting on it and not being bothered, property developers would rather keep it in their pockets for as long as possible, you know some of them are traditionally awful about paying and in the end you aren't sure....most of them are a teeny bit slow against the 30 day convention'

Case SU_Q, p.15., 373-377.

Particular types of client are again associated with particular payment practices above, with the practitioner identifying how when they [*Evaluate ease of collection*] they are aware of the motivation of property developers to delay payment, to the benefit of the clients cash flow. The causal influence of the [*Client profile*] upon [*Evaluate ease of collection*] is clear, with *Repeat clients* and *Type of client* signalling information to the practitioner regarding **Risk** and informing their practice. **Expediency** is often observable within practitioner's approaches, arising from **Knowledge of client** and incorporating evaluations

of **Risk** and **Power**. The final, client related axial code in terms of *[Evaluate ease of collection]* is the *[Client firm relationship]*, which will be considered next.

For case S_A the *[Client firm relationship]* was seen to be an important direct influence upon *[Evaluate ease of collection]*, with the client paying promptly as the result of the *[Client firm relationship]* that was established over time. This was perceived to provide reciprocal benefit to both client and practitioner; the client received value for money and the practitioner was rewarded with repeat custom and reliable, prompt payment. In this context, the interaction of *[Client profile]* and *[Client firm relationship]* could again be observed, with repeat interactions with particular types of client allowing the relationship to form. Practitioner's expectations of the payment behaviour of *Repeat clients* were developed from experiences with clients, and are thus indicative of the practitioner's **Knowledge of client**. This knowledge allowed the practitioner to assess the likelihood of the client paying promptly and also, therefore, the implied **Risk** of late or non payment. Across the other professions, explicit reference to the *[Client firm relationship]* and the causal influence upon *[Evaluate ease of collection]* was apparent directly within case S_U_L, and indirectly within case A_R_C:

'you know it is very, very important so they can respond, because they know you obviously if they have any shortage of cash flow because they know you they will pay you first that's what I believe that's not always but I think it's very important to keep a good relationship and you know one another'

Case S_U_L, p.11., 265-268.

The existence of a *[Client firm relationship]* in case S_U_L is considered important in order to prioritise payment of the firm, by the client. Here the practitioner, driven by commercial **Motivation**, uses the client-firm relationship proactively to secure payment in anticipation of cash flow problems that the client might experience. Within case A_R_C however the practitioner described how an informal approach to dealing with clients because a *[Client firm relationship]* existed, had actually led to payment problems because of a lack of a formal agreement. The firm learned from this experience, adapting their practices accordingly and formalising agreements:

'it was a director in a building firm who was their chairman and he had done some work with them separately and he asked us if we would assist. I think is probably fair to say now, it's quite an old example and we have tightened up our organisation considerably. Going through the IIP process – investing in people....We're working towards QNS work, but in order to

overcome problems that you might experience a few years ago, you wouldn't embark on a project without actually giving them an accurate guide of what fees might be.....because some clients, there's some clients who you get friendly with, you just do the work and then give them an account well we don't do that now'

Case AR_C, p.2., 99-107.

The causal influence of the [*Client firm relationship*] is partly explained therefore by **Motivation**, with relationship building considered an important determinant within the ease of collection. A different perspective is provided by case AR_C, where the practitioner has identified how an informal approach adopted because of the existence of a [*Client firm relationship*] has been partly responsible for payment problems in the past. However, the firm demonstrates how through **Experiential learning** they have addressed these issues, and adopted a more formalised approach. Previous discussion of solicitors practice also identified the perceived reciprocal nature of the [*Client firm relationship*], with the practitioner's **Knowledge of client** developed from repeat interactions with clients, and informing evaluations of **Risk**. Having considered client related axial codes situated within the operating environment, discussion will now focus upon the internal operating environment of the firm, and the causal influence of the final axial code, [*Areas of practice*].

Within a firms internal environment, [*Areas of practice*] has been previously identified as a key causal influence upon [*Evaluate ease of collection*] for solicitors firms', with practitioners evaluations shaped by *Client funding*, *Control of funds*, and *Control of process*. For solicitors, aspects of [*Areas of practice*] were shown to provide indications of **Risk**, allowing practitioners to direct resources with **Expediency**. The ability of the practitioner to exert control over funds and/or processes implied that practitioners were often in positions of relative **Power** in terms of receiving payment and this informed practitioners in terms of [*Evaluate ease of collection*], and direction of collection efforts. Practitioners made explicit references to their ability to leverage payment from clients, for example either by withholding further services or by preventing access to legal documents held by the firm.

Despite representing an important causal influence upon solicitors firms, for other professions there was little mention of the influence of [*Areas of practice*] upon [*Evaluate*

ease of collection]. However, for one practitioner, an insolvency accountant whose practice varied somewhat from the other accounting firms, [*Areas of practice*] did exert a causal influence upon [*Evaluate ease of collection*]:

‘It’s all work in progress really because I as the liquidator, or trustee or whatever, or supervisor I realise the assets – I set up the designated clients account which the money goes into so I have complete control of all the money, all I have to do, getting creditors paid, investigating, all those sort of things and then when the creditors eventually agree how much fees I can charge to get paid then all I have to do is write a cheque to myself’

Case A_T, p.8., 240-246.

The accountant in case A_T exercises *Control of funds* [*Areas of practice*] as a direct result of the firms focus upon insolvency cases thus significantly reducing the **Risk** associated with receiving payment, and exerting a causal influence upon [*Evaluate ease of collection*]. There are clear parallels with the causal influence of [*Areas of practice*] observed within solicitors firms. In case A_T therefore an important aspect of the *Collection of amounts owed* that is related to [*Evaluate ease of collection*], yet only apparent for this firm, is the [*Decision to request fee*].

Central therefore to [*Evaluate ease of collection*] for solicitors and the accounting practitioner are issues of **Power**; practitioners are able to exert the **Power** implied within their positions to leverage payment, either through the direct control of funds or through control of processes, and an assessment of both is therefore an important element of [*Evaluate ease of collection*]. Where practitioners assess that there is a minimum level of **Risk** associated with a future payment, resources are not expended in chasing amounts outstanding; decision making is expedient, rather than ‘optimal’. [*Areas of practice*] can therefore be observed as an important, causal influence upon [*Evaluate ease of collection*], and organising meta-level constructs of **Risk**, **Expediency** and **Power** interact to explain why.

8.2.2 Evaluate ease of collection: Summary

Discussion of [*Evaluate ease of collection*] and the associated axial codes will now be summarised. The axial codes [*Regulatory environment*], [*Professional environment*], [*Areas of practice*], [*Client attributes*], [*Client profile*],[*Client firm relationship*] and [*Practitioner attributes*] have all been identified as important causal influences upon

[*Evaluate ease of collection*]. Practice has often been shown to be characterised by **Expediency**, reacting in an appropriate way to informed evaluations of the **Risk** and **Power** within client interactions. For solicitors in particular [*Areas of practice*] highlighted the role of **Power**, with practitioners referring to how clients were funded, the extent of practitioners' control of either those funds or the process involved, and how the configuration of these aspects determined the practitioner's leverage when securing payment. Power also offered an explanation when regarding leverage and the dynamics of interactions with *Repeat Clients* [*Client profile*], with the dominant causal influence of client related axial codes across the professions again apparent. Practitioners developed their **Knowledge of client** from numerous sources but in particular the information signalling qualities of [*Client attributes*], [*Client profile*] and [*Client firm relationship*] was clear, enabling practitioners to proactively anticipate the payment behaviour of clients. **Experiential learning** within firms was also highlighted, with problematic payment histories with clients leading to the review and formalisation of practice. Overall, trade credit management practice with regards to [*Evaluate ease of collection*] can be described with **Expediency**, whilst decisions also reflect assessments of **Risk** and **Power** that incorporate practitioners' **Knowledge of client**. The significance of informal dimensions within practitioner's evaluations has clearly emerged within aspects of practice likely to remain implicit with other methodological approaches. The dynamics of evaluations revealed both proactive and passive trade credit management and the intricate set of contextual circumstances that influenced them. This chapter will now consider the [*Assessment of amounts outstanding*].

8.2.3 Assessment of amounts outstanding

Aspect of practice	Case Identifier
[Assessment of amounts outstanding]	Accountants: A _T , A _U , A _V , A _W
	Architects: AR _B , AR _C , AR _F , AR _H
	Solicitors: S _A , S _I , S _N , S _R
	Surveyors: SU _E , SU _L , SU _Q

Table 13: Axial Coding of Firm Practice: Assessment of Amounts Outstanding

[Assessment of amounts outstanding]

The second area for consideration within *Collection of amounts owed* is concerned with practitioners' decisions regarding amounts outstanding, and how these might be assessed. Axial codes within firms' internal operating environments will be discussed initially, followed by codes within the operating environment, and finally the macro environment.

Within the firm's internal operating environment therefore the causal influence of [*Firm attributes*] upon the [*Assessment of amounts outstanding*] can be observed. In particular, the causal influence of *Resource constraints* [*Firm attributes*] is evident across the professions. Previous discussion of solicitors practice, identified how *Resource constraints* contributed to assessments of the potential benefit of pursuing the amounts outstanding, and the establishment of firm benchmarks below which amounts owed are not considered worth pursuing. Further evidence of the causal influence of *Resource constraints* upon the [*Assessment of amounts outstanding*] was surfaced within the practice of architects and surveyors. For the architect below, the availability of time implies that the [*Assessment of amounts outstanding*] is an aspect of practice that can be neglected, with the delay in chasing of invoices sometimes responsible for the writing off of amounts owed:

'basically no, but you know, it was just the fact that I should've chased them up earlier. Kind of thing, so I put that down to experience – not to let invoices go without a phone call'

Case AR_H, p.6., 352-354.

Within case AR_C below there again is evidence of an evaluation of the constraints upon the practitioner's time, and how it can be spent most effectively. This resonates with the findings of Howorth and Westhead (2003) that working capital management may be prompted by consideration of the marginal returns on resources committed. The level of amount recoverable also provides a benchmark for the practitioner's evaluation, with the architect identifying there are levels below which it is not worth chasing:

'I think we were happy to actually recover what was owed because you always get some debts where it's not worth – I mean if that person was paying £50 a month and they got to sort of two before the end you would probably just write it off. It's not worth the time of the architect and even myself in chasing every week, month, day you know. It comes to a point where it's not worth it'

Case AR_C, p.3., 155-160.

Further evidence of the causal influence of *Resource constraints [Firm attributes]* upon the *[Assessment of amounts outstanding]* is provided by case SU_E, where the practitioners assessments are prompted by cash flow constraints:

‘basically if my banks sort of saying ‘no you can’t pay that cheque’ I will chase some clients and get some money put in. I mean, other ones, when I have the time basically I sit down and go through the invoices and say right ‘you’re a week overdue, you’re two weeks overdue’

Case SU_E, p.3., 153-156.

‘which is all time consuming so it all depends on whether I’ve got the time or not to chase. But I’ll chase if there’s no money in the bank. So it’s quite sort of dependent on how well we’re doing I suppose’

Case SU_E, p.5., 259-261.

The *[Assessment of amounts outstanding]* occurs in this case when *Resource constraints [Firm attributes]* allow it; both firm cash flow and the availability of the time act as constraints upon the practitioner’s actions. This could be regarded as sub-optimal practice that highlights the passive responses of the practitioner and which could result in the need to fire fight, rather than proactively manage amounts outstanding and firm cash flow. However, it could also reflect an assessment of where time is best spent, and therefore the effective allocation of a scarce resource undertaken in an expedient manner. Decisions regarding the *[Assessment of amounts outstanding]* have been taken with reference to the firm’s available resources being put to their most efficient use. Practitioners’ approaches to the *[Assessment of amounts outstanding]* could therefore be characterised as expedient, with limited resources directed towards amounts owed of sufficient size to justify pursuing payment. The meta-level organising construct ***Expediency*** explains the causal influence of *Resource constraints [Client attributes]* upon the *[Assessment of amounts outstanding]*.

The *[Assessment of amounts outstanding]* for solicitors and in particular for case S_I, included consideration of the *Firms profitability [Firm attributes]*. Discussion highlighted how the practitioner was mindful of the eroding effect on firm profits of writing off even small amounts owed, and in accordance adopted a proactive response to collection. The profitability of the firm has effectively provided another stimulus to firm action. Similarly for case A_w, and echoing some of the discussion above with regards to *Resource*

constraints, the *Firm cash flow [Firm attributes]* acts as stimulus upon the *[Assessment of amounts outstanding]*:

'the things that drive these things, if all of a sudden you get during the course of the month and you say cash collections not that high or whatever I mean so we don't, because it runs itself relatively well'

Case A_V, p.13., 306-309.

Case A_V above reflects a rather more proactive approach to the *[Assessment of amounts outstanding]* than previously discussed for case S_{U_E}, highlighting collection efforts can be prompted by unexpected cash flow shortages, but that generally this is not necessary. Another cash flow related aspect of *[Firm attributes]* for case S_{U_L} was apparent in terms of past experiences with bad debts and the subsequent appointment of a dedicated credit controller:

'That's why they made a big loss and that was the first and only loss they have made since they've been established um so I was lucky to join at that time and we inherited lots of bad debts'

Case S_{U_L}, p.13., 314-316

'yes it has had a major effect now because we have got an overdraft facility but since I have been here I have reduced that overdraft facility by £100,000 a year and it has worked'

Case S_{U_L}, p.14., 335-337.

The final aspects of *[Firm attributes]* that will be considered in respect of the *[Assessment of amounts outstanding]* are that of *Firm objectives* and *Size of firm*, both of which are discussed within the same case below:

'oh yes no problem with that but we're not in a highly formalised, regimented system that suddenly says 'your account is suspended because you've taken an extra day than you should have done' or anything like that. I mean different if you're a big national organisation and you've got to have rules'

Case A_W, p.8., 176-179.

'yes I think if we had gone for growth at almost any price there would have been a lot more debris left behind. Now fine if you really want to go for it, but it's interesting I was involved in the sale of an engineering company 10 years or more ago now and the people coming in to do due diligence couldn't believe what the low staff turnover was. That really bought it home to me....and this is where I feel quite strongly that goals, things we do that's

the key – you’ll get in some larger organisations managers who are just push, push, push the figures have got to improve every month, every year, all the time’

Case A_w, p.9., 203-212.

The practitioner perceives that the *Size of firm [Firm attributes]* provides them with flexibility in terms of the *[Assessment of amounts outstanding]*, with the practitioner able to exercise their discretion rather than be constrained by organisational wide policies and practices. Additionally, there is a belief that the level of bad debts and amounts written off has been low within the business as the result of *Firm objectives [Firm attributes]* that rather than being aggressively growth orientated, have been shaped by the practitioners outlook and ethos to reflect a more cautious approach. Consideration of the influence of *[Firm attributes]* upon the *[Assessment of amounts outstanding]* has highlighted how the organising meta-level constructs of ***Expediency***, ***Experiential learning*** and ***Motivation*** explain the causal significance of codes captured by *[Firm attributes]*.

Closely linked to discussion of *Firm objectives [Firm attributes]* and also within the internal environment of the firm, is *Practitioner motivation [Practitioner attributes]* where for case A_v, the practitioner identified that despite a dislike of ‘chasing for money’, that they were motivated by their share of firm profits to do so:

‘no one like chasing for money but you get to a stage where you think ‘this is my profits there, or my share of the profits’ it’s all very well on paper but until the guy pays we’re not in a position to draw the profits’

Case A_v, p.12., 286-289.

‘It’s a hard thing to do sometimes – when I was a manager I didn’t like to be asked to do that – again at the top end it’s slightly different because you feel it’s going to hit your pocket more so you’re more apt to do that’

Case A_v, p.16., 380-382.

When discussing chasing payment, the practitioner identifies how hierarchical levels within a firm might imply differing levels of ***Motivation*** in terms of *[Assessment of amounts outstanding]*, that are dependent upon how employees are rewarded. Clearly, the view of the practitioner is that *Practitioner motivation* is an important causal influence upon the *[Assessment of amounts outstanding]*.

Within the internal operating environment of the firm there are two remaining axial codes that were observed to influence the *[Assessment of amounts outstanding]* within the practice of solicitors only, and for one firm only, namely *[Areas of practice]* and *[Firm exposure]*. For case S_N, the ability of the firm to locate clients was discussed, with the practitioner highlighting how *Difficulty tracing clients [Firm exposure]* can imply that amounts owed are written off, rather than costs incurred securing judgement. Evidence of the influence of *[Areas of practice]* upon the *[Assessment of amounts outstanding]*, was also presented, with *Control of funds* and *Control of process* both affecting the decision making of the practitioner. Where the practitioner considered amounts owed secured as the result of control over funds or process, their assessments were influenced in that even small amounts owed may be retained rather than written off, with the practitioner prepared to wait for payment, rather than actively chase the client. The evaluation of *[Assessment of amounts outstanding]* within case S_N also demonstrated the interaction of axial codes, with *[Evaluate ease of collection]* internally associated with the *[Assessment of amounts outstanding]*. Consideration of *[Firm exposure]* and *[Areas of practice]* has highlighted how **Power** interacts with assessments of **Risk** to inform the practitioner's approach to the *[Assessment of amounts outstanding]*; the practitioner identified the possibility of leveraging payment in the future, and is accepting of delays where circumstances imply eventual payment of fees is secure. Discussion will now turn to axial codes within the operating environment and will consider firstly those codes concerned with clients, and observed to have a causal influence upon *[Assessment of amounts outstanding]*; *[Client profile]*, *[Client firm relationship]*, and *[Client attributes]*.

The first client related axial code to be considered is *[Client attributes]*, as for accountants, architects, and surveyors, this emerged as a significant causal influence. However, discussion will also consider the *[Client firm relationship]* as these axial codes are closely related, with the causal influences hard to separate. In particular, issues surrounding *Client satisfaction [Client attributes]* dominate and in some cases are similar to those discussed above for *[Evaluate ease of collection]*, but with the focus now upon *[Assessment of amounts outstanding]*. As previously discussed the practitioner within case S_U_L identifies that issues with the invoice and work undertaken can sometimes result in delayed payment and client procrastination, which in turn would influence the practitioner's *[Assessment of amounts outstanding]*, in addition to *[Evaluate ease of collection]*:

'and sometimes they dispute the invoice for some reason, then I know who's the fee manager so I get in touch with him and ask him to phone them and resolve their query, and soon after they resolve their query and perhaps they may have invoiced too much, or perhaps they wanted more information, about the layout of the invoice, the description of what they are invoicing them, there is always something, and as soon as all of this is resolved then they pay'

SU_L, p.3., 60-65.

For the architect in case AR_H, a complicated relationship between the client and other third parties resulted in a situation where *Client satisfaction [Client attributes]* was eroded, and the practitioner's awareness of this influenced their *[Assessment of amounts outstanding]* in that the amount was written off without attempts to retrieve what was owed:

'Which was, they were really lovely clients, I really liked working for them, it was a northern couple and they were just lovely, really nice. And I did them, again, I thought a lovely design according to the brief, and then they rang me up very cross saying – I'd done Planning for them, and I'd just finished Building Regs for them and was just about to put them in – and they rang me up and said they – again the builders had been round and said, "Why have you done it like this?", so they ended up – a surveyor, a building surveyor who I didn't connect with when building regs came around, basically slagged off my design and said, "Oh, why haven't you done it like this?" and I said to the client "Well, you briefed me on you wanted this, that's why I didn't do that" and also I thought they were compromised designs, this other person's suggestions. Also he was saying – I'd got, I had some work done by a structural engineer because I'm just qualified and surveyors can actually do the structure, so he was saying I'd done unnecessary work. So the job got terminated at Building Regs, just as I was about to put Building Regs in and I'd done all the work. Um, so I basically left it at that. I didn't – I mean, I could have invoiced because I was actually invoicing through P's Company, I'd been paid via them, and I'd actually got quite a big sum of money for the planning, when I calculate the hourly fee which was good so I let it drop rather than push, rather than put an invoice through calling and him and having, talking to these clients. You know, I reported back to him what had happened and he was a bit dismayed, because I didn't push them, so again just wrote it down as a loss'

Case AR_H, p.11., 606-625.

Where work has taken longer than anticipated, clients have expressed their concern by refusing to pay the practitioner. The practitioner's *[Assessment of amounts outstanding]* has identified this as a reason which they must now attempt to resolve:

'they used to actually pay well then they stopped paying and as far as I'm concerned the reason for that is that they're complaining that the work has taken longer than we thought it would take'

SU_L, p.4., 86-88.

'if people don't pay then usually it's not usually a case of someone coming back three months later and saying 'oh I wasn't happy with what you did', because that can sometimes be an excuse if someone is slow to pay, they'll say 'I thought so and so didn't do the work properly', it's very rare that they say or the bill wasn't, enough unfortunately'

Case A_V, p.21., 505-510.

The evidence above suggests that where *Client satisfaction [Client attributes]* has been compromised, payment is often delayed with a corresponding causal influence upon practitioners [*Assessment of amounts outstanding*]. Where perhaps there may sometimes be legitimate reasons for clients refusing to pay, there is also scope for disputes arising, and therefore *Client satisfaction [Client attributes]*, to provide an opportunity for clients to delay payment, as can be seen in the cases above. Indeed, Chittenden et al (1998) identified that resolving disputed invoices was considered an important aspect of back end trade credit management by respondents. Practitioners appear aware of this, partly due to their own experience of [*Assessment of amounts outstanding*], and in some cases have proactively adapted and formalised practice in order to avoid it:

'firstly having an undisputed fee, so that means an acceptable explanation of what's been done and why it has cost what it has. And then you go from there into your credit control procedures – as I've said we're talking about our engagement letters – you know queries must be raised within 30 days, you used to find that if you didn't have credit control procedures people wouldn't actually come back to you and say 'I'm not happy with that', they just wouldn't pay it. And you'd get 2 or 3 months down the road before the truth came out and then you say 'why didn't you talk to us''

Case A_W, p.10., 239-245.

The potential for client-firm conflict and the subsequent issues for *Collection of amounts owed*, and in particular the [*Assessment of amounts outstanding*], can also be observed within case AR_B, where the breakdown of the [*Client firm relationship*] and subsequent dissolution of any business arrangements has resulted in the firm incurring bad debts:

'I've only ever had bad debts when I've got to a point with a client and there's an issue which is un-resolvable and we, it's like mutually we want to part company'

Case AR_B, p.5., 219-221.

Furthermore, case SU_L highlights the interaction of *[Client attributes]* and *[Practitioner attributes]*, with reflection upon the implications of *Practitioner attitude [Practitioner attributes]* for *Client satisfaction*, and the subsequent causal influence upon *[Assessment of amounts outstanding]*:

'in the end sometimes it's just the employees they don't know what they're doing and I have to go and speak to people about them, who will have a word with them it might be about how they're managing their credit controller, things like that, or the attitude of the person who's responsible for the fee, the fee manager and in the end we get the money'

Case SU_L, p.3., 70-74.

Here the practitioner identifies within their *[Assessment of amounts outstanding]* that payment has sometimes been delayed as the result of the *Practitioner attitude [Practitioner attributes]* in collection. Additionally, an example is highlighted where the billing behaviour of the practitioner is driven by their own motivations *[Practitioner attributes]*, and has created difficulties in terms of the *[Assessment of amounts outstanding]*:

'I remember when I first came here and we used to have lots of invoices and we used to receive payment regularly, lots of invoices, all the payments, but they're starting to die and I don't know what the reason and then they, they started paying badly they became really bad payers, this is something which we still haven't found out why, but um the person who deals with them the fee manager, he was sort of telling me not to chase them because I think he sort of invoiced them before the job is actually finished sometimes, that's why they won't pay, I don't know if I should tell you this but I think because this particular fee manager because he didn't have lots of fees, and because of the job was at the finishing stage you're going to lose the client perhaps they don't have so many repairs, and he sort of invoiced sooner than he should'

Case SU_L, p.12. 276-285.

The above discussion highlights the causal influence of *Client satisfaction [Client attributes]* and by implication client disputes upon the *[Assessment of amounts outstanding]*. Practitioners are mindful of the payment problems created by such issues and there is evidence of practice formally evolving in order to minimise them. There is also

evidence of attempts to proactively manage of client payment behaviour, with anticipation of client payment procrastination. The organising meta-level constructs **Knowledge of client** and **Experiential learning** partly explain the causal significance of [Client attributes] in this context, whilst the dynamics of **Risk** and **Power** are also apparent in client attempts to create leverage from *Client satisfaction* in order to delay payment.

In addition to *Client satisfaction* [Client attributes], practitioners made reference to *Client cash flow* [Client attributes], within their [Assessments of amount outstanding], identifying that delays in payment can often be attributed to the cash flow of the client being restricted:

'we inevitably do have slow payers, people that we chase but in most cases that's down to cash flow – I wouldn't say it's down to them being dissatisfied with the service – they're a bit hard up and again it's something to fork out a few thousand pounds for accountancy fees'

Case A_V, p.9., 221-224.

'in most instances it's just cash flow, personal to them, their personal cash flow circumstances – I like to think we don't get.....sometimes they might think the bill is a bit more than they're expecting to pay but in most instances its quite easy to explain'

Case A_V, p.19., 462-465.

Practitioners are keen to explain delays in terms of the cash constraints of the client, rather than in terms of dissatisfaction, which may reflect their particular positions. From the practitioners perspective therefore, *Client cash flow* [Client attributes] can exert a causal influence upon [Assessment of amounts outstanding] and reflects again the importance of developing the practitioner's **Knowledge of client**. Closely related to the discussion above regarding *Client cash flow*, is that of *Client circumstances* [Client attributes], which also reflects the interplay of the [Client firm relationship] with [Client attributes] and the causal influence upon [Assessment of amounts outstanding]. The following evidence highlights how practitioner assessments incorporate consideration of *Client circumstances*, and reflect an often collaborative, informed position:

'So it's a couple of calls, particularly if I see them then I'd say now look come on this is not good enough if there's a particular financial, temporary financial problem on this development, if that one is short of funds temporarily I'll say look its communication, tell me and I'm prepared to wait. If I don't know I'm going to push for payment, now sometimes on that

basis I've waited up to 120 days and that's by agreement, um but it's usually a case of discussion'

Case SU_Q, p.12., 272-277.

'I mean that's the issue, probably like that one who took 6 months credit he was a good as gold – I could probably go to his office now and see there's a cheque for me that been sitting there for a month and pick it up and he wouldn't do anything about it but we've got that sort of relationship, but that's the way they want it fine – he sees it if you like that he's saving a bit on his bank overdraft'

Case A_w, p.8., 184-189.

When delays in payment can be attributed to temporary financial difficulties for clients, practitioners are content to wait for payment, but appreciate open communication with the client informing them of their situation. Where the payment profiles of the client are known, anticipated and understood, the practitioner will accommodate amounts outstanding, in a supportive manner. Hence the *[Assessment of amounts outstanding]* will reflect and incorporate *Client circumstances [Client attributes]*. Central to explaining the causal significance of *Client circumstances* is the importance of timely information to the practitioner in maintaining and developing their knowledge base of clients.

Similarly for case A_U, a collaborative approach to the *[Assessment of amounts outstanding]* identifies how particular payment arrangements can be organised for clients, and underlines the importance of the client base to the practitioner, with the *[Client firm relationship]* supporting the retention of clients:

'and he explained that they were having a very bad time, there was no money coming into the business and so we set up a monthly payment scheme so they could put in the money they could afford and they'd pay me a monthly basis – well generally every two months I have to phone them after about 6 weeks and say...and that client I'm not going to work for them again unless they send me the money in advance'

Case A_U, p.1., 9-14.

'And I knew these guys, they'd just got their invoices.....I think the most important thing for me is to try and retain clients, I do know businesses go through a bad time'

Case A_U, p.7., 153-159.

Discussion of the causal influence of *[Client attributes]* upon the *[Assessment of amounts outstanding]* has therefore included consideration of the *[Client firm relationship]* and *[Practitioner attributes]*, and highlighted their interaction. The organising meta-level construct ***Knowledge of client*** explains the causal significance of the axial codes discussed above, but ***Experiential learning***, ***Risk*** and ***Power*** add further explanatory dimensions. Discussion will now consider the final client related axial code, identified as exerting a causal influence upon *[Assessment of amounts outstanding]*, *[Client profile]*.

Data analysis of solicitors practices identified how, within case S_A, the *Type of client [Client profile]* was considered to signal information to the practitioner regarding the likelihood of retrieving payment, providing indications of ***Risk*** and ***Expediency*** within practitioner decision making, as the practitioner identified that expending resources chasing payment will not be worthwhile in all circumstances. The causal influence of the *[Client profile]* upon the *[Assessment of amounts outstanding]*, was also apparent within case A_w, where the practitioner identified that where clients proved consistently troublesome in terms of their *[Assessment of amounts outstanding]*, i.e. *Repeat clients*, they are happy to terminate the business relationship:

‘I suppose the truth is ones state of mind – is one frustrated by them? Have we had enough? Are we going to say ‘look if you want us to do something it’s going to be on our terms, not on your terms, if they walk they walk, I mean that’s the issue’

Case A_w, p.8., 182-184.

The final axial codes for consideration are concerned with the contextual conditions surrounding firm practice and discussion will firstly consider the *[Professional environment]*. Within the firms’ operating environment the *[Professional environment]* was an important causal influence upon the *[Assessment of amounts outstanding]* for solicitors firms only. For case S_A, the practitioner attributed the *[Professional environment]* to determining the processes of pursuing payment through the legal system, which presents particular difficulties in terms of retrieving payment for solicitors. These difficulties will therefore be reflected within the practitioner’s *[Assessment of amounts outstanding]*. A further aspect of the *[Professional environment]* that influenced the *[Assessment of amounts outstanding]* within solicitor firms is *Industry standard*

accreditation, which was seen to have influenced the practices adopted within case S_R. The **Regulation** influence of the [*Professional environment*] was identified providing a pre determined context for the [*Assessment of amounts outstanding*], and defining a generic framework for firms seeking to attain *Industry standard accreditation* [*Professional environment*].

The final axial code to be considered in terms of the [*Assessment of amounts outstanding*] is the [*Regulatory environment*], which was observed as a causal influence within cases A_W and S_U_L, only. For the practitioner in case A_W, *Regulatory requirements* [*Regulatory environment*] provided an incentive for the client to pay, and the practitioner demonstrated **Expediency**; knowing that in the future the client would need to comply with the Inland Revenue, provided the practitioner with the necessary leverage with which to secure payment:

‘You sort the wheat from the chaff – the majority of clients are over a bit of a barrel because if they’re taking too long they’re probably on a fairly tight timescale so if there are deadlines with the revenue, deadlines with companies house, various third party pressures – I mean some accountants say ‘lets wait until the revenue gives them hell’ – then they’ve got to come back to you cap in hand’

Case A_W, p.4., 83-87.

In case S_U_L, VAT [*Regulatory environment*] directly influenced the treatment of amounts outstanding, with the practitioner identifying how VAT can be recovered:

‘When we write it off we can claim VAT on that and that’s all we get the rest of its gone’

Case S_U_L, p.5., 104-105.

‘because actually this financial year we have written them off, although they think some of them they might recover some because, any time we recover them we can put them back again because it’s the VAT sitting there because it’s about £7000 VAT, I said that will help with the cash flow if we write them off’

Case S_U_L, p.13., 319-323.

Consideration of the *[Regulatory Environment]* therefore closes this section of the chapter highlighting again the explanatory nature of *Expediency* and *Power*, and the *Regulation* influence of external third parties.

8.2.4 Assessment of amounts outstanding: Summary

Discussion of the *[Assessment of amounts outstanding]* as a key decision making area within the *Collection of amounts owed* has now been completed, with the preceding discussion having explored how aspects of firms' internal, operating and macro environments influenced practitioners' assessments. Firm practice was again characterised by informal assessments that reflected a range of causal influences. Assessments were triggered by resources and implicit trade-offs, with emphasis placed upon the most effective allocation of effort. Causal influences interacted in complex relationships to explain informed assessments that considered the dynamics of leverage in securing payment. Central to the *[Assessment of amounts outstanding]* was the practitioner's knowledge and understanding of the clients anticipated payment behaviour. Practitioners' implicit assessments were informed particularly by the information signalling content of client related axial codes, with practice adapted accordingly.

Consideration of axial codes and their causal influence upon practice highlighted *Expediency* in decision making that incorporated evaluations of *Risk* and reflected the dynamic dimensions of *Power*. The importance of *Knowledge of client* to the practitioner was clear, as was the role of *Experiential learning* in informing and developing firm practice, whilst the *Regulation* influence of the contextual conditions for some firms was also apparent. The final section of this chapter and of *Collection of amounts owed* is concerned with the methods of collection to which this discussion now turns.

8.2.5 Determine methods of collection

Aspect of practice	Case Identifier
[Determine methods of collection]	Accountants: A _U , A _V , A _W
	Architects: AR _B , AR _C , AR _F , AR _H
	Solicitors: S _A , S _I , S _N , S _R
	Surveyors: SU _E , SU _L , SU _M , SU _Q

Table 14: Axial Coding of Firm Practice: Determine Methods of Collection

[Determine methods of collection]

Across all the professions, only one firm did not make particular reference to *[Determine methods of collection]*, and that was case A_T, whose management of trade credit largely reflected the focus of the firm upon insolvency cases. Discussion of this section of *Collection of amounts owed* shall begin with a consideration of the axial codes occurring within the internal environment.

When considering *[Determine methods of collection]*, there was evidence within solicitors firms to suggest that *Resource constraints [Firm attributes]* were a consideration when weighing up the opportunity costs of chasing payment. In particular, fee earners time was identified as a scarce resource that needed to be applied in the most effective manner. The organisation of the collection function within firms was a focus for case S_R, whereby the centralisation of debt collection and the allocation of this task away from the fee earner responsible, was considered a more efficient use of resources. An additional benefit identified from the centralisation of collection was considered to be the de-personalisation of collection, with the practitioner highlighting that the fee earners may prefer a degree of separation. The organisation and methods of collection within case S_I was also observed to reflect particular *[Areas of practice]*, with specialised external draughtsman used where considered appropriate. Such an approach indicates the principles of a cost benefit analysis of the best use of the practitioners time, and demonstrates the causal influence of *Resource constraints [Firm attributes]* upon *[Determine methods of collection]*.

The causal influence of *[Firm attributes]* outside of solicitors firms was identified within one surveying firm only, case SU_M, where *Firm Ethics [Firm attributes]* were considered to impact methods of collection:

'I guess it's a kind of honour thing you know. Or at least that's the way that the partners have always run it, if there's cleaners or something they get paid and we have to wait for our money....I mean it's our case, you know, and so there is money you know as soon as its paid out then we can take them'

Case SU_M, p.6., 132-138.

[Determine methods of collection] for case SU_M also reflects the *[Areas of practice]* whereby the firm generally have control of funds. However, the firm's ethical approach implies that they will be last to retrieve what is owed to them.

Decision making within solicitors firms is characterised by ***Expediency***; resources required for collection are assessed against amounts owed, highlighting that in some circumstances the time intensive nature of chasing clients for payment implies that associated opportunity costs erode any benefit. As previously discussed, approaches to *[Determine methods of collection]* have been surfaced through discussions of dealing with clients, rather than the provision of descriptions of formal practice, and highlight how the underpinning principles of informal decision making can echo that recommended within 'best practice'. Consideration of firm practice across professions has identified that these issues have only emerged for solicitors, highlighting how *[Determine methods of collection]* is shaped by the nature of profession. For case SU_M, the influence of *[Firm attributes]* reflected values held within the firm and was therefore explained by ***Motivation***.

For one firm of solicitors, case S_R, *[Firm exposure]* reflected the firm's assessment of exposure to clients, and the potential impact upon *[Determine methods of collection]* was observed in terms of techniques employed. Where the practitioner might experience *Difficulty tracing client [Firm exposure]*, this was acknowledged and the additional ***Risk*** associated with securing payment deemed reason enough to employ the services of an external agency. *[Firm exposure]* therefore can be seen to influence *[Determine methods of collection]*, and is associated with ***Risk***.

Evidence of the causal influence of *Practitioners attitude [Practitioner attributes]* upon *[Determine methods of collection]*, and of the interaction between *[Client attributes]* and *[Practitioner attributes]*, was found within case S_I, where some amounts owed were chased persistently on matters of principle, particularly where the practitioner perceived themselves to have provided a service above that considered necessary. Similarly, the interaction of *Client attitude [Client attributes]* with *Practitioner attitude [Practitioner attributes]* can be observed, where an obstructive client can encourage the practitioner to ensure full cost retrieval, and hence the causal influence upon *[Determine methods of collection]*. *[Practitioner attributes]* therefore reflect the **Motivation** of practitioners.

The final axial code situated within a firms' internal environment that influences *[Determine methods of collection]*, is *[Firm reputation]*. For case SU_E below, an aggressive approach to *[Determine methods of collection]* is perceived to potentially endanger client firm relationships and signal negative information regarding the cash flow position of the firm. Therefore for this practitioner *[Firm reputation]* influences *[Determine methods of collection]* in softening the approach:

'but having someone actually say that to you a) you don't know how you're going to come across to the client, if they're a big client you don't want to annoy them, b) you may sound a bit pushy, c) you may sound a bit like 'oh obviously got very bad credit and can't sustain his company without this £200 invoice. So if they're a big client we obviously don't want that to be portrayed. So yeah I wouldn't phone'

Case SU_E, p.8., 451-456.

Similar issues are reflected in case SU_Q, where again the practitioners approach to *[Determine methods of collection]* is one that considers the potential implications for their client base of aggressive collection tactics:

'I don't start writing viscous letters there's too few clients and too few sets of circumstances its usually a phone call from my wife, if it's a credit control department one rather than the client direct then my wife would probably call'

SU_Q, p.11., 268-270.

In addition, the practitioner within case S_I discussed how potential prospects for future business and referrals, *Impact upon referrals [Firm reputation]*, moderated the practitioner's approach to *[Determine methods of collection]*, with some amounts owed considered better left uncollected, rather than chased regardless of the implications.

In terms of firm practice with regards to [*Determine methods of collection*] the implications of the issues above can also be observed when considering firm up take of late payment legislation. Previous discussion of solicitors practice for example highlighted that despite awareness of their right to charge interest upon late payment, the practitioner within case S_R was reluctant to do so, due to possible repercussions in terms of lost custom as the result of damage to the firm's reputation. Indeed, the only practitioner in a solicitors firm to refer to charging interest on late payment did so in terms of how the firm had never actually exercised this right. Reference to late payment legislation and the right to charge interest on late payment across the professions was explicitly identified within the following cases; case A_W, A_V, S_{U_E}, and A_{R_F}. However, within these cases there was suggestion of its actual application in only A_{R_F}, with practitioners discussing how, for example, the right to charge interest on late payment might be included but with little expectation that it will be acted upon:

'we charge interest if they don't pay after the 14, but what would normally happen is the first time it gets crossed out, where its left on the invoice but we cross it out to give them warning'

Case A_{R_F}, p.3., 171-175.

'we have changed that a little bit we now put 'interest payable in overdue accounts. Whether I'd know how to calculate the interest or not I don't know. I mean that's only fairly recently....No I wouldn't know how, quite honestly, I wouldn't know interest we were charging, you know so – ok yeah I'd look it up on the internet or something'

Case S_{U_E}, p.4., 208-227.

The practitioner within case S_{U_E} further highlighted how [*External stakeholders*] would be referred to in order to provide help in chasing payment:

'see that's where I completely fall down, I wouldn't actually know what I'd do. Yeah I'd probably resort to an FSB solicitor sending out a letter...if you ring them up and you've got a client who's not paying they will get a solicitor to draft a letter and send it out as part of your membership'

Case S_{U_E}, p.4., 178-187.

Practitioner approaches to [*Determine methods of collection*] clearly reflect **Motivation**, with evaluations extending beyond the uptake of formalised practices considered representative of 'best practice'. A careful, passive approach is adopted in order to

maintain existing client relationships and protect the *[Firm reputation]*. The powerful, causal influence of *[Firm reputation]* upon *[Determine methods of collection]* is apparent, **Motivation** providing a meta-level explanation of its impact.

The axial codes discussed above have all been situated within the internal environment of the firm. Discussion will now consider the causal influence upon *[Determine methods of collection]*, of axial codes that occur within the operating environment, beginning with the *[Client firm relationship]*. The close relationship between the *[Client firm relationship]* and *[Firm reputation]*, and the subsequent causal influence upon *[Determine methods of collection]*, has been demonstrated within cases S_N and S_R, where, for example, in case S_R the practitioner is reluctant to charge interest upon late payment for fear of jeopardising future business by damaging the *[Client firm relationship]*. Accordingly, the practitioner within case S_{U_E} above, discussed the perceived impact of intrusive collection methods upon the *[Client firm relationship]*, highlighting how they wished to avoid annoying the client, coming across as ‘pushy’, and signalling negative information regarding the financial position of the firm. Practitioners’ evaluations of collection methods and applying late payment charges to clients demonstrates how perceived potential consequences are factored into decision making, with *[Determine methods of collection]* tempered to avoid the potential loss of future business.

Similarly, the importance of retaining clients is highlighted within case A_U, where as a result the practitioner’s approach is non-confrontational and collaborative:

‘if I don’t get a response from the email, I give a phone call, if I don’t get a response from the phone call, ‘what’s happening here’, not to do it in an aggressive sort of way, I do it on a way ‘let’s work together’, a monthly payment, so it’s good for you, and it’s good for me, I think the most important thing for me it’s to try and retain clients, I do know businesses go through bad times’

Case A_U, p.7., 154-159.

[Determine methods of collection] clearly reflects evaluation of wider **Motivation**, with the practitioner’s collection efforts undertaken in a careful manner. Evidence of an approach cautious of damaging the *[Client firm relationship]* is also illustrated with case A_V, where the practitioner describes non-intrusive methods of collection:

'we also send out statements, not to everyone, to those clients which possibly do need a little encouragement to pay, we try to keep it fairly informal, we'll put a little message on it 'this has been outstanding for a little while can I have your cheque', we don't go down the route of big, red stamps or great big 'this is now overdue' we use some discretion, get the secretaries to give them a call'

Case A_V, p.11., 266-271.

'initially you don't feel that you want to do something that necessarily jeopardises the relationship with the client either for whatever reason'

Case A_V, p.16., 383-384.

The practitioner within case A_V further highlights how [*Determine methods of collection*] are shaped by the [*Client firm relationship*] where adjustments to the bill may be made in response to client enquiries:

'again if they come back straight away on receipt of the bill and say 'I thought the bill was a bit higher' that's negotiable to some extent, you can say 'I'll look at it again, OK, yes I agree, we did have to do this extra work but on the basis of our longstanding relationship I'm willing to issue a credit against some of it, so that's more likely to happen than them not to pay'

Case A_V, p.21., 510-515.

Again, similar issues were highlighted within case S_N, where the [*Client firm relationship*] ensured that the methods of collection adopted by the practitioner were not detrimental to securing ongoing business by offending the client. Indeed, for case S_N, the organisation of *Collection of amounts owed* was significant; centralisation of the collection function was considered favourable, de-personalizing payment issues, with the accounts department providing a scapegoat for the practitioner, should the client be offended.

A proactive approach to leveraging the [*Client firm relationship*] in order to encourage prompt payment is highlighted with case S_U_L, where the practitioner nurtures personal contacts to help prioritise the payment of the firm. The practitioner discusses formalised practices adopted, but within the discussion also refers to the effectiveness of informal contact in encouraging payment:

'I've got the standard reminders, three reminders...because you don't want clients to say I've lost them'

Case SU_L, p.2., 43-48.

'the report shows you the current invoices, 30 days, 60 days, 90 days, 120 days all over all in a different colour so we know if someone, I personally I know as soon as its over 30 days I send the first reminder I can't think, I can't send the first reminder before that because the money is not due, because we given them 30 days but the system produces a report for aged debtors'

Case SU_L, p.6., 130-134.

'Yes, I think a phone call is very important and especially when you have a relationship with your client because I know the surveyors have got a relationship with the fee managers here, with the fee managers there they've got a relationship, but it's important it can't be practically responsible for paying and receiving to have a relationship with one another, now I've made a phone call I just chat with them they're nice, really honestly they haven't received an invoice, you know that's why we haven't paid, and we call them by name, and they call me by name, you know hi S how are you, you know it is very very important so they can respond, because they know you obviously if they have any sort of shortage in cash flow because they know you they pay you first, that's what I believe, that's not always, but I think it's very important to keep a good relationship and you know one another that's why the phone call is important, letters you know very formal, they're so formal and you know they don't know you, it's just a letter...Although I make sure the letters are very polite so that they don't get offended but uh the phone call is very important'

Case SU_L, p.11., 259-271.

For case SU_L therefore, the [*Client firm relationship*] has had implications for the approach to [*Determine methods of collection*]; formalised practices are used, yet informal communications are considered more effective in leveraging and prioritising payment from the client. Establishing personal contacts and prioritising client payment was also seen to influence [*Evaluate ease of collection*], as discussed earlier within consideration of *Collection of amounts owed*.

An additional dimension to [*Determine methods of collection*] that partly highlights the causal influence of the [*Client firm relationship*], has surfaced within case A_U, where the practitioner describes their dislike of talking about amounts owed to clients, and the

tension between the selling of their services in order to engage clients and the chasing of payment:

'I don't like it because I get on really well with my clients and it's just embarrassing talking about money I suppose even though I'm an accountant and I do talk about their money all the time, and also it clashes with what I'm doing, I'm selling myself and my services so it goes against the grain'

Case A_U, p.5., 117-120.

In addition to the causal impact of the [Client firm relationship] upon [Determine methods of collection], the causal influence and interaction of [Social norms] can be observed within case A_U, and explains the practitioners discomfort with the discussion of payment. The impact of [Social norms] can also be observed within case AR_C for [Determine methods of collection], with the practitioner identifying the perceived stigma attached to discussing fees, and the lack of emphasis upon the collection process within the architects training, despite having established formal practice with regards to collection:

'basic credit control isn't it, invoice then payment, so then there's a letter that goes out, and then there might be a phone call that will follow. It's pretty standard credit control'

Case AR_C, p.11., 626-628.

'and always through your training, its takes seven years, nobody really talks to you about gathering the money which is obviously the key issue, because if you don't do that then you can't practice.....so we were actually talking about this. The trouble is, a lots of people shy away talking about fees, it's kind of the dirty end of the business. In fact you need your customers to pay you money'

Case AR_C, p.13., 722-735.

Clearly, the commercial **Motivation** of the firm explains at a meta-level the causal significance of the [Client firm relationship] for [Determine methods of collection]. There is substantial evidence that back end collection methods are considered very much in the context of the ongoing and potential business relationship with clients. Discussion has explored the interaction of additional axial codes, namely [Social norms] and [Firm reputation]. **Norms** at a meta-level provide an explanation for the causal influence upon

firm practice. It is to another related axial code, *[Client attributes]*, and its influence upon *[Determine methods of collection]*, that this discussion now turns.

[Client attributes] was identified as a significant causal influence upon *[Determine methods of collection]* across all the professions. Within case S_A, the method of communication with the client was observed to be partly determined by the *Client organisation [Client attributes]*, with personal contacts leveraged by practitioners in order to secure payment whilst the size of the client and extent of their bureaucracy mitigated to some extent the effectiveness of such an approach. Additionally, within case S_A the causal influence of *Client preferences [Client attributes]* upon *[Determine methods of collection]* was observed, with the practitioner passively avoiding methods of collection with the perceived potential to antagonise clients. The nature of the *Client organisation* also forms a point of reference for the practitioner within case SU_Q, who identifies how methods of collection are partly determined by the nature of the client contact and their status within the organisation:

‘it’s usually a phone call sometimes depending on the circumstances, sometimes a phone call from my wife, if it’s a credit control department, one, rather than the client direct my wife would probably call, if it’s a client direct I would probably call. So it’s a couple of calls, particularly if I see them then I’d say ‘now look come on this is not good enough’

Case SU_Q, p.11., 269-273.

An understanding of the nature of the client organisation and the potential effectiveness in utilising personal contacts can therefore be seen to be an important causal influence upon *[Determine methods of collection]*, providing information to the practitioner regarding payment retrieval. *[Determine methods of collection]* can be seen above to be informed both by *Client organisation* and *Client preferences*, highlighting practitioners’ evaluation and awareness of *[Client attributes]*. In this context *[Client attributes]* inform practitioners in terms of potential client behaviour and contribute to their ***Knowledge of client***; ***Knowledge of client*** therefore provides a meta-level explanation of the causal significance of *[Client attributes]*.

For the practitioner within case AR_H, *Client satisfaction [Client attributes]* and previous experiences with dis-satisfied clients shaped their approach, with an acknowledgement that

methods of collection needed to be approached in a proactive fashion in order to prevent payment problems:

'well you never want to do it – you never want to pick up the phone, it's much easier to write a letter or email, but I've got to stop, you know it creates problems if you don't just talk to them and if you can get through to them it's very difficult for them to, if you get to speak to them they haven't got a valid point'

Case AR_H, p.10., 548-551.

The importance of a proactive approach to *[Determine methods of collection]* was also evident within case AR_B, where the practitioner identifies how keeping the client informed and managing both *Client satisfaction [Client attributes]* and *Client expectations [Client attributes]* is important to encouraging prompt payment:

'oh just keeping the client happy, it's kind of, so long as they're I mean you've got to be trustworthy I suppose you can't let them feel at any time that you're not doing exactly what you set out to do'

Case AR_B, p.8., 371-374.

'so long as you make sure that you work to anticipate any mistakes and try and overcome them before they happen people are usually very happy with the service. I think one of the things that frustrates clients is that we're so used to a kind of retail approach, most contracts that people enter into.....it's a very quick exchange whereas architectures not like that you're delivering something over the course of 18 months and parts of it might accelerate and go very quickly and parts of it might be very difficult to get a result....and that's where people are frustrated because they think that as soon as they've said right OK go ahead they're not getting that quick kind of like the product times up the next day sort of thing so you've got to manage their expectations as well'

Case AR_B, p.10., 387-404.

The nature of the professional service provided, and a lack of familiarity with the processes involved for some clients implies the need for the practitioner to be proactive in managing *Client expectations*. The practitioner identifies that if clients are satisfied, payment is generally not an issue and it is this aspect of the relationship with the client that the practitioner is focused upon in terms of *[Determine methods of collection]*. The causal influence of *Client expectations [Client attributes]* upon *[Determine methods of collection]* was also evident within case S_I, where the interaction of *[Areas of practice]* in determining

Client expectations was observed. The practitioner's approach to the retrieval of amounts owed was adapted in line with perceived *Client expectations*, with the acceptance of lower cost recovery in some circumstances. **Knowledge of client** once again provides a meta level explanation for the causal significance of [*Client attributes*]. Similarly, Case S_I highlighted how the *Client attitude* [*Client attributes*] to payment was observed by the practitioner, who responded using particular approaches intended to incentivise the client to pay. The collection methods utilised were intended to manipulate the payment behaviour of the client, with the causal significance of axial codes again captured by the organising meta-level construct **Knowledge of client**.

The collaborative approach of practitioners to [*Determine methods of collection*] was highlighted within case A_U, where the practitioner identifies how alternative payment arrangements provide non confrontational options for clients struggling with the bill. The practitioner reacts to *Client circumstances* [*Client attributes*] in a responsive manner:

'if I don't get a response from the email, I give a phone call, if I don't get a response from the phone call, 'what's happening here', not to do it in an aggressive sort of way, I do it in a way 'let's work together', a monthly payment, so it's good for you and its good for me'

Case A_U, p.7., 154-158.

Similarly within case A_V, *Client circumstances* prompt collaborative decisions regarding [*Determine methods of collection*] with the practitioner keen to discuss payment issues directly with clients, rather than adopt heavy handed payment retrieval practices:

'in most case you probably turn round and say, if you got to a stage where you were being paid consistently late for a long period of time, you might turn round to them at some stage and say 'look this isn't working', it does happen but not very often – what we do is we look at people who owe us fees, we can't do them work at the same time I don't want bailiffs knocking on the door because he's got something that could have been done for the sake of him not writing us a cheque so we have to be a little bit flexible there'

Case A_V, p.19., 450-457.

The approaches of practitioners above highlight that perhaps because of commercial **Motivation**, the maintenance of the business relationship with the client is important and that more might be achieved with supportive actions than with pushing for payment

regardless of the consequences. Case S_N previously demonstrated how practitioners incorporated an awareness of *Client circumstances [Client attributes]* when deciding upon methods of collection, in conjunction with the responsible fee earner. The practitioner's awareness of the client's contextual circumstances was identified as an important influence upon *[Determine methods of collection]* with collection procedures adapted flexibly where circumstances were known. Where the practitioner was not well informed regarding *Client circumstances [Client attributes]*, collection procedures were not instigated until the responsible fee earner was contacted, despite a centralised accounting function.

Closely related to *Client circumstances*, is *Client cash flow* which for the practitioner within case S_U_L was a key factor, prompting them to chase proactively for payment, partly in order to prioritise their payment:

'some of them if we send the first reminder I personally think small business they always build their business on an overdraft facility they all have cash flow problems, I personally think if you don't chase, if they've got a little money they pay the people who chase, they don't pay the people who don't pester them that's why I think we should pester them. Because we have an overdraft, we need an overdraft facility to build our business so why shouldn't we pester them why shouldn't we be on top of their list of payment? So as soon as the 30 days is over the first month it goes and um if they are happy with the invoice they have no excuse not to pay it we receive the money quickly, with a copy of the reminder attached to it with the original and they pay unless they have some discrepancy or something or they haven't received their invoice'

Case S_U_L, p.6., 139-148.

'and they disappear in the end or they go bankrupt if they are a company because only people, people who don't pay are the people who don't have the money to pay and obviously they've got a small amount of money they pay the people who chase more and if you just leave it they go bankrupt and then you don't get your money'

Case S_U_L, p.8., 175-179.

The persistent collection methods adopted above are in response to the practitioner's assessment of clients' likely payment behaviours and are intentionally manipulating the client to action their payment first. Generally therefore, *[Client attributes]* provide dimensions of information pertinent to *[Determine methods of collection]*, contributing to practitioners' ***Knowledge of client*** and enabling them to proactively anticipate client

behaviours and evaluate approaches to collection accordingly. An understanding of [*Client attributes*] also allows practitioners to approach collection in ways that are mutually beneficial for both client and practitioner; the client is supported and offered alternative payment arrangements when they might be experiencing difficulties whilst the practitioner has the opportunity to maintain the clients business, thus satisfying their commercial **Motivation**. At a meta-level the organising constructs **Knowledge of client** and **Motivation** therefore provide powerful explanations as to the causal influence of [*Client attributes*] upon [*Determine methods of collection*].

Finally, in relation to clients, for one architectural firm there was evidence that the [*Client profile*] causally influenced [*Determine methods of collection*], where undertaking *Referred clients* [*Client profile*] created more complexity in the business relationship and posed particular issues when it came to retrieving payment:

'and with that one a key feature that I will learn is that you write them an agreement and you be very careful going through other people that – I mean it was great because I just went straight into the job, I didn't actually have to get it, I didn't have to go and visit them, the free visit, I just basically went to see about it and started. So yeah but an agreement from them would have helped I suppose'

Case AR_H, p.11., 642-646.

Formalised agreements that would have provided the practitioner with a point of reference were not utilised as the clients were referred, and the business arrangement not well defined. Within case AR_H, the practitioner highlights how their experiences of non payment when dealing with *Referred clients* has shaped their approach to [*Determine methods of collection*], and raised their awareness of the importance of formalised practice and the role it can play in collection of payment. Thus **Experiential learning** of the practitioner is apparent, which at a meta-level explains the causal influence of [*Client profile*] upon [*Determine methods of collection*].

The final axial code within a firm's operating environment observed to exert a causal influence upon [*Determine methods of collection*] is the [*Professional environment*], which was observed only within the practice of solicitors. As previous discussion has therefore highlighted, within case S_N, the *Professional context* [*Professional environment*] implied an advantage for solicitors' practices, with existing in house expertise with regards

to securing payment implying that they were well positioned to instigate legal proceedings. Within case S_R, an established complaints procedure also demonstrated the directive influence upon [*Determine methods of collection*], of the law society, a constituent part of the firm's *Professional context* [*Professional environment*]. The [*Professional environment*] has therefore defined particular aspects of how solicitors [*Determine methods of collection*]. The practitioner within case S_N referred to the accessibility of in house expertise to pursue collection, whilst within case S_R, the regulatory influence of the professional association is identified in terms of determining processes and procedures associated with collection. **Regulation** therefore provides a meta-level explanation as to the causal influence of the [*Professional environment*] upon [*Determine methods of collection*] for the practice of solicitors.

Within the wider, macro environment one accountant, case A_W, referred to the causal influence of the [*Regulatory environment*] upon [*Determine methods of collection*], where the practitioner considered the regulatory leverage provided by external parties in generating an incentive for the client to pay:

'it depends who it is, there's one or two that respond when I ring them up...rate of interest, this is letter three, and it does talk about 11.75%...you sort the wheat from the chaff – the majority of the clients are over a bit of a barrel because if they're taking too long they're probably on a fairly tight timescale so if there are deadlines with the revenue, companies house, various third party pressures – I mean some accountants say 'let's wait until the revenue gives them hell' – they they've got to come back to you cap in hand. Difficult one that how much effort do you spend in chasing these things, are they going to come in, are they not going to come in...We just really...now one of two can take quite a lot of work and sometimes a lot of patience'

Case A_W, p.4., 80-90.

This particular issue was also considered within discussion of [*Assessment of amounts outstanding*] but there are clearly implications for [*Determine methods of collection*], with the practitioner's decision regarding how much effort to expend in retrieving payment influenced in part by their evaluation of the clients incentive to pay. **Regulation** at a meta-level explains the causal influence of the [*Regulatory environment*] whilst the dynamics of **Power** and **Expediency** can also be observed within the practitioner's decision making; the existence of a regulatory incentive for the client to pay awards the practitioner with **Power**

in the payment relationship with the client, whilst the practitioners knowledge of this allows them to behave expediently, and wait for payment.

8.2.6 Determine methods of collection: Summary

Across all professions and all firms, decisions regarding [*Determine methods of collection*], were central to practice. Discussion of this area of firm practice is now complete, and draws this section of the chapter concerned with the *Collection of amounts owed* to a conclusion. The causal influence of axial codes from across environmental levels, and the explanatory role of meta-level constructs, has been explored throughout, as has both formal and informal aspects of the often complex and sophisticated trade credit management of practitioners. The methods of collection employed reflected complex decision making that incorporated careful consideration of commercial motivation, the maintenance of existing client relationships and the dynamics of leverage. Decisions regarding the collection methods utilised could be considered cautious and deferent to clients, however the accounts of practice reveal their multi-faceted nature and long term perspective; methods are used in a manner that supports practitioner's objectives and manages client payment often collaboratively to produce mutually beneficial results. Within the following, concluding section of this chapter, discussion will consolidate preceding sections, and will in particular highlight the causal influence of the emergent axial codes and the significance of the organising meta-level constructs.

8.3 Collection of amounts owed: Conclusions

The final section of the organising framework captured aspects of practice associated with back end trade credit management, with decision making orientated around three key aspects of practice; [*Evaluate ease of collection*], [*Assessment of amounts outstanding*], and [*Determine methods of collection*]. This final, concluding section will review practice in each of these areas, again highlighting the causal influence of axial codes and the explanatory nature of the organising meta-level constructs.

As previously discussed, the predominantly deductive research has been mainly concerned with identifying the uptake of aspects of formalised practice, which within this context might include for example, the use of discounts and review of doubtful debts. There has been particular interest regarding the implications and experience of late payment, with

some research combining both qualitative and quantitative approaches. However, the in-depth qualitative data within this research offers new insights into back end trade credit management and the practices adopted and why, with research exploring informal approaches outside the constraining framework of formal, recognised procedures.

[Evaluate ease of collection] was primarily concerned with assessment of retrieving payment from clients and emerged as an active aspect of financial management, across all professions. For a minority of firms, the *[Regulatory environment]* and the *[Professional environment]* implied conditions that determined to some extent practitioners control in leveraging payment, with practitioners aware of the dynamic influence of **Power** and implications for *[Evaluate ease of collection]*.

The causal influence of client related axial codes was significant. The interaction of client orientated axial codes was observed to inform practitioner evaluations and create particular payment environments. Assessments of the *Client attitude [Client attributes]* were perceived to indicate potential payment issues, and circumstances in which payment was expected to be straightforward, with the interaction of *[Client attributes]* with both *[Client firm relationship]* and *[Client profile]* providing additional insight for practitioners. Practitioner evaluations of potential payment issues reflected attitudes attributed to clients as the result of the casual influence of *[Client profile]*, and practitioners generally held societal views. In addition the interplay of *[Areas of practice]* is seen to determine in part the *Client attitude [Client attributes]* and the potential associated **Risk**.

Additional aspects of *[Client attributes]* highlighted how the practitioner interpreted client behaviour with respect to the client's cash flow position, with interpretations of payment behaviour indicating supportive approaches that recognised short term difficulties. *Client systems [Client attributes]* were held responsible for delays in payment, with practitioners informed as to where this could potentially be an issue, anticipating payment delays accordingly. The importance of *Client satisfaction [Client attributes]*, was also referenced in terms of *[Evaluate ease of collection]*, with practitioners expectations of prompt payment where clients were satisfied, and of delays occurring where they are not, or where the relationship was not appropriately managed. The significance of proactive engagement with the client in terms of collection was evident, with practitioners identifying how *Client*

satisfaction could be leveraged by the client to delay payment, providing the means for the client to legitimise their procrastination.

A key aspect of [*Client profile*] was that of *Repeat client*, where long standing clients with established payment histories had implications for the **Risk** associated with payment. The established payment histories of clients allowed practitioners to plan and anticipate payment expediently, passively waiting for payment from repeat clients known to pay late but with little associated **Risk**. An interesting dimension to firm practice regarding power and risk was also apparent when considering repeat clients. Repeat clients by definition require repeat service, thus providing the practitioner with leverage in securing payment; this is not the case for one off clients for whom the perceived **Risk** of non payment is higher. The causal influence of *Repeat clients* upon [*Evaluate the ease of collection*] was captured by organising meta-level constructs, signalling to the practitioner information regarding **Risk** and the likelihood of encountering payment problems, therefore informing practitioner's **Knowledge of client** and resulting in **Expediency** with regards to [*Evaluate ease of collection*].

Leverage between client and firm highlighted the explanatory roles of both **Power** and **Risk**, with practitioners aware of shifting dynamics and their corresponding ability to exercise **Power** when repeat service is required. The *Type of client* was also an important aspect of [*Client profile*] observed to directly influence [*Evaluate ease of collection*], with the status of the client enabling practitioners to evaluate **Risk** and the likelihood of payment, resulting in **Expediency** in decision making. The causal influence of the [*Client profile*] upon [*Evaluate ease of collection*] was clearly established, with *Repeat clients* and *Type of client* signalling information to the practitioner regarding **Risk** and informing their practice. The resultant approach of practitioners is often characterised by **Expediency**, arising from **Knowledge of client** and incorporating evaluations of **Risk** and **Power**.

The [*Client firm relationship*] was also observed as an important direct influence upon [*Evaluate ease of collection*] being perceived to encourage repeat custom and prompt reliable payment. Relationships established themselves where there were repeat interactions between firm and client, allowing the practitioner to establish an informed view of client payment behaviour and assess the **Risk** associated with late or non payment. Practitioners generally viewed the [*Client firm relationship*] as an important causal

influence upon *[Evaluate ease of collection]* by enabling them to establish informed evaluations of clients, and prioritise firm payment. For solicitor firms in particular, the *[Area of practice]* shaped practitioner evaluations of the ease of collection, reflecting the ability of the practitioner to exert control over funds and/or processes, providing an indicator of **Risk** and the ability to leverage payment from clients.

This review of *[Evaluate ease of collection]* has highlighted the key influences of axial codes upon firm practice and signposted the organising, meta-level constructs throughout the discussion. Firm practice is characterised by an overarching Expediency, reacting in an appropriate manner to informed evaluations of **Risk** and **Power** within client interactions. Client related axial codes were fundamental to the development of practitioners' **Knowledge of client**, whilst there was evidence of **Experiential learning** with practitioners reacting to problematic payment histories. Trade credit management practice with regards to *[Evaluate ease of collection]* could therefore be described as expedient, with decisions reflecting assessment of **Risk** and **Power** that incorporate practitioners' **Knowledge of client** and refer to resources required and the necessity to expend these.

The second area of practice within the *Collection of amounts owed* concerned decisions regarding amounts outstanding and their assessment. Within this context *Resource constraints [Firm attributes]* of the firm were again apparent, with resource requirements contributing to assessments of the potential benefits of pursuing amounts owed, and constraints in the availability of practitioners time leading to evaluations of how it can be best spent, with the result that the *[Assessment of amounts outstanding]* was sometimes neglected. In addition to time constraints, the cash flow of the firm was identified as prompting the *[Assessment of amounts outstanding]*, highlighting both passive and proactive aspects of firm practice.

However, decisions regarding the *[Assessment of amounts outstanding]* were clearly taken with regards to firm resources being put to their most efficient use, and decision making in that respect reflected **Expediency**. Additional aspects of *[Firm attributes]* included consideration of the impact upon firm profitability of writing off even small amounts, which resulted in the practitioner adopting a particularly proactive response to collection. Previous experience of bad debts and payment issues resulted in the appointment of dedicated credit control staff, whilst both *Firm objectives [Firm attributes]* and the *Size of*

the firm [Firm attributes] were perceived to provide flexibility within the *[Assessment of amounts outstanding]*, and an additional opportunity for the practitioner to exercise their discretion in line with their commercial **Motivation**. Similarly to the above discussion *[Practitioner attributes]* were also seen to contribute causally to the *[Assessment of amounts outstanding]*, where the **Motivation** of practitioners was perceived to impact upon the level of proactive chasing. The above discussion highlights how the impact of *[Firm attributes]* and *[Practitioner attributes]* upon the *[Assessment of amounts outstanding]* can be explained by the meta-level constructs of **Experiential learning**, **Expediency** and **Motivation**.

For one solicitor, *[Areas of practice]* and *[Firm exposure]* were referred to in terms of when amounts owed might be written off, and when even small amounts might be retained and held, rather than actively chased. Implicit within the approach of the practitioner are assessments of **Risk** and **Power**; control of funds and processes affect the decision making of the practitioner, as does the possibility of leveraging payment in the future.

Within the operating environment, client related codes again dominated. As with discussion of *[Evaluate ease of collection]* issues of *Client satisfaction [Client attributes]* were identified; where clients were unhappy delayed payment was often the result with amounts owed sometimes written off entirely. Practitioners demonstrated an awareness of the need to proactively manage client satisfaction and avoid providing the opportunity for clients to procrastinate on their payment. In response, in some cases, practice has been adapted and formalised accordingly. The interaction of *[Client attributes]* with *[Practitioner attributes]* is also observable for one case, where the billing behaviour of the practitioner is perceived to have the potential to create payment difficulties. Where practitioners experienced delays in payment these were sometimes attributed to the *Client cash flow [Client attributes]* whilst *Client circumstances [Client attributes]* were also incorporated within practitioners *[Assessment of amounts outstanding]* in often collaborative ways. When payment delays were attributed to temporary financial difficulties for clients, practitioners were content to wait, and where payment profiles were known and understood, amounts outstanding were accommodated. This was particularly true where a *[Client firm relationship]* existed.

Central to the causal significance of *[Client attributes]* is the importance and availability to the practitioner of timely information regarding clients. **Knowledge of client** therefore at a meta-level largely explains the causal implications of the axial codes discussed above, with the dynamics of **Risk** and **Power** apparent in client attempts to create leverage in order to delay payment.

The causal influence of *[Client profile]* was also observed within the *[Assessment of amounts outstanding]*, where the *Type of client [Client profile]* was of particular interest to practitioners, signalling information regarding **Risk** and the likelihood of receiving payment with expedient decisions regarding the use of resources to chase payment made accordingly. Where *Repeat clients [Client profile]* proved consistently troublesome in terms of payment practitioners were willing to terminate their business relationship. The causal influence of the *[Client profile]* for the *[Assessment of amounts outstanding]* can therefore be explained in terms of **Risk** and **Expediency**.

The regulatory causal influence of the *[Professional environment]* was apparent for solicitor firms, in terms of the *[Assessment of amounts outstanding]*, where the processes of pursuing payment through legal means were considered to present particular difficulties. In addition, industry standard accreditation was seen to have provided templates for firm practice, which were referred to within one firm of solicitors. The influence of the *[Professional environment]* at a meta-level is through **Regulation**, determining the external context for the *[Assessment of amounts outstanding]* and defining generic frameworks for firm practice.

The final axial code to be reviewed with regards to the *[Assessment of amounts outstanding]* is the *[Regulatory environment]*. Interestingly for one accountant, regulatory requirements were identified as providing clients with an incentive to pay, and the practitioner with leverage with which to secure payment, whilst for other firms the causal influence of the regulatory environment concerned the treatment of amounts outstanding. The causal influence of the *[Regulatory environment]* can again be explained with reference to the organising meta-level constructs **Power**, **Regulation**, and **Expediency** with the practitioner waiting passively for payment they know will be forthcoming once the tax authorities demand accounting information from the client.

The analysis of *[Assessment of amounts outstanding]* within firms has therefore highlighted practice that reflects **Expediency** within decisions that are taken with reference to **Risk** and the dynamic dimensions of **Power**. **Knowledge of client** is central to firm practice and captures the causal significance of numerous axial codes, whilst **Experiential learning** explains the influence of axial codes in informing and developing firm practice. **Regulation**, as discussed above, determined to some extent the contextual conditions for firms, albeit with different results. This concluding discussion now turns to the final aspect of *Collection of amounts owed, [Determine methods of collection]*.

Consideration of how firms made decisions about the collection methods used initially considered the causal influence of *[Firm attributes]* and in particular, *Resource constraints*. In terms of methods of collection, resource constraints were observed to encourage the centralisation of the collection effort for some firms, where a centrally organised collection function was considered to make best use of practitioners' time, with approaches of some practitioners indicating the application of the principles of cost benefit analysis and the weighing up of opportunity costs involved with chasing payment. For one practitioner, *Firm ethics [Firm attributes]*, influenced approaches to collection, as the firm positioned themselves last to receive payment. Decisions regarding collection have therefore been observed to be partly influenced by firm **Motivation**, with regards to their ethical commitment. The causal influence of *Resource constraints [Firm attributes]* has also highlighted **Expediency** within decision making, where resources required for collection are assessed against amounts owed, identifying that the time intensive nature of chasing clients for payment may imply associated opportunity costs that erode any benefit.

The **Risk** implied by *[Firm exposure]* incentivised one firm of solicitors to employ the services of an external agency in securing payment, where the firm anticipated difficulty in tracing the client. Alternatively, where extra value was perceived to have been provided to clients, or clients perceived to have behaved obstructively, *Client attitude [Client attributes]*, collection efforts were persistently undertaken, reflecting the **Motivation** of the practitioner.

The final axial code within the internal environment observed to influence *[Determine methods of collection]* was *[Firm reputation]*. Aggressive approaches to collection were considered to both threaten the client firm relationship and prospects of a future

commercial relationship, and signal negative information regarding the cash flow position of the firm. In some cases, amounts owed were considered better left uncollected than chased regardless of the implications. The potential damage to commercial relationships with clients can also be observed with reference to the application of late payment legislation. Practitioners demonstrated their awareness of the legislation and their right to use it, and some referred explicitly to it within their terms and agreements. However, there was only clear evidence of its application within one case, whilst others referred to the impact upon potential business and their reputation of applying the late payment interest charge. Consideration of these issues highlighted in particular commercial **Motivation** and the importance of maintaining the existing client base.

Analysis of [*Determine methods of collection*] revealed the complex nature of decision making and the interaction of several axial codes, particularly, the [*Client firm relationship*] and [*Firm reputation*]. As discussed above, practitioners were reluctant to charge interest on late payment and avoided using intrusive collection methods for fear of the potential damage to the [*Client firm relationship*]. Methods of collection were characterised by non-confrontational approaches that reflected practitioner evaluations of wider firm motivations and were at times collaborative in nature. A proactive approach to leveraging the [*Client firm relationship*] in order to encourage prompt payment was also highlighted, where personal, informal contacts were perceived to help prioritise payment of the firm. [*Social norms*] were identified as an additional dimension to [*Determine methods of collection*] and interacted with the causal influence of the [*Client firm relationship*]. Practitioners discussed discomfort when discussing payment and fees, and the tension that existed between trying to engage the client and then chasing payment. In terms of the causal influence of the [*Client firm relationship*] and related axial codes upon [*Determine methods of collection*], the commercial **Motivation** of the firm offers a powerful meta-level explanation, with substantial evidence that back end collection methods are considered in the context of the ongoing and potential business relationship with the client.

In terms of [*Client attributes*], *Client organisation* shaped collection methods, with practitioners leveraging personal contacts and adopting approaches that enabled them to navigate the bureaucratic systems of clients and secure payment. There was also evidence of collection methods being selected in accordance with perceived *Client preferences* [*Client attributes*] in order to passively avoid antagonising clients. [*Client attributes*]

inform practitioners of client payment behaviours, contributing to their **Knowledge of client** and enabling the adoption of effective collection methods. **Knowledge of client** at a meta-level explained the causal significance of [Client attributes] for [Determine methods of collection].

Methods of collection were proactively approached within some cases in order to prevent potential payment problems from arising. The need to manage both *Client expectations* [Client attributes] and *Client satisfaction* [Client attributes] were identified as key aspects in being paid promptly, with a lack of familiarity with the processes for some clients making this a particularly pertinent issue for professionals. Practitioners are informed by [Client attributes] and in some cases, [Area of practice], as to the potential payment behaviours of clients and collection methods are adopted that incentivise payment. Evaluation of *Client circumstances* identified collaborative dimensions of [Client attributes], with non confrontational payment options considered for clients in difficult circumstances and practitioners keen to discuss payment issues in order to support the client, applying collection procedures flexibly where circumstances were known. Practitioner awareness of constraints upon *Client cash flow* [Client attributes] similarly prompted in some cases proactive chasing of payment, intended to influence clients into prioritising firm payment. **Knowledge of client** and commercial **Motivation** both provide explanation at a meta-level as to the causal influence of [Client attributes] upon [Determine methods of collection]. In terms of [Client profile] for one architectural firm, undertaking referred clients had led to particular payment difficulties relating to the informal nature of the client firm agreement and the complexity of the arrangement. The **Experiential learning** of the practitioner was apparent in their recognition of the need to formalise practice.

The final axial code within the operating environment regarding [Determine methods of collection] was the [Professional environment], observed as a regulatory causal influence upon firm practice for solicitors only. In the context of solicitors firms, in house expertise implied they were well positioned to instigate legal procedures, whilst the influence of the Law Society and professional associations was evident in the adoption of complaints procedures and determining processes and procedures associated with collection. At a macro level for one accountant the causal influence of the [Regulatory environment] was perceived to provide leverage in incentivising clients to pay, an aspect discussed within the

[Assessment of amounts outstanding] but relevant also here in terms of collection efforts being driven in part by evaluations of clients incentives to pay. **Regulation** explains the causal influence of both the *[Professional environment]* and the *[Regulatory environment]*, with evidence also of the interplay of **Power** and **Expediency** within practitioners decision making.

This concluding discussion of *[Determine methods of collection]* has revealed how firm choices are significantly influenced by commercial **Motivation** that reflects the importance of retaining clients and securing future business. The collection methods used are therefore often cautious, with reluctance on behalf of the firm to chase payment in a manner that could be regarded as aggressive, or damaging to their reputation. Central to how *[Determine methods of collection]* is approached, are practitioner assessments of clients potential and expected payment behaviours, highlighting the importance to practitioners of developing **Knowledge of client** and partly explaining the causal significance of client related axial codes. Evaluations of **Risk** were apparent, as was the **Expediency** of decision making where perhaps collection was not approached optimally but pragmatically, and mindful of the likelihood of payment being forthcoming. The discussion above provides additional insight into the practice of firms in collecting amounts owed, detailing the nature of decision making and the causal influences involved, revealing informal and formal practice in context, rather than affirming or otherwise the uptake of predetermined techniques. These concluding comments complete discussion of *[Determine methods of collection]* and the *Collection of amounts owed*.

Chapters 6, 7 and 8 have presented cross profession analysis that consolidated discussion of firm practice from across the four professions. Trade credit management practice within small professional firms has proved to have important informal dimensions which previous research has not fully explored, despite recognition of the importance of informal firm practice within the small firm literature. The qualitative, inductive analysis presented within these chapters highlights the implicit complexities of practitioner decision making apparent within small firm trade credit management practice. Practice is often sophisticated and appropriate for the context, reflecting evaluations that incorporate a range of firm objectives and motivations, beyond those that underpin approaches recognised as ‘best practice’. There is also plentiful evidence of practitioner awareness of espoused trade credit management practice, and formal approaches are used effectively by small firms,

with both formal and informal approaches clearly compatible. Indeed, nuances within firm practice have revealed the interplay of formal and informal aspects, and how they mutually support each other. However, evidence from practitioner accounts of trade credit management practice highlights in particular the perceived utility of informal approaches for some purposes, and the importance of such methods for firm practice.

Discussion of cross profession analysis has identified aspects of this research that provides evidence that both confirms existing research and understanding of small firm trade credit management practice and to some extent, contradicts deductively derived explanations. However, this is perhaps secondary; in adopting an alternative methodological approach to the vast majority of the existing literature, the major contribution of this research could be considered in terms of adding an additional layer to understanding through the inductive exploration of actual firm practice and why such approaches were adopted. This grounded analysis of small firm trade credit management therefore provides an alternative perspective to that which has emerged from research dominated by consideration of the uptake of formalised, predetermined procedures. Organising, meta-level constructs were surfaced which provided explanations for the causal significance of the axial codes. The subsequent Chapter 9 synthesises cross profession analysis and situates findings within a structuration theory perspective providing the final level of analysis. Chapter 10, the concluding chapter, utilises the organising, meta-level constructs to provide a cross cutting framework through which to view the trade credit management of small professional firms. A final cross case network of causation displays the axial codes and their causal influence upon the central, organising framework of firm practice and is presented within chapter 10 and used as a point of reference for the concluding discussion.

Chapter 9: Cross Profession Analysis: A Synthesis of Findings

9.1 Introduction

This chapter aims to synthesise findings with regards to firm's trade credit management practice, identifying what is now known as the result of inductive, qualitative data collection and analysis that had not been previously surfaced. Discussion is consolidated against the inductively derived central organising framework of the causal maps, with each area of practice (*Negotiation of terms of business*, *Management of amounts owed*, and *Collection of amounts owed*) revisited in turn and findings synthesised to allow a nuanced, rich overview of trade credit management practice in small professional firms to emerge from the analysis. Findings will be set within the context of structuration theory. The first area of practice for review and synthesis is therefore the *Negotiation of terms of business*. Trade credit management practice in this area was identified as being primarily concerned with the evaluation of clients, the establishment of agreements, and the determination of payment periods. Practice within each of these key aspects of *Negotiation of terms of business* will therefore be reviewed in order to establish an overarching perspective of what practitioners do and why.

9.2 Negotiation of terms of business

9.2.1 Evaluation of clients

Discussion regarding the [*Evaluation of clients*] highlighted interesting aspects of firm practice. The lack of reliance upon formalised systems and information gathering is particularly note worthy, with few practitioners reporting the use of formal credit checking procedures. Practice is instead characterised by informal approaches perceived to provide the greatest utility to practitioners, and that reflect divergent **Motivation**. Clearly, **Risk** remains of paramount importance to practitioners within their evaluations of clients, yet this is assessed largely without the adoption of the type of normative techniques. Consideration of **Risk** and **Power** is also inherent within decision making in related aspects of practice, for example the [*Decision to request money on account*]. However, rather than

trade off risk and return within a utility maximising framework, practitioners are concerned with *Motivation* in a broad sense, using alternative, informally derived sources of information and implicit stocks of knowledge to formulate appraisals. These appraisals reflect evaluations of commercial *Motivation*, *Risk*, and *Power* that are largely dependent upon practitioner and firm expectations regarding the potential payment behaviour of the client, and that are established with reference to causal influences represented by the axial codes. What has emerged from the qualitative data analysis is therefore a nuanced picture of the reality of firm practice; techniques are adopted that are appropriate and able to incorporate complex *Motivation*. The limited use of formal assessments of credit risk, or credit checking reflects the use of alternative approaches unencumbered with an ill fitting rationality.

Central to these approaches are the firm's and practitioner's *Knowledge of client*; evaluations of clients draw upon implicit knowledge stocks within a firm resulting in approaches that are appropriate and sophisticated but that may not resemble normative practice. For the majority of previous research this is where the focus has been, with surveys asking practitioners to indicate their uptake of formalised practices, or the frequency of their review (for example, Peel and Wilson (1996)). However, the evidence discussed suggests that practitioners have proactively rejected the use of such approaches, not through a lack of awareness, but because they favour informal methods that can incorporate a range of motivations and provide information with a perceived higher level of utility. This is true even where the causal influence of institutional structures is apparent in terms of evaluating clients; practitioners might adopt prescribed approaches yet alternative, informal, firm-situated procedures remain also firmly in use. Firm practice clearly extends beyond the scope of formal practice.

Practitioners have demonstrated a preference for informal approaches and information gathering when evaluating clients, and are considered in the use of such techniques. This research has therefore highlighted informal dimensions of practice with regards to the evaluation of clients that are of particular importance to practitioners, and that might be ignored or underestimated within alternative research paradigms focused upon formalised manifestations.

9.2.2 Establishing terms and agreements

Initial interactions with clients involved establishing a client-firm agreement. Generally, there was substantial evidence of systematic, formalised firm practice with agreements representative of normative approaches created largely in response to the **Regulation** influence of the [*Professional environment*]. However, the evidence further highlighted how rather than utilise formalised agreements as prescribed, unadulterated documents, practitioners adapted them into a form considered appropriate for effective communication with clients, ensuring clarity in business terms and payment schedules. Whilst practitioners were proactive in their adaptation of agreements, there was also widespread recognition as to the function and purpose of establishing initial agreements in terms of managing payment. The functionality of [*Establish terms of business*] was considered by practitioners within a broad agenda of managing payment issues, providing the opportunity to communicate with clients and build collaborative relationships.

For the small professional firms interviewed, establishing terms and agreeing fees therefore reflected the causal influence of institutional structures that externally imposed formalised practices and were apparent particularly within the [*Professional environment*]. However, normative prescriptions were rarely adopted without adaptation; practitioners incorporated a range of causal influences within their approaches whilst proactively anticipating the need for clarity in communications with clients in order to avoid potential payment issues. Practitioners exercised their agency, with their reflexive monitoring of action stimulating the uptake of informal dimensions of practice. Practitioner assessments of **Risk** and **Motivation** were apparent, with the form and content of agreements adapted accordingly, and implications for retrieving payment considered. Firm practice thus emerged as the result of the interplay of structurally imposed formalised procedures with firm specific, idiosyncratic approaches to the establishment of terms with clients. The establishment of terms and agreements therefore highlighted shared characteristics and the conditions under which practice might be adapted proactively to create approaches both appropriate and context specific. Practice was nuanced and multi-dimensional, unveiling complex assessments not likely to be revealed by surveys concerned with the uptake of normative practice only.

9.2.3 Determination of the payment period

The focus within this section of the research was upon the payment period stipulated within the initial agreement with the client. This aspect of trade credit management practice has been previously explored within existing research, with the causal influence of industry norms often attributed as a key determining factor for the payment period, particularly for small firms (for example, Wilson and Summers (2002); Jarvis et al (1996)). Similarly, this research surfaced evidence of the causal influence of [*Industry norms*] upon firm practice, with payment periods and business terms determined and perpetuated with reference to perceived payment *Norms*. Across the professions, [*Industry norms*] were less persuasive for solicitors, whose payment terms were more likely to be determined by the [*Area of practice*] and nature of the case, however generally discussion of payment periods revealed that [*Industry norms*] were entrenched by a practitioner's desire to conform to accepted practice and client expectations. Social structures regulating explicitly stated payment periods are therefore perceived to exist, and are adhered to, with practitioners demonstrating how the credit decision is driven by convention. The findings of this research therefore resonate with that of Jarvis et al (1996) and their investigation of rationality within the credit decision.

However, the richness of the data collected provided additional insights regarding the influence of [*Industry norms*] upon effective payment periods, and the actual application of formal credit terms. Despite formally communicated payment periods complying with the practitioner's perception of prevailing *Norms*, the effective payment period was influenced in particular by the [*Client profile*], which highlighted the interplay of commercial *Motivation* and evaluations of *Risk* in the determination of actual payment periods. The true impact of [*Industry Norms*] was limited to formally identified payment terms imposed upon a limited number of clients. A structuration theory perspective recognises the legitimating, structural properties of *Norms* and practitioners formalised practice instantiates these, with payment terms incorporating perceived expectations of clients. However, informal dimensions of practice reveal that actual payment periods reflect the ability of practitioners to act and exercise their agency; *Norms* are not simply imposed.

9.2.4 Conclusion: Negotiation of terms of business

Analysis of the *Negotiation of terms of business* therefore revealed dimensions of practice and causal influences that previous research has not fully explored. Firm practice reflects both the responsiveness of the practitioner to the regulatory influence of social structures and normative prescriptions, and the important dual role of informal, idiosyncratic approaches. Reacting largely to the regulatory influence of the *[Professional environment]*, practitioners have demonstrated awareness of trade credit management ‘best practice’, yet the actual approaches adopted reflect a more complex rationality than that of short term profit maximisation. Similarly, practitioners are clearly aware of *[Industry norms]* and ensure compliance with these in their formally articulated payment terms, however the regulatory influence does not extend to their actual application; effective payment terms reflect the causal influence of additional axial codes. Clearly, the organising meta-level constructs **Regulation** and **Norms** help to explain the causal significance of the *[Professional environment]* and *[Industry norms]*, yet only partially explain firm practice. In practice, **Risk**, commercial **Motivation**, and opportunities to minimise payment problems, have all shaped the approach of the practitioner to the *Negotiation of terms of business*.

The *[Evaluation of client]*, highlighted how practitioners have chosen not to adopt formal credit checking and instead rely upon informally derived assessments. Similarly, establishing terms of business and agreeing fees is not simply a case of applying standardised agreements, but provides the practitioner with a mechanism by which to communicate collaborative intentions to the client. Developing **Knowledge of client** is therefore central to firm practice from the outset, and partly explains the significance of client related axial codes. Closely related to the practitioners **Knowledge of client**, is the experience of both the firm and the practitioner, captured within *[Firm attributes]* and *[Practitioner attributes]*, which influenced awareness of normative practices and of the potential payment behaviour of clients. **Experiential learning** therefore partly explains the causal influence of these axial codes and highlights further the idiosyncrasies of firm practice. Firm practice is characterised by **Expediency**; the axial codes inform practice and the direction of resources, but not necessarily in accordance with a neo classical view of ‘optimal’. Informal approaches are preferred to normative, formal approaches in terms of effectiveness and appropriateness, whilst normative practices, if used, are adapted to be fit for purpose.

The *Negotiation of terms of business* reveals a rich, nuanced picture of small firm trade credit management. The emergent picture highlights practitioners general awareness of normative practice; decisions regarding the uptake and adaptation of such practices; and the evaluation and use of alternative, informal approaches. Practice is less reliant upon formal systems than might have been expected, reflecting the perceived utility of informal mechanisms and their flexibility when incorporating a range of motivations. Central to firm practice, is consideration of clients; practitioners exhibit a desire to establish and sustain long term relationships with clients which often manifests itself collaboratively, with practitioners sensitive to client circumstances and informational needs. Firm practice therefore, despite being informed by normative practice, is largely idiosyncratic and context specific, developed in accordance with a range of causal influences and often complex information sets.

The influence of social structures upon the *Negotiation terms of business* is apparent with regards to formal terms and agreements that reflect *Norms* and *Regulation* influences upon the professions. However, the reflexive agency of practitioners was also clear; actions instantiated *Norms* and *Regulation* structures through explicit formal terms yet informal adaptations demonstrated the practitioners' ability to act beyond the constraints of social structures. To consider firm practice solely with regards to the uptake of normative practice would therefore appear one dimensional; the lack of adoption does not necessarily indicate ignorance of such techniques or naive or ineffective practice. Indeed, for these practitioners their approaches fit with broad motivations and provide both effective and appropriate frameworks within which to manage the *Negotiation of terms of business*.

9.3 Management of amounts owed

9.3.1 Organisation of credit management

The central section of the organising framework was concerned with the ongoing payment relationship with the client, and decision making was organised around billing clients, extending credit, and financing the firm, whilst functional areas of practice emerged that were concerned with the organisation of credit management and the management of work in progress.

The first functional area of the *Management of amounts owed* to emerge was that of the *[Organisation of credit management]*. For all firms interviewed the ‘locus of management’ (Paul and Boden (2008, p.274)) in terms of trade credit was wholly situated within the firm, and the two practitioners (case A_T an insolvency practitioner and case S_U_M who acted largely as a rental and letting agent) who made little reference to the *[Organisation of credit management]* were involved in distinct areas of their profession where payment processes implied proactive credit management to be unnecessary. For other practitioners there was considerable evidence of the use of information technology and software packages to organise the administrative function, facilitating firms in the monitoring and control of debtors and the use of formalised, systematic methods. The proactive monitoring of amounts owed and effective use of administrative tools was apparent across all firms and all professions, regardless of size, and for some firms *[External stakeholders]* had proved influential in the use of particular tools. Discussion of practice perhaps unsurprisingly focused upon formal aspects, but also apparent were informal dimensions to decisions regarding the review of amounts owed, with practitioners adopting appropriate and effective monitoring techniques that did not necessarily comply with ‘best practice’.

The degree to which credit management was centralised was more apparent within the larger firms, as was the use of practice managers. *[Firm attributes]* proved an important causal influence, with the ***Experiential learning*** of the firm often explaining decisions regarding centralisation. However, discussion of the *[Organisation of credit management]* revealed the tension for some firms of the informed position of the practitioner and the degree of centralisation, whilst for other firms the decision to centralise the trade credit management function was based upon the perceived optimal use of resources. The *[Organisation of credit management]* therefore reflected ***Expediency*** within practice that was in accordance with normative expectations; even where practice was highly centralised the personal, often bespoke service provided by the responsible professional was respected and clients managed with reference to them.

The plentiful evidence of formalised, systematic approaches within the *[Organisation of credit management]* was further explained with reference to the ***Regulation*** influence of the *[Professional environment]* whereby codes of best practice for architects and solicitors enshrined formalised procedures with regards to firm management. This was particularly apparent for solicitors where the ***Regulation*** influence of the *[Professional environment]*

was pronounced by the need to protect client interests. *[Areas of practice]* similarly emerged as an important causal influence for solicitors, determining when and how payment was to be received and the associated **Risk**. To some extent *[Areas of practice]* captured the causal influence of entrenched payment **Norms**, with the result that the *[Organisation of credit management]* was adapted expediently and pragmatically to them and the associated **Risk**. **Regulation, Risk** and **Expediency** therefore again provided useful organising meta-level constructs that explain the causal influence of both the *[Professional environment]* and *[Areas of practice]* upon the *[Organisation of credit management]*.

Within the *Management of amounts owed*, the *[Organisation of credit management]* therefore provided evidence of formalised approaches that appeared in line with ‘best’ practice. However, the richness of the data collected also surfaced evidence of the informal adaptation of practices, given certain circumstances, and the causal influence of a range of axial codes, the first of which to be considered was *[Firm attributes]*. *Resource constraints [Firm attributes]* highlighted how despite practitioner awareness of formalised, ‘best’ practice, assessment of debtors was sometimes delayed, whilst in other circumstances resource constraints acted as a stimulus for action, highlighting both passive and proactive approaches. Evidence highlighted recognition of the importance of cash flow planning, and this manifested itself in ways appropriate to firm circumstances, and not necessarily representative of ‘best practice’. Often the firm’s experience, *[Firm attributes]*, of the implications of restricted cash flow contributed to shaping the approach to the *[Organisation of credit management]*, suggesting an evolutionary development of practice.

However, as noted above the stimulus of cash flow balances in the *[Organisation of credit management]* also revealed passive approaches, with one practitioner choosing only to action collection when bank balances indicated it necessary, reflecting what could be explained by **Expediency** in the allocation of the restricted time of the practitioner. Findings with regards to the importance of *Resource constraints [Firm attributes]* were particularly interesting, given that the existing research has investigated the area by considering the relationship between size and age of the firm and adoption of working capital management routines, finding that resource constraints may not be a barrier (Howorth and Westhead, 2003) but that the focus of working capital management reflects perceptions regarding marginal returns. These qualitative research findings suggest that resource constraints may indeed influence trade credit management, and that this is

reflected in evaluations of cash balances and allocation of the practitioner's available time, undertaken in an often expedient fashion. Clearly, for the *[Organisation of credit management]*, *[Firm attributes]* proved to be an important causal influence upon practice, explained with reference to the organising meta-level constructs ***Experiential learning*** and ***Expediency***.

Further dimensions of both *[Firm attributes]* and *[Practitioner attributes]* emerged from the data as causal influences upon the *[Organisation of credit management]*, particularly with regards to attitudes to debt finance, that again provided a different perspective to the existing research. Practitioners tended to avoid the use of debt finance in order to maintain tight financial control and encourage the uptake of effective credit management practices. However, existing research has tended to associate the use of external finance with the uptake of working capital management routines, (Howorth and Westhead, 2003), providing an interesting contrast. Practitioners' discussions of practice outlined the perceived importance of overall financial control and the role of credit management within this, with the use of debt finance considered to reduce the incentive for tight financial control.

The dominant influence of clients upon the *[Organisation of credit management]* and the implications for firm practice was also apparent, with the *[Client profile]* highlighting how practice is informed by the firms experience of dealing with the client, whilst particular aspects of the *[Client profile]* were also considered to signal information regarding the likely payment behaviour of the client. Firm practice reflected these assessments and included approaches that were novel and dependent upon the ***Experiential learning*** of the firm. Consideration of *[Client attributes]* further contributed to practitioners' assessments of client potential payment behaviour, yet also highlighted the collaborative intention of practitioners to anticipate and meet effectively the payment information needs of the client, through the *[Organisation of credit management]*. This proved to be an important aspect of practice particularly for solicitors, with regards to the *[Management of client costs]*. Once again the organising meta-level constructs ***Knowledge of client*** and ***Experiential learning*** provided powerful explanations as to the causal influence of the client related axial codes upon the *[Organisation of credit management]*.

The *[Organisation of credit management]* within the *Management of amounts owed* therefore reflected aspects of formal and informal trade credit management practice. There

was substantial evidence of the use of effective administrative systems across all firms for the systematic review and monitoring of amounts owed, explained in part by the Regulation influence of the *[Professional environment]*. However, firm practice was nuanced and responsive to clients, with additional dimensions revealed within practitioner's accounts of practice. Practitioners did not unquestionably rely upon prescriptions of normative practice but developed approaches to the *[Organisation of credit management]* that considered the payment information needs of clients, and facilitated practitioners' proactive development of their awareness of client payment behaviour. Discussion of the *[Organisation of credit management]* has therefore identified the uptake of formalised, normative systems for trade credit management whilst in addition revealing aspects of practice not fully explored previously and that highlight reflective and responsive practitioners.

9.3.2 Decision to extend credit

Emerging as a distinct aspect of decision making for accountants, architects, surveyors, was the *[Decision to extend credit]*. Previous research (for example, Petersen and Rajan, (1997), Paul and Wilson (2006)), has been preoccupied with investigating the supply of trade credit and the terms offered from a theory testing, deductive perspective. However the purpose of this research was to inductively elicit and analyse practitioners' accounts of their trade credit management and thus avoid imposing theoretical frameworks derived from normative practice. Within practitioner's accounts, the extension of credit was an adjacent decision to *[Determine payment period]*, with formal terms agreed with clients often referencing *[Industry norms]* when establishing payment periods. However, despite practitioners acknowledgement of *Norms* governing formally expressed terms of business, practitioner's rich examples of dealing with clients revealed how formal terms were often manipulated and adjusted for particular clients, according to the circumstances. Practitioners did not passively apply *[Industry norms]*, but instead responsively adapted them in a context specific manner. This research was primarily concerned with investigating these circumstances, and the corresponding causal influences.

Consideration of practice across professions revealed that the *[Decision to extend credit]* did not surface as a significant aspect of practice for solicitors, indeed, only one practitioner within a solicitors firm made reference to it and their decision making reflected assessments of clients and perceived *Risk*, in line with the discussion below. For solicitors,

the [*Decision to bill client*] dominated the [*Decision to extend credit*], with firmly established billing *Norms* and expectations effectively determining the period of credit extended to clients. The following discussion therefore reflects analysis of practice primarily across accountants, architects and surveyors.

There was some evidence that did suggest that reference to [*Industry norms*] reflected passive trade credit management practice, whereby despite a practitioner having asked clients for payment on invoice, a credit period in line with [*Industry norms*] was tolerated, echoing findings from Paul and Boden (2008) who observed that the influence of industry norms may result in an emphasis upon ‘back end activities’. However, further widespread evidence surfaced that highlighted that in the reality of practice [*Industry norms*] were not universally applied. Rather, client related axial codes exhibited a clear, dominant causal influence upon the application of formally expressed payment terms, reflecting complex firm motivations, and resonating with earlier research regarding firm willingness to vary credit terms for customer related reasons (for example, Summer and Wilson (2003) and Paul and Wilson (2006)).

In particular, the [*Client profile*] highlighted how the actual credit period granted reflected commercial *Motivation* and assessments of *Risk*, with extended credit periods tolerated for *Repeat clients*, or where *Client status* was perceived to signal security of payment. Furthermore, the existence of leverage within the client firm relationship emerged as a dimension of the dynamic power play between client and practitioner, with practitioners recognising that *Repeat clients* require on-going service provision, providing an incentive for them to pay even if this might be delayed, and thus resulting in an informal extension of the credit period. Where the [*Client profile*] indicated a lack of leverage, this was incorporated within practitioner’s assessments of *Risk*. The causal influence of the [*Client profile*] upon the [*Decision to extend credit*] was therefore clearly apparent and reflected the dynamic interplay of *Power*, *Risk* and commercial *Motivation*.

Further client related causal influences upon the [*Decision to extend credit*] were captured by [*Client attributes*]. Evidence suggested that where practitioners experienced delayed payment from clients, *Client systems* and associated bureaucracy were sometimes identified in explanation, and that subsequent decisions regarding extensions of credit anticipated such delays. Indeed, where both the [*Client profile*] and [*Client attributes*]

indicated that the **Risk** associated with the client's payment was minimal, then delayed payment resulting from *Client systems* was often accommodated and tolerated in an expedient fashion. Other dimensions of practice revealed the perception of practitioners that if clients are satisfied, payment should be forthcoming. Perhaps the most revealing causal influence upon the *[Decision to extend credit]* with regards to *[Client attributes]*, is that of *Client circumstances*. The adaptation of credit terms to collaboratively support clients through difficult trading conditions highlights an aspect of practice that could be considered in part altruistic. However, the commercial **Motivation** to secure an ongoing client relationship is also evident, with the firm willing to make an investment in the client in order to achieve this. Where mutual understanding between client and firm has been created and thus a *[Client firm relationship]* established, **Expediency** is apparent within practitioner's actions with regards to the *[Decision to extend credit]*, with tolerated extensions of credit the result of reciprocally balanced relationships.

Existing research has tended to focus upon the dominance of customers, as captured by consideration of size and proportion of business (for example, Peel et al, 2000), however this research has revealed how the *[Decision to extend credit]* and variations within practice need to be explained within the specific client firm context, and are likely to reflect **Expediency**, **Knowledge of client**, and the interplay of **Risk**, **Power** and commercial **Motivation**. Industry norms may determine formally expressed credit periods, but the complex reality of firm practice reveals the responsiveness of practitioners to contextual circumstances; this has not been fully explored within the existing, deductively orientated, research.

9.3.3 Management of work in progress

The *[Management of work in progress]* emerged as an aspect of firm practice intrinsically connected to the *[Decision to bill client]*. For solicitors firms there was evidence of the causal influence of the *[Regulatory environment]* upon practice, with tax implications for working capital an important factor in the monitoring of working capital levels and therefore in the *[Decision to bill client]*. A distinguishing feature of solicitors, identified above also when discussing the *[Decision to extend credit]*, was the dominant causal influence of *[Areas of practice]*, which reflected long established **Norms** that enshrined payment schedules, and funding arrangements. For solicitors therefore, these generally held perceptions of accepted payment **Norms**, largely determined by *[Areas of practice]*,

had important implications for the level of investment necessary within working capital. Practitioners appeared accepting of these *Norms* and practices established through precedent, and resigned to the funding of particular clients until the settlement of cases.

For accountants, architects and surveyors, ingrained payment *Norms* associated with *[Areas of practice]* did not emerge, and this particular axial code was significant across these professions for only one architect (case AR_C) and one accountant (case A_T) where practice specialism's resulted in particular implications for the level of investment in working capital. In particular, the distinctiveness of practice within the accountancy firm that specialised in insolvency highlighted context specific, appropriate, adaptations to trade credit management that shifted emphasis to the front end decision to work with a client, with the practitioner's recognition that once the client is taken on, a substantial investment in work in progress may well be required. For one accountant, discussion referred explicitly to the causal influence of *[Firm attributes]*, whereby improvements in skill sets were attributed to lowering levels of work in progress and improving firm profitability.

Once again client related axial codes proved influential for firm practice. Both *[Client profile]* and *[Client attributes]* captured case specific codes that highlighted these influences and their association to the billing decision, for example the *Scale of job [Client profile]* partly determined the level of investment required in working capital, whilst billing was organised by time interval. Evidence of firm practice highlighted both passive and proactive dimensions; some practitioners accepted the need to make large investments in work in progress as the result of payment schedules imposed by clients, whilst others proactively managed *Client preferences* and *Client expectations*, *[Client attributes]*, defining billing dates, stipulating stage payments and, in some cases, balancing the potential for future business against full recovery of work in progress. The **Risk** profiles of particular types of client, *[Client profile]*, were also considered with practitioners trading off the perceived lower risk of non payment by the client against a longer investment in work in progress.

As noted at the outset, the *[Management of work in progress]* was intrinsically related to the *[Decision to bill client]* and some practitioners referred explicitly only to the billing decision and implications regarding the extension of credit. For one firm in particular, additional amounts were charged to a client covertly to allow the firm to recoup costs

associated with carrying a significant investment in work in progress that resulted from the client's payment pattern. Evidence from other cases likewise highlighted how effective, prompt billing was perceived to be an important element in managing levels of work in progress.

For those practitioners who explicitly referred to the [*Management of work in progress*] an expedient approach was therefore generally adopted with consideration of commercial **Motivation** again apparent in shaping trade credit management practice and decision making, rather than practice being determined with reference to normative frameworks designed to optimise profit. Incorporated within the decision making of practitioners were informal assessments of **Risk** and commercial potential that reflected the responsiveness of practitioners to context specific, client-focused circumstances and highlighted the trade off between the **Risk** associated with a client and the level of investment in work in progress tolerated. However, as well as evidence of **Expediency** and proactive practice, for solicitors in particular, the [*Management of work in progress*] was also characterised by the passive acceptance of long established and engrained payment **Norms**, often heavily related to the [*Areas of practice*]. Practitioner's accounts revealed a grudging acceptance of the need to support sometimes large investments in work in progress, as this was considered to be determined by the nature of the case, and enforced by client expectations of profession specific payment precedents. A closely related aspect of practice acknowledged earlier within discussion has been shown to be the [*Decision to bill client*], and it is to this area that this concluding discussion now turns.

9.3.4 Decision to bill client

The decision making of practitioners with regards to the billing of clients revealed the complex interplay of numerous axial codes, including one situated within the macro environment. The [*Regulatory environment*] captured tax implications for billing, highlighting how practitioners consider the implications for the payment of VAT before formally requesting payment. From within the operating environment of the firm, the [*Professional environment*] proved particularly important for architects in determining established payment **Norms** that reflected pragmatic billing stages. These billing stages are upheld and given legitimacy by the professional association (the RIBA) and therefore represent normalised, standard industry practice whilst in addition providing a mechanism through which *Client expectations* [*Client attributes*] could be managed. The causal

influence of the [*Regulatory environment*] was a clearly regulatory one, an influence also observed with the [*Professional environment*] and the role of the professional bodies. However, the established billing stages for architects clearly also reflected the ***Expediency*** of practitioner's trade credit management, with long established work practices creating ***Norms*** of payment that practitioners acknowledged and used proactively in order to manage the expectations of clients. Similar evidence was surfaced for surveyors, whereby the timing of the bill was considered predetermined by associated payment ***Norms***. The [*Decision to bill client*] can therefore be seen to presume the existence of external ***Regulation*** structures and ***Norms***, as determined by the regulatory and professional environments, yet firm practice remains responsive to client demands and requirements, recognising expediently the advantages of easily communicable payment dates.

Analysis of the [*Decision to bill client*] for accountants and surveyors where the service provision could generally be regarded as more bounded surfaced parallels in terms of ***Expediency***, with the 'finished product' considered to provide a clear signal to the client that payment was due. Delivery of the final survey or set of accounts commonly provided the prompt for the practitioner to bill the client in a pragmatic manner. In addition to established billing patterns, firms were also prepared to adapt approaches when, for example, the scale of the job required it, or a lengthy payment cycle was anticipated. Indeed, for solicitors accounts of practice highlighted how billing the client was concerned with more than simply a request for payment, with interim billing providing a useful mechanism through which to proactively surface the payment intentions of the client, avoiding further investment in them when payment was not forthcoming. Similarly, further evidence from across the professions highlighted how, and in what circumstances, the [*Decision to bill client*] was varied in order to accommodate the causal influence of additional axial codes.

The axial codes of [*Client attributes*], [*Client firm relationship*], and [*Client profile*] were observed to exert a causal influence upon the [*Decision to bill client*]. Practitioners' accounts revealed how their tacit knowledge of *Client systems* [*Client attributes*] and anticipation of the payment behaviours of clients allowed them to adapt their billing accordingly, targeting individuals and negotiating bureaucratic procedures. Further evidence highlighted a collaborative dimension to firm practice, with various aspects of the practitioner's decision to bill a client taken with reference to the potential impact upon that

client's ability to manage their cash flow and control their costs [*Client attributes*]. With obvious subsequent implications for minimising payment issues, this proactive dimension to the [*Decision to bill client*] reflected practitioners' awareness of the importance of enabling the client to manage the fee and plan their payment. Similarly, as the result of an often lengthy work in progress cycle and the sometimes intangible nature of the service provision, there was a recognised need to manage *Client expectations* [*Client attributes*], and by association ensure *Client satisfaction*, partly addressed through the timely provision of billing information. The interrelatedness of the axial codes of [*Client attributes*] and [*Client firm relationship*] was also explicitly demonstrated where the practitioner's awareness of *Client circumstances* [*Client attributes*] provided the opportunity to exercise their discretion directly through billing, by consciously reducing the amount charged when clients were experiencing difficulties. Thus billing allowed practitioners to signal to the client their willingness to invest in the relationship, and provided the opportunity to develop goodwill.

Practitioner's accounts of practice demonstrated how through the billing decision an investment in the relationship with the client could be made to secure payment and ongoing business, whilst in addition helping to minimise payment problems and encourage prompt payment. The significant causal influence of [*Client attributes*] upon the [*Decision to bill client*] is clearly apparent; whilst formalised, normative billing schedules may be explicitly communicated, the accounts of firm practice have revealed proactive, flexible approaches whereby informal billing decisions result from the commercial and collaborative **Motivation** of the practitioner. Commercial and collaborative **Motivation** manifests within informal decision making, and could potentially remain obscured within investigations of formal, normative practice.

Similar issues were associated with regards to the causal influence of the [*Client profile*] upon the [*Decision to bill client*]. For *Repeat Clients* [*Client profile*] the need for the client to associate with the bill and the work undertaken determined billing triggers related to time and amount owed that arose largely as the result of the intangible nature of the work undertaken. Evidence was also provided of the adaptation of firm billing practice to specific contexts; monthly billing was adopted to manage the *Scale of the job* [*Client profile*] or to suit the *Size of the client* [*Client profile*], and billing arrangements adapted to accommodate the *Type of client* [*Client profile*] or when a *New client* [*Client profile*] was

encountered. Practitioner perceptions of **Risk**, consideration of **Knowledge of client**, and the impact upon **Experiential learning** within the firm, explain the causal significance of *[Client profile]* for the billing decision.

The causal influence of *[Client profile]* upon the *[Decision to bill client]* reflects a range of interrelating elements that create expedient rather than ‘optimal’ practice; billing decisions result in part from the evaluation of clients, informed by the level of accumulated knowledge in relation to the client, and not necessarily with reference to standardised **Norms**. The evidence highlights how the *[Decision to bill client]* reflects practitioner attempts to manage **Risk** associated with the *[Client profile]*, whilst balancing this against the commercial **Motivation** of the firm.

Within the internal environment of the firm, *[Areas of practice]*, *[Firm attributes]* and *[Practitioner attributes]* were identified as significant axial codes with regards to the *[Decision to bill client]*. As discussed, for solicitors in particular *[Areas of practice]* was a dominant influence, that determined payment **Norms**. The causal influence of industry determined payment expectations were captured within *[Areas of practice]* and highlighted the practitioner’s awareness of **Norms** and structures that were accepted passively. This acceptance however in part reflected a pragmatic approach, whereby payment might have become expected at a particular point as it coincided with, for example, delivery of the ‘finished product’, or completion of a work stage. Of further concern for solicitors, *Client funding [Area of practice]* was perceived to signal information regarding **Risk** and was significant in determining payment schedules, whilst for one solicitor’s firm the ability to control processes allowed the firm to exercise their leverage and surface payment intentions via the billing decision.

[Areas of practice] therefore proved an important causal influence mainly upon the practice of solicitors, determining associated payment **Norms** and funding. To interpret the causal influence of *[Areas of practice]* upon the *[Decision to bill client]* entirely as creating a passive response to established payment **Norms** would not however fully reflect reality; payment dates were established pragmatically and represented effective and efficient use of firm resources. Evaluations of clients, informed by their funding, allowed solicitors to trade off risk against potential delays in payment, whilst the leveraging of payment demonstrated how payment **Norms** could be utilised by the practitioner to

exercise **Power** and proactively encourage payment. The organising, meta-level constructs **Power**, **Expediency**, **Risk** and **Norms** interact to explain the causal significance of the *[Area of practice]* upon the *[Decision to bill client]*.

The final axial codes occurring within the firms internal environments and identified as influencing the *[Decision to bill client]*, were *[Practitioner attributes]* and *[Firm attributes]*. Motivational issues were apparent within larger solicitor firms where the hierarchical structure was considered to have implications for the incentives of practitioners and the promptness of their billing. Common across all professions at a firm level, the existence of *Resource constraints [Firm attributes]* resulted in expedient practice, with billing decisions reflecting efficient use of limited resources. Evidence highlighted how practitioners approached the *[Decision to bill client]* as an integrated aspect of business management; as the result of resource constraints billing was not always prioritised in a manner consistent with normative practice whilst cash demands upon the firm were seen to provide a stimulus to the billing of clients.

The above discussion has reviewed the research findings with regards to the *[Decision to bill client]*. The evidence suggests that firm practice is in part determined with reference to billing **Norms** established through the causal influence of axial codes positioned within the internal environment, the operating environment and the macro environment, namely; *[Areas of practice]*, the *[Professional environment]* and the *[Regulatory environment]*. Practitioners recognised and responded to the existence and influence of billing **Norms** and regulatory structures, yet explanations revealed expedient dimensions to their adoption, with pragmatic rationales highlighting considered decision making, rather than slavish adherence to social structures. At a meta-level **Regulation** and **Norms** have provided useful organising constructs as to the causal significance of the *[Regulatory environment]* and the *[Professional environment]*, but these were tempered with reference to the individual agency of the practitioner, revealed through discussion of their approaches to billing and explained through the meta-concept of **Expediency**.

Consideration of the causal influence of client related axial codes further revealed how the billing decision was much more than simply a decision to bill at the optimal moment or at a time pre determined by billing **Norms**, but instead reflected assessments of **Risk** informed by the practitioners **Knowledge of client** and that were used as an opportunity to

develop client firm relationships grounded in collaboration and goodwill. The billing of clients provided the practitioner with the opportunity to exercise their discretion, reducing bills at times in the spirit of collaboration, but with obvious long term commercial **Motivation**. The practitioner's responsiveness to clients' circumstances was also clearly apparent with careful management of their payment expectations in order to minimise payment problems and enable prompt payment. The organising meta-level constructs **Motivation**, **Risk**, **Knowledge of client** and **Expediency** were particularly significant in understanding the causal influence of *[Client attributes]*, *[Client firm relationship]*, and *[Client profile]* upon the *[Decision to bill client]*. Practitioner accounts of practice revealed the multi faceted nature of the billing decision and how alongside the causal influence of social structures that practitioners were aware of and responsive to, individual agency was important in both upholding payment **Norms**, and subverting and adapting them within their decision making in accordance with firm objectives and motivations.

The remaining axial codes were located within the firm's internal environment and reflected similar issues. *[Areas of practice]*, although the result of firm decisions regarding where they chose to practice, largely determined for solicitors particularly associated payment **Norms**, as discussed above. Alongside **Norms** however **Risk**, **Power** and **Expediency** were also surfaced as meta-level constructs that explained the causal influence of the *[Areas of practice]*. Indeed, evidence suggested that practitioners themselves utilised the legitimising lever of industry **Norms** to help establish the payment intentions of clients. Characteristics of both practitioner and firm, *[Practitioner attributes]* and *[Firm attributes]*, reflected aspects of **Experiential learning** and resource constraints that implied expedient, rather than 'optimal' approaches. The *[Decision to bill client]* can therefore be regarded as complex, reflecting commercial aspirations and objectives of firms, and the responsiveness of practitioners who incorporate proactively a range of causal influences. Practitioners do not simply accept the dictates of norms; the billing decision is a dynamic one that maybe in accordance with widely established payment practices but for complex, interrelated reasons explored above.

9.3.5 Firm financing decision

Highlighting the integrated nature of trade credit management within their overarching trade credit management, the *[Firm financing decision]* emerged for a number of cases as a distinct aspect of practice when considering the *Management of amounts owed*. Both *[Firm*

attributes] and [*Practitioners attributes*] were significant, reflecting attitudes to debt finance attributed either to an individual, or to the firm. The cash flow and financial position of the firm was generally considered holistically, with reluctance to use debt finance attributed to a desire to maintain control, with implications for the *Management of Amounts owed*. Evidence highlighted how cash flow management was linked intrinsically to financial planning objectives, and that the [*Firm financing decision*] was considered an integral element. From the practitioners' perspective, this avoidance of external finance created a disciplined approach within the firm to financial control and encouraged the uptake of effective credit management practices. The preference of practitioners to avoid the use of debt can be largely attributed to their assessments of *Motivation* and *Risk*; a proactive approach to financial control and the maintenance of conservative cash balances was considered to provide a stimulus to the management and collection of amounts owed.

Interestingly, previous research, (Howorth and Westhead, 2003), that has explored the use of external forms of finance and the up-take of working capital management techniques, found a positive relationship, explained by a hypothesised need to satisfy the requirements of external investors. This research, based upon the practitioners own accounts of practice, suggests that the restriction of the use of external sources of finance is partly explained by a purposeful decision to minimise *Risk* and maintain tight financial control. Therefore practitioners explanations reverse the relationship, but with the corresponding maintenance of financial control perhaps observable only within the wider financial management decisions within the firm. This review discussion of the *Management of Amounts Owed* now draws to conclusion, with the key aspects of practice and the causal influence of axial codes considered.

9.3.6 Conclusion: Management of amounts owed

Discussion of this section of the central, internal organising framework was concerned with consolidating the cross case, qualitative data analysis associated with how practitioners managed the ongoing payment relationship with the client, and the associated functional areas of practice. The methodological approach adopted revealed evidence of both formal and informal practices, and the circumstances under which these dimensions of practice emerged. The first functional aspect of the *Management of amounts owed* to be considered was that of the [*Organisation of credit management*], with evidence highlighting the widespread uptake of formalised practices that were utilised by firms in a

proactive manner. Formalised practice was driven in part by the **Regulation** influence of the [*Professional environment*] in the determination of codes of practice, and by the payment **Norms** established and upheld within [*Areas of practice*], and whose influence was particularly pronounced for solicitors. Practitioners demonstrated their awareness of social structures located within the external environment, and how practice was shaped to accommodate them ensuring compliance with professional expectations, whilst in addition utilising the information signalling qualities of [*Areas of practice*] to inform assessments of **Risk**. Firm practice tended therefore to exhibit formalised approaches to the [*Organisation of credit management*] that adhered to **Norms** and the **Regulation** influence of the [*Professional environment*]. However, other explanations that reflected the individual agency of the practitioner were also apparent; formalised practices were not taken up entirely passively but in addition reflected the practitioners own assessments of **Risk**, and the **Expediency** of the approach.

Further evidence highlighted how these easily articulated, formalised approaches with regards to the [*Organisation of credit management*] were often adapted informally in response to causal influences. The influence of *Resource constraints* [*Firm attributes*], highlighted both proactive and passive, informally derived practices, explained by **Expediency** and the **Experiential learning**. However, client related axial codes proved a dominant causal influence upon the adaptation of firm practice and the role of informal approaches, with both the [*Client profile*] and [*Client attributes*] contributing to **Experiential learning**, informing proactive assessments of client payment behaviours and prompting collaborative practice that was responsive to client information requirements.

The findings highlight the importance of viewing practice as multi-dimensional. Whilst in terms of the [*Organisation of credit management*] there is substantial evidence of the uptake of formal practices that are externally determined and that presume the existence of social structures, further explanations of firm practice have revealed how informally the practitioner exercises their individual agency and adapts practice responsively, in accordance with their knowledge and assessments of clients.

With regards to the [*Decision to extend credit*] this research is distinguished from existing studies in its attempts to derive explanations inductively, rather than through deductive approaches. For solicitors, decisions regarding the extension of credit were dominated by

the *[Decision to bill client]*. Similar themes to the discussion above emerged for decisions regarding the extension of credit. The close relationship to the determination of the payment period highlighted how the causal influence of *[Industry norms]* was again apparent in formally expressed terms, but that these terms were in practice manipulated and adapted according to context specific circumstances, rather than passively applied. The *[Decision to extend credit]* was most frequently adapted in response to client related axial codes. Consideration of the causal influence of the *[Client profile]* revealed how the firms commercial **Motivation**, evaluations of **Risk**, and opportunities to exercise **Power** in the client-firm relationship, all helped explain the impact upon the credit period extended. Furthermore, the causal influence of *[Client attributes]* reiterated the significance of firms' commercial motivations that sometimes manifested themselves in collaborative support for clients, with practitioners using the extension of credit to support clients through difficult circumstances and invest in the client-firm relationship. The practitioners' **Knowledge of client** was also significant, allowing an expedient approach to be taken with regards to the extension of credit and the navigation of client systems.

The causal influence of *[Industry norms]* upon formally expressed firm practice is again evident. Yet it is also apparent that the decision of the firm to extend credit is in practice located within the complex reality of the firm relationship with the individual client, with variations in practice explained by **Expediency**, **Knowledge of client**, **Risk**, **Power** and commercial **Motivation**. Consideration of firm practice therefore again highlighted both the individual agency of responsive practitioners, and their preconceptions regarding the existence of payment **Norms** within social structures; the *[Decision to extend credit]* provided the opportunity for practitioners to exercise their discretion, adapting credit terms determined with reference to **Norms**, with decision making influenced by practitioner reflection upon their interactions with clients.

Consideration of the *[Management of work in progress]* highlighted the integrated nature of trade credit management, with its close relationship to the *[Decision to bill client]*. There were particular implications for solicitors in terms of work in progress that emerged from the data and were caused primarily by *[Areas of practice]*. The existence of long established payment **Norms**, enforced by client expectations, determined the sometimes large investments in work in progress that solicitors felt obliged to fund. This passive acceptance of widely regarded **Norms** strongly reflects the practitioners' presumption of

the existence of the social structures governing practice, and yet these practices are upheld by that very presumption.

For the remaining professions however, the dominating causal influence of [*Areas of practice*] was not observed, rather the [*Management of work in progress*] was once again driven largely by client related axial codes, namely [*Client profile*] and [*Client attributes*]. The causal influence of [*Client profile*] and [*Client attributes*] highlighted responsive, proactive aspects of the [*Management of work in progress*]. Discussion of firm practice revealed decisions that were taken with reference to context specific, client focused circumstances, and adaptations to practice that reflected integrated assessments of **Risk** and commercial **Motivation**, undertaken within an expedient decision making framework. To consider solely the formalised aspects of the [*Management of work in progress*] would be to consider only those practices that are externally determined; the evidence has shown that although that might reflect the reality for solicitors, for the remaining professions there are dimensions of practice that highlight the adaptive and responsive nature of practitioners.

Analysis of practitioner accounts regarding the [*Decision to bill client*], closely resembled previous discussion with the evidence suggesting that formally communicated and expressed billing stages upheld predetermined **Norms** that captured practitioners' presumptions of the existence of social structures governing the payment expectations of clients. The causal influence of both the [*Professional environment*] and [*Regulatory environment*] played a powerful role in lending these billing **Norms** legitimacy and enshrining work practices, whilst firm choices regarding the [*Areas of practice*] reflected similar issues. However, there was also an expedient and proactive dimension to formal billing decisions. Practitioners recognised the pragmatism of billing procedures associated with long established work practices and the need to be responsive to client needs, with billing stages often associated with the signalling content associated with a finished product. The perception of the existence of such strongly ingrained and widely recognised **Norms** also provided the opportunity for the practitioner to refer to them proactively in attempts to leverage payment and test payment intentions; clearly even formally determined billing **Norms** were not simply passively adopted.

Further evidence highlighted in what circumstances the [*Decision to bill client*] was adapted, and for what reasons, with practitioners exercising their individual agency

through their responsive action and reflection. Again, the influence of clients was dominant with practitioners awareness of [*Client attributes*] informing their practice in terms of navigating client payment systems, adapting practice accordingly. Practitioners demonstrated an awareness of the impact of billing upon client management of costs and cash flow, and a collaborative intention to bill in a timely manner, with billing used proactively to manage client expectations. **Motivation** of the firm were prominent, with billing used partly as a means of securing future business, as well as to minimise issues associated with payment. Similarly, the causal influence of the [*Client firm relationship*] implied that the role of the billing decision extended beyond the passive adoption of an externally determined **Norm**, with billing used as a mechanism to signal goodwill to clients and an opportunity to invest in the relationship. Consideration of the causal influence of the final client related axial code, [*Client profile*], provided further evidence of how practitioners informal evaluations of clients informed their billing decisions. **Knowledge of client** was derived from previous experience and informed assessments of **Risk**; **Experiential learning**, **Knowledge of client** and **Risk** were therefore important organising, meta-level constructs in understanding the causal influence of [*Client profile*] upon the [*Decision to bill client*].

An in-depth understanding of the how the [*Decision to bill client*] is undertaken within firms would therefore be difficult to establish with a research methodology concerned solely with the adoption of normative practice, or one with the emphasis upon individual interpretations. Formal, explicitly communicated billing stages and anniversaries reflected the presumption of social practices and **Norms** that regulate practice, and yet are adopted and used within an expedient framework by responsive agents. Practice again exhibits multi-dimensions, with accounts of actual firm practice highlighting how alongside acknowledgement of **Norms** and standardised approaches to billing, informal, implicit practice has a significant role to play. Practitioners consider commercial and collaborative **Motivation** whilst billing is informed by proactive evaluations of **Risk** developed through the **Experiential learning** of the firm and **Knowledge of client**. The billing decision can therefore be characterised as proactive, and expedient rather than ‘optimal’; practitioners informed billing decisions have highlighted practice richer and more complex than the adoption of externally determined ‘best practice’, with accounts of practice revealing the interdependence between social structures and responsive agents.

The final decision making area falling under the Management of amounts owed was the *[Firm financing decision]*. Practitioners discussed the integrated nature of their financial management and how restriction of the use of debt finance and overdrafts reflected the perception that this was required in order to maintain financial control, an approach that further resulted in a disciplined approach to cash flow management and, in some instances, the holding of conservative cash balances. This holistic view of the financial management of the firm reflected practitioners' assessments of **Risk** and reflected the **Motivation** to maintain financial control.

This concluding discussion of the *Management of amounts owed* has revealed rich, complex and nuanced dimensions of firm practice. Commonality is emergent within the consideration of the decision making and functional areas of the *Management of amount owed*, with both formal and informal trade credit management practices surfacing from practitioner accounts of practice. The evidence suggests that practitioners are both enabled and constrained by aspects of trade credit management. Frequent reference is made to the existence of **Norms** that regulate various elements of the *Management of amounts owed*; yet whilst some aspects of trade credit management practice are constrained by these, the richness of the data collected highlights how practitioners are also enabled by **Norms**, referring to them in order to legitimate their approaches and adopting their use with expediently driven rationales. Clearly, entrenched **Norms** have influenced decisions regarding credit terms, billing and the management of work in progress. However, this influence has also been mainly observed upon the formal expression of explicit terms communicated to clients; the actual *Management of amounts owed* within small professional firms reflects informal dimensions of practice and the complex evaluation of the causal influence of a range of axial codes. Predominantly the influence of clients has been observed, with practice adapted to accommodate the commercial **Motivation** of the firm, and assessments of **Risk** and **Power** informed by **Experiential learning** and **Knowledge of client**.

Consideration of the *Management of amounts owed* has therefore highlighted how the trade credit management of practitioners anticipates the existence of social structures, and that these structures are indeed dependent upon the regularity of practitioners' behaviour. The process however is recursive, with practitioners creating trade credit management practice through individual agency and their reflexive, responsive natures; they do not passively

accept normative, ‘best’ practice but adapt within context specific scenarios in order to manage a complex reality. Analysis of the *Management of amounts owed* within small professional firms has therefore revealed the multi-dimensional, nuanced nature of firm practice. Practice is not characterised by ignorance of normative approaches, or necessarily a failure to proactively manage trade credit management, nor does firm practice rely entirely upon informal approaches. Instead, the *Management of amounts owed* reflects the complex reality of the small firm, with trade credit management created over time in a manner that is responsive to causal influences apparent at different environmental levels, some of which reflect perceptions of social structures, whilst others reflect the exercise of practitioners’ individual agency. Conclusions regarding practice within the final element of the central framework, the *Collection of amounts owed*, shall now be considered.

9.4 Collection of amounts owed

The final section of the organising framework captured decision making and practice within the context of the *Collection of amounts owed* and was, therefore, primarily concerned with the back end function of trade credit management. Practice revolved around three key aspects; *[Evaluate ease of collection]*, *[Assessment of amounts outstanding]* and *[Determine methods of collection]*. These formed the structure for discussion of the data analysis and a similar structure will be adopted to organise this synthesise of findings.

These research findings were set against a backdrop of research dominated by a deductive approach and thus preoccupied with investigating trade credit management from the perspective of the uptake of formalised, normative practices. Whilst research that considered the late payment of commercial debt offered useful insights, (Howorth and Reber, 2003; Howorth and Wilson, 1999; Peel and Wilson, 2000), this research focused upon using practitioner accounts of practice in order to investigate the formal and informal dimensions of the *Collection of amounts owed*.

9.4.1 Evaluate ease of collection

For almost all firms, across all professions, *[Evaluate the ease of collection]* emerged as an important element of back end trade credit management practice. In terms of the macro

environment, rather limited evidence highlighted the role of the *[Regulatory environment]* in providing the practitioner with **Power** in the form of leverage and hence informing their evaluation of collection, whilst similar issues of control and leverage were determined by the *[Professional environment]* and also noted. However, echoing previous discussion, client related axial codes again proved a dominant influence upon firm practice.

Practitioners referred to *[Client attributes]* and in particular the *Client attitude* as directly influencing their evaluations. In some instances the *Type of client [Client Profile]* and *Repeat clients [Client profile]* were considered to imply a particular *Client attitude* to payment which was often responsive and collaborative, and of reciprocal benefit to both firm and client. This was reflected within practitioner evaluations of the ease of collection and informed by the existence of a *[Client firm relationship]*. However, discussion of *[Evaluate ease of collection]* also revealed more generalised societal perceptions of *Client attitude* that were considered when anticipating the length of time a client might take to pay. In addition, for solicitors in particular, *[Areas of practice]* greatly influenced the *Client attitude*, with *[Evaluate ease of collection]* reflecting the importance of case outcomes.

Within these evaluations the informal assessment of **Risk** is evident, alongside the implicit gathering of **Knowledge of client** by the practitioner. *[Client attributes]* again resonate with previous discussion as consideration of the cash flow situation of the client highlights the collaborative intentions of practitioners when evaluating the ease of collection, and the importance of the development of **Knowledge of client** payment behaviours. This is further highlighted by practitioners with reference to *Client systems*; practitioners are informed and anticipate delays imposed by the bureaucratic nature of client payment systems. Practitioners also identified the importance of *Client satisfaction [Client attributes]* for evaluating the ease of collection, with prompt payment expected from satisfied customers, and proactive communication considered vital in ensuring *Client satisfaction* and managing the payment. The issue of *Client satisfaction* was however double edged; dissatisfied clients were able to legitimise their procrastination and further delay payment, a scenario practitioners proactively attempted to avoid. These issues resonated with the findings of Chittenden et al (1998) who identified that the resolving of disputes was considered an important aspect of back end trade credit management by respondents. Further evidence highlighted that the interaction of *[Practitioner attributes]* and *[Client*

attributes] created a reciprocal understanding between firm and client to the mutual benefit of both, and informed the practitioner's evaluation of the ease of collection.

The collaborative theme running through much of the analysis was further highlighted by the interplay between the *[Client firm relationship]*, *[Client profile]* and *[Client attributes]*. The establishment of a relationship with clients naturally followed repeat business, which in turn established a payment history and informed practitioner evaluations. For *Repeat clients [Client profile]*, there was evidence to suggest that delays in payment were anticipated and planned for, and traded off against the associated **Risk**. Approaches to *[Evaluate ease of collection]* therefore exhibited **Expediency**. However practitioners in addition referred to leverage in their relationships with repeat clients; job turnover and client demand for future services awarded the practitioner with **Power** with which to secure payment for previous engagements. Without this leverage, payment could be delayed and as a result practitioner's evaluations revealed that more time and effort was devoted to chasing one off clients. The *Type of Client [Client profile]* also directly influenced *[Evaluate ease of collection]*, signalling information regarding **Risk** which was traded off against potential delays in payment in an expedient manner; where the risk associated with receiving payment was perceived to be limited because of the type of client, practitioners tolerated longer payment periods. Both *Repeat clients [Client profile]* and the *Type of client [Client profile]* were perceived to signal information to practitioners regarding **Risk** and their likely payment practices. The causal influence of *[Client profile]* upon *[Evaluate ease of collection]* highlighted at a meta-level the interaction of the organising constructs **Risk**, **Power**, **Expediency**, **Knowledge of client** and **Experiential learning**.

The causal influence of the *[Client firm relationship]* upon *[Evaluate ease of collection]* reiterated much of the above discussion; repeated interactions with clients resulted in the formation of relationships that were perceived to provide reciprocal benefits to both client and firm, and encourage clients prompt payment. There were instances however where the *[Client firm relationship]* was considered to have led to payment problems, when the lack of a formal agreement proved problematic. Clearly **Experiential learning** and **Knowledge of client** again informed practitioners' evaluations of **Risk**.

The final axial code that emerged as a causal influence upon *[Evaluate ease of collection]* was situated within the firm's internal environment and was concerned with *[Areas of practice]*. For solicitors the influence was particularly pronounced with evaluations of practitioners considering *Client funding*, *Control of funds* and *Control of processes*, all aspects of the firm's *[Areas of practice]*. For solicitors therefore *[Areas of practice]* provided information regarding **Risk** which directed expediently the resources used to collect amounts owed. The **Power** of the practitioner in controlling funds or processes was central to their evaluation, and further aided decisions regarding the concentration of efforts and the leveraging of payment. *[Evaluate ease of collection]* was strongly associated with *[Areas of practice]*, the causal influence of which is explained with reference to **Expediency**, **Risk** and **Power**.

For small professional firms, evaluations of the ease of collection tended therefore to reflect often implicit and informal assessments of **Risk** and **Power** that were informed by a range of axial codes. Expediency within firm practice was overarching; firms did not adopt 'optimal', normative approaches with mechanistic evaluations but instead evaluated the ease of collection based upon context and client specific circumstances. Practitioners demonstrated their responsiveness and their routine, reflexive monitoring, with trade credit management taking form as the practitioner defined it, rather than through the adoption of externally determined mechanisms representative of normative practice.

Although some causal influence from the macro environment was noted for a minority of firms, perhaps unsurprisingly the dominant influence stemmed from client related axial codes situated mainly within the firms operating environment. Practitioners were informed by *[Client attributes]*, *[Client profile]* and the *[Client firm relationship]* using the information signalled to develop their evaluations. The gathering of information was undertaken implicitly and directed expediently the use of firm resources. Meta-level, organising constructs that explain the importance of client related axial codes are in part concerned with **Risk** and **Power**; both concepts are interrelated with assessments of **Power** informing evaluations of **Risk**. Furthermore, through repeated interactions with clients relationships formed that enabled practitioners to gather knowledge and learn from their interactions, and subsequently to anticipate payment behaviours and plan accordingly. For solicitors, the *[Areas of practice]* was an important influence, which superseded the client. In this context, aspects of control were central and rather than being determined by the

client these were more likely to be determined by the case, and the area of practice. Similar meta-level constructs to those discussed above emerged as explanation; *Expediency*, *Risk* and *Power*.

The evidence strongly suggests that practitioners exist as reflexive, responsive agents whereby [*Evaluate ease of collection*] is grounded in the context specific circumstances of dealing with clients. This dimension of practice reveals the idiosyncrasies of firm practice, in addition to profession specific circumstances. Firm practice has developed appropriately with the professional context, with implicit evaluations that reflect the complexity of dealing with clients and recognise expediently the informed trade-offs between *Risk* and *Power*. Previous research considering the adoption of normative practices will not have revealed in depth the informal, implicit nature of firm practice with regards to [*Evaluate ease of collection*] or the range of causal influences upon it.

9.4.2 Assessment of amounts outstanding

This aspect of the *Collection of amounts owed* was concerned with practitioner's decisions regarding amounts outstanding and how they might be assessed. Within the firms internal environment [*Firm attributes*], and in particular *Resource constraints*, proved an important causal influence across the professions. The [*Assessment of amounts outstanding*] were affected by benefit cost considerations, the availability of the practitioner's time, and cash flow constraints. The impact of these resource constraints reflected practice that in some instances could be regarded as passive, prompted into action only by cash flow triggers. However, with limited resources at their disposal, approaches to the [*Assessment of amounts outstanding*] could also be considered to be expedient, with firm efforts directed towards their most effective use. Similarly, firm cash flow and profitability acted as stimuli to the [*Assessment of amounts outstanding*], as did the firm's previous experience of bad debts. Finally for [*Firm attributes*] practitioners associated the *Size of the firm* with an ability to exercise their discretion rather than rigidly adhere to policies and practices, whilst a low level of bad debt was attributed to *Firm objectives*, [*Firm attributes*], and a reluctance to aggressively pursue growth. Closely related to [*Firm attributes*] is [*Practitioner attributes*] and for one practitioner the rewards offered to employees were considered to imply motivational levels with regards to the [*Assessment of amounts outstanding*]. *Expediency*, *Experiential learning* and *Motivation* therefore provide

organising meta-level constructs that explain the causal influence of [*Firm attributes*] upon the [*Assessment of amounts outstanding*].

For one firm of solicitors [*Firm exposure*] implied the write-off of small amounts whilst consideration of [*Areas of practice*] meant that where the practitioner considered an amount secure because of their control over processes or funds, then even small amounts owed may instead be retained on their accounts. However, more widely discussed and in line with previous findings were once again client related axial codes. Familiar issues regarding delayed payment and client procrastination emerge when considering the causal influence of [*Client attributes*] upon the [*Assessment of amounts outstanding*]. Issues with invoices or complications with work undertaken provide the client with the opportunity to delay their payment, prompting practitioners to take action to avoid such scenarios, adapting and formalising practice. The interaction of [*Client attributes*] and [*Practitioner attributes*], and in particular the *Practitioner attitude*, was also perceived to have led to circumstances in which payment difficulties were encountered. Subsequently, practice within these firms evolved through *Experiential learning* becoming formalised and characterised by proactive attempts to anticipate and manage client payment procrastination. The dynamics of *Power* and *Risk* are apparent within firm's assessments, with practitioners aware that the potential for disputes creates leverage for the client to delay payment. Practitioner reflections also highlight the role of *Experiential learning* and how this has shaped practice alongside the development of *Knowledge of client*.

Practitioner [*Assessment of amounts outstanding*] was also influenced by consideration of *Client cash flow* [*Client attributes*], and of *Client circumstances* [*Client attributes*]. Delays in payment were sometimes attributed to the restricted cash flow of clients, and reflected the importance for assessments of building the practitioners *Knowledge of client*. Practitioners exhibited collaborative intentions, willing to accommodate clients through temporary financial difficulties where this was openly communicated. These collaborative intentions of the firm were also apparent when considering the causal influence of the [*Client firm relationship*]; for one firm in particular the importance of retaining clients resulted in the negotiation of payment arrangements in order to provide support through financial difficulties. The causal influence of [*Client attributes*], [*Practitioners attributes*] and the [*Client firm relationship*] can again be explained in terms of *Experiential learning*, firm *Motivation*, and evaluations of *Risk* and *Power*. For solicitors in particular

the *[Client profile]* was similarly considered to signal to practitioners' important information regarding **Risk**, which resulted in the expedient allocation of resources when assessing amounts owed.

The remaining axial codes identified as influencing the *[Assessment of amounts outstanding]* were concerned with the contextual conditions within the firms operating environment. For solicitors, the *[Professional environment]* determined particular processes for the *[Assessment of amounts outstanding]* exerting a **Regulation** influence upon firm practice. External regulatory influences were also apparent where practitioners attributed incentives for clients to pay to the *[Regulatory environment]* and in particular the tax regimes.

The *[Assessment of amount owed]* emerged from practitioners' accounts of practice as a distinct activity that was primarily concerned with identifying commonly occurring issues regarding securing payment. The central axial codes exerting a causal influence upon assessment were *[Firm attributes]* and *[Client attributes]*. Resource constraints surfaced as a key issue for practitioners, with practice stimulated by cash balances or the availability of the practitioners' time. Practice could therefore be characterised as passive, responding reactively to resource orientated triggers. However, practitioner's actions also reflect **Expediency**; with limited resources decisions must be taken regarding the best use of time. Other evidence highlighted the importance of past experiences within the learning of the firm, whilst the objectives and size of the firm were considered to provide explanations for low levels of bad debt and the ability to exercise discretion within assessments. The evidence suggests that available resources have shaped firm practice within an expedient decision making framework. Furthermore, firm practice evolves, through experiences of bad debts and is determined in part by the **Motivation** of both practitioner and firm. Therefore in order to understand firm practice with regards to the *[Assessment of amounts outstanding]* it must be considered with reference to the firm specific context and understood in terms of the development of the firm. Normative practice might provide appropriate tools and techniques but the adoption of these will depend pragmatically upon **Experiential learning** and **Motivation**, and **Expediency** in the use of firm resources.

Rather than referring to formalised practices, discussion of *[Assessment of amounts outstanding]* revealed the key issues for practitioners when dealing with clients. Delayed

payment was often attributed to client satisfaction, where firm experience highlighted the importance of proactively managing requests for payment in order to surface any problems. Potential grounds for complaint awarded leverage to the client; the dynamics of **Power** in the client firm relationship were apparent with clients able to legitimise their procrastination. Firms also however again demonstrated their collaborative intent with the circumstances of clients sympathetically incorporated within their assessments. Practitioner accounts highlighted how their knowledge and experience of dealing with clients allowed them to proactively anticipate and plan for payment schedules. This rich account of firm practice reflects the context specific nature of trade credit management and the bespoke practice that emerges within firms. Both formal and informal approaches evolve with firm learning and experience and are appropriate, reflecting complex, implicit assessments of clients that are informed by evaluations of **Risk, Power**, with decisions taken within an expedient framework. This concluding discussion now considers the final aspect of the *Collection of amounts owed*, [*Determine methods of collection*].

9.4.3 Determine methods of collection

The final section of *Collection of amounts owed* was concerned with the methods firms adopted in order to collect amounts owed. *Resource constraints* [*Firm attributes*] again surfaced as an important causal influence upon practice for solicitors and was associated with decisions regarding the centralisation of collection efforts. These decisions reflected consideration of the most efficient use of resources and the benefits to practitioners of being removed from the collection process. The evidence suggested that firms undertook implicit cost benefit analysis of this decision, identifying opportunity costs and organising practice accordingly. The principles underpinning these decisions therefore echo that which would be suggested within normative practice and highlight the mutual compatibility of both formal and informal approaches. These issues emerged solely for solicitors firms from the distinctiveness of the professional environment and the processes associated with collection. Other evidence regarding [*Firm attributes*] suggested that firms values [*Firm attributes*] shaped their approach to collection, representing firm **Motivation**.

A further axial code originating within the firms internal environment was concerned with [*Firm exposure*] whereby collection methods employed reflected the **Risk** associated with securing payment. An additional insight to practice was provided by consideration of the interaction of [*Practitioner attributes*] with [*Client attributes*], with persistent collection

efforts undertaken where the practitioner perceived the client to have been obstructive, or where the level of service provided was considered to have been over and beyond what was necessary, highlighting the impact of **Motivation** upon firm practice. Finally within the firm's internal environment the *[Firm reputation]* proved a significant causal influence upon *[Determine methods of collection]*. Aggressive approaches were associated with endangering client firm relationships and signalling negative information regarding the cash flow position of the firm; potential business prospects therefore tempered collection methods to the extent that some costs were left unrecovered. The wider motivations of the firm and the implications for collection methods are clearly apparent, at both a practitioner and firm level.

The issues raised above with particular reference to *[Firm reputation]* resonate throughout consideration of *[Determine methods of collection]*. Across the professions there was widespread awareness of the right to charge interest on late payment, yet no evidence at all of its actual application, even where reference is made to it explicitly within terms of business as a deterrent. Inherent within the approaches of practitioners is consideration of the potential impact upon *[Firm reputation]* and the desire to maintain existing clients. Closely related to the discussion of the causal influence of *[Firm reputation]* upon *[Determine methods of collection]* is the causal influence of the *[Client firm relationship]*, situated adjacently to the firms internal and operating environments. A reluctance to charge interest upon late payment is attributed to the perceived detrimental impact upon the *[Client firm relationship]*, as is the use of collection methods that could be considered intrusive. Collection methods are accordingly generally non confrontational and collaborative with commercial **Motivation** taking precedent. However, the careful nurturing of the *[Client firm relationship]* in addition provides opportunities for the firm in terms prioritising and leveraging the firm's payment from the client through the establishment of personal contacts.

Implicit within the above discussion is the influence of **Norms** upon a practitioner's choice of the methods of collection. Practitioners are careful not to offend clients and wish to avoid adopting approaches that might be considered aggressive. Further evidence highlighted these issues explicitly, with *[Social norms]* capturing the sense of discomfort and embarrassment that practitioners referred to when attempting to retrieve payment from

clients. These feelings existed despite explicit formalised methods of collection being long established within the firms.

Across all professions [*Client attributes*] proved an influential causal influence upon [*Determine methods of collection*]. Practitioner discussed how collection methods were tailored to the individual client, with approaches adopted informed by the clients organisation and their preferences. Methods were avoided that were considered to have the potential to antagonise clients, and to some extent this reflected a passive approach. In other cases, an understanding of the client organisation informed practitioners and enabled them to anticipate potential client behaviour regarding payment and therefore evaluate how to most effectively go about collection. The importance for [*Determine methods of collection*] of developing the practitioner's **Knowledge of client** was underpinned with their **Experiential learning**; previous experience of payment problems prompted the proactive management of client satisfaction and expectations, particularly where clients were unfamiliar with the processes involved. An understanding of *Client circumstances* [*Client attributes*] again resulted in a collaborative approach to collection with a preference for practitioners to engage in dialogue with the client rather than adopt heavy handed collection practices. Practitioners accounts revealed that the maintenance of the client firm relationship is the first priority and that it is recognised that more might be achieved with supportive actions, rather than chasing payment regardless of the consequences. Finally, where persistent methods of collection are used, practitioners highlighted their intention of manipulating the client's payment behaviour so that their payment is likely to be prioritised.

The causal influence of [*Client attributes*] upon [*Determine methods of collection*] therefore highlights aspects of practice that are both proactive and passive. Practitioner's avoidance of aggressive collection methods was attributed to a reluctance to antagonise clients, with commercial **Motivation** implying that this was mindful of the potential loss of business. The evidence also suggested proactive, tailor made collection efforts designed to encourage and facilitate client's payment in a mutually beneficial manner. Such approaches rely upon the practitioners understanding and **Knowledge of client** which is informed by aspects of [*Client attributes*] and augmented by the firm's **Experiential learning**. Thus [*Determine methods of collection*] are shaped and influenced by [*Client*

attributes, within practitioner decision making that is focused upon the commercial implications of their approaches.

Within the firm's operating environment for solicitors the [*Professional environment*] also emerged as a causal influence upon [*Determine methods of collection*]. Practice was enabled by the privileged legal knowledge of the practitioners, and shaped by the regulatory influence of the law society. For solicitors therefore, the causal influence of the [*Professional environment*] was explained by **Regulation**, and the existence of externally determined structures. The case of one accountant provided further evidence of **Regulation**, with practice expediently driven; **Power** ultimately lay with the practitioner as the client needed to pay in order to fulfil external regulatory demands.

Practice across all professions included decisions regarding [*Determine methods of collection*]. A dominant organising meta-level construct that explains the causal influence of client related axial codes upon the methods adopted by practitioners was the commercial **Motivation** of the firm. Methods were considered in terms of the impact upon the [*Client firm relationship*] and the *Firm Reputation* [*Client attributes*]. As discussed earlier, despite practitioners awareness of late payment legislation, the evidence highlighted that not one practitioner applied this, and that methods were generally non confrontational. [*Client attributes*] further shaped practice, with tailor made methods reflecting the practitioner's knowledge of client systems and organisation, in order to maximise the impact of collection efforts and avoid antagonising the client. Practitioner's concerns lie primarily with the commercial business implications of their methods of collection; most importantly they wish to secure ongoing business. Practice might appear to be passive and apologetic, yet practitioners' rationales reveal sometimes complex evaluations of the potential benefits of collaborative approaches that recognise short term financial difficulties and support clients through these experiences, to the long term mutual benefit of all. Within the firm's internal environment, [*Firm attributes*] proved influential with practice reflecting implicit cost benefit analysis, particularly regarding the best use of firm resources. The causal influence of the emergent axial codes can be explained with reference to **Motivation, Risk, Knowledge of client, Experiential learning** and **Power**.

The above discussion highlights the recursive nature of trade credit management practice, with practice incorporating the reflexive monitoring of practitioners through the exercise of

their personal agency within the context of influential social structures. Late payment legislation offers the practitioner the means by which to legitimate their requests for payment, but practitioners rationalise alternative approaches through the exercise of their agency; the external existence of legitimating structures has not necessarily resulted in subsequent action. However, the powerful influence of *[Social norms]* can be observed to shape and compromise collection methods as practitioners seek to act in a manner consistent with perceived codes of behaviour. Social structures therefore constrain practitioners actions yet exist as the result of the regularities within their behaviour.

Firm practice is therefore far from explained in terms of compliance or non compliance with formalised standards. Practitioner's decisions regarding methods of collection reflect careful assessments of the commercial implications and the potential impact upon client firm relationships. Rather than poor or inadequate financial management the preferred methods reflect practitioners' commercial priorities, thus highlighting the limited value of imposing normative frameworks that do not incorporate these priorities, and the one dimensional view of practice that would be constructed from research concerned solely with the adoption of formalised practices, and that fails to recognise the wider implications and context.

9.4.4 Conclusion: Collection of amounts owed

A consideration of firm practice with regards to the *Collection of amounts owed* has identified commonly occurring themes that have revealed the complexity and richness of firm practice and the importance of context to understanding the trade credit management approaches used. These back end functions highlighted the importance of clients in particular to collection efforts and the careful balancing of commercial **Motivation** with the need to retrieve payment.

The causal influence of *[Client attributes]*, *[Client profile]* and the *[Client firm relationship]* was apparent within consideration of *[Evaluate ease of collection]*, with firm practice informed by the information content of these axial codes and payment issues anticipated. *Practitioner's* implicit evaluations reflected **Expediency** and the dynamics of **Risk** and **Power** in decision making. Practitioners were informed by these axial codes, with their knowledge base developed through their experiences. Evaluations were context specific and idiosyncratic, considering each client in terms of a range of factors captured by the axial codes. For solicitors, *[Areas of practice]* was an additional important causal

influence upon [*Evaluate ease of collection*], explained again by the interplay of **Risk** and **Power** with practice characterised by an overarching **Expediency**.

The information content of the causal axial codes therefore contributed to informal assessments of **Risk** grounded in context specific circumstances. Practice developed internally as the result of the routine monitoring and reflection of the practitioners; elements of practice resonated with normative expectations but informal dimensions were clearly much more significant to practitioners than formalised review procedures. Trade-offs between **Risk** and **Power** directed the allocation of firm resources, informed by the information signalling qualities of the client related axial codes. The evidence of practice within firms hence highlighted practitioners as responsive and proactive, with appropriate, context specific, implicit evaluations providing more meaningful assessments than the adoption of externally derived concepts of best practice.

Analysis of the [*Assessment of amounts outstanding*] reiterated aspects of the previous discussion, and in particular the role of clients, but also highlighted how both [*Firm attributes*] and [*Practitioner attributes*] shaped firm practice. At a firm level, the evidence suggested that resource based triggers to assessments provided informal mechanisms that could be characterised as reactive, passive forms of trade credit management, but that also displayed expedient dimensions, reflecting the firm's allocation of scarce resources to where they were considered most required. The organising meta-level constructs of **Expediency**, **Experiential learning** and **Motivation** provided explanations as to the causal significance of both [*Firm attributes*] and [*Practitioner attributes*], highlighting how firm practice evolved and developed through the influence of context specific factors. Contextual factors were also of particular significance for solicitors for whom [*Areas of practice*] signalled information regarding **Risk** and **Power** associated with dealing with clients. Additionally, the causal influence of regulatory structures within the [*Professional environment*] and the [*Regulatory environment*] were also apparent, determining processes for solicitors and acting as incentives for payment for other professions. Firm practice organised in accordance and in compliance with these external structures highlights knowledge of and adherence to codes of conduct governing in particular solicitors firms.

Across professions, client related axial codes located within the firms operating environment were again the dominant causal influence upon firm practice. Approaches to

the [*Assessment of amounts outstanding*] reflected the causal influence and interaction of [*Client attributes*] and [*Practitioner attributes*], highlighting the dynamic interplay of **Power** and **Risk**, and the roles of both **Experiential learning** and the development of **Knowledge of client**. Practitioner consideration of [*Client attributes*] demonstrated collaborative intentions of which further evidence was provided in consideration of the [*Client firm relationship*]. Commercial **Motivation** permeated practice; trade credit management and in particular the [*Assessment of amounts outstanding*] was utilised to secure future business and accommodate clients perceived to be experiencing temporary financial difficulties. The causal influence of the client related axial codes could therefore be explained in terms of **Knowledge of client**, **Experiential learning**, **Risk**, **Power** and **Motivation**. Practitioners carefully considered the implications of their assessments making implicit, informally derived decisions that demanded the exercise of personal agency and extended beyond the scope of normative financial management practices.

Rich accounts of practice have revealed the importance of considering the [*Assessment of amounts outstanding*] with reference to the firm specific context. Whilst formalised practices might be used, the approaches of practitioners have highlighted the dynamic, explanatory interplay of meta-level constructs that reflect the agency of the practitioner through their reflexive monitoring. Decisions regarding the [*Assessment of amounts outstanding*] extend beyond consideration of the optimal management of trade credit, incorporating complex motivations and resulting in bespoke, firm located practice. Formalised techniques might well be in place yet are secondary to informal assessments evidently capable of incorporating expediently the causal influence of axial codes. There are, however, in addition, structurally imposed elements of the [*Assessment of amounts outstanding*] resulting from the **Regulation** of the professions. Firm practice therefore reflects the interaction of elements of both structure and agency, with the [*Assessment of amounts outstanding*] highlighting how firm practice evolves over time through the routine monitoring of the practitioner.

The final aspect of the *Collection of amount owed* was [*Determine methods of collection*]. Distinct causal influences upon practice were again apparent for solicitors, with **Resource constraints** [*Firm attributes*] influencing both decisions regarding the collection methods used and the organisation of collection efforts. Evidence of implicit and informal cost benefit analysis highlighted the fluid nature of actual practice, with a normative rationale

underpinning an informal collection decision. Within the operating environment, and highlighting the regulated nature of the legal profession, the [*Professional environment*] in addition shaped methods of collection, with solicitors in privileged information positions, yet constrained by the requirements of the law society.

Within firms internal operating environments and across professions, the causal influence of *Firm reputation* [*Firm attributes*] upon [*Determine methods of collection*] was evident with 'aggressive' approaches considered to signal negative information regarding the financial position of the firm and more importantly to endanger client firm relationships and therefore, the potential for ongoing business. Similarly, the interview data collected indicated that despite widespread awareness of late payment legislation there was no reference to its application. This reluctance to charge interest upon late payment was largely attributed to the perceived detrimental impact upon the [*Client firm relationship*]. Collection methods were largely non confrontational and collaborative with the commercial motivations of the firm the driving consideration. Practitioner decision making appears to anticipate the existence of [*Social norms*] of behaviour with regards to collection, and this is in addition explicitly referred to, even where formalised collection procedures are long established. The anticipation of social structures in part determines methods of collection, as practitioners act in accordance with their perception of social norms of behaviour, which in turn serves to reinforce them.

Consideration of the causal influence of [*Client attributes*] highlighted similar issues, with collection methods selected that were perceived as non intrusive and tailored to particular clients. Practitioner knowledge and experience of dealing with clients was therefore central to collection, with collaborative approaches favoured over heavy handed tactics, and the continued client firm relationship a priority. Practice could be characterised as passive in this regard, with collection methods determined in order to maintain the client base rather than challenge clients for payment. However, other elements are proactive with bespoke collection practices designed to facilitate payment and satisfy the commercial **Motivation** of the firm.

Within consideration of [*Determine methods of collection*], the interplay of **Motivation**, **Risk**, **Power**, **Knowledge of client** and **Experiential learning** explain the causal influence of axial codes. Firm practice is to some extent both enabled and constrained by social

structures; social norms imply particular approaches to clients yet late payment legislation provides a potential legitimating structure with regards to the leveraging of payment. However, rather than apply late payment charges, commercial *Motivation* implies the importance of collaborative approaches to collection that are reliant upon practitioner's informal evaluations of securing payment. Thus practitioners exercise their individual agency, reflexively monitoring approaches and establishing idiosyncratic collection methods within the context of the powerful influence of social structures that are themselves partly upheld and reinforced through the actions and regularity in the behaviour of practitioners.

This discussion highlights the difficulties associated with viewing practice one dimensionally; the imposition of normative frameworks upon firm practice may fail to recognise the significance of wider firm motivations, or the causal influence of the firm's environment. However, firm practice neither exists within an uninformed vacuum; practitioners are social actors aware of the influence of social structures and formalised practice but who interact reflexively in order to generate appropriate and effective collection practices. Thus this review discussion of firm practice draws to a close. The concluding chapter which follows will initially draw out the key headlines of this research focused around a framework of the organising meta-level constructs, with structuration theory maintained as a lens through which the social processes and mechanisms of trade credit management within small professional firms can be considered. The concluding chapter will also consider the findings of this research within the wider context of literature concerning management practice within small firms.

Chapter 10: Conclusions

10.1 Introduction

This concluding chapter seeks to fulfil several functions. Firstly, the research objectives will be restated and the significance of the research re-established, along with a brief overview of the methodological approach. Secondly, a concluding discussion of inter profession analysis will be framed around the organising meta-level constructs and considered from a structuration theory perspective. This final level of abstraction will be discussed with reference to a cross case network of causation that summarises the influence of causal axial codes upon the key areas of firm practice that constitute the central organising framework. Thirdly, from this synthesising discussion the implications of the empirical findings are identified. Finally, the theoretical and policy implications of this research are discussed, with findings considered within the broader small business research arena. Prior to final concluding comments, the chapter reflects upon the limitations of this research, and recommendations for further research.

This research was concerned with investigating trade credit management within small professional firms. In particular it sought to address the two following research questions:

- How is trade credit managed within small professional firms?
- Why are particular practices used?

The financing of small firms has been identified as an aspect worthy of investigation that dates back to the findings of the Macmillan Report in 1931 and has subsequently been investigated largely with reference to the existence, or otherwise, of finance gaps for SMEs. Such finance gaps have generally been characterised as the result of either demand or supply side factors that have created barriers to the access of both equity and debt finance. The implications of the interplay of demand and supply side factors have therefore had significant implications for small firms capital structures and their management of financial resources, with a resultant reliance upon internal funds and short term non-

intrusive financing choices implying an undercapitalisation of small firms (Michaelas et al 1998) and the potential to cause financial problems (Kotey, 1999).

The capital structures of small firms therefore expose them to liquidity problems exacerbated by under capitalisation (Chittenden et al, 1998). As a result, the efficient internal management of financial resources is essential to ease reliance upon short term sources, and for firms who might have difficulties in accessing funds. The management of working capital is therefore a significant aspect of small firm financial management (Chittenden et al, 1998). One component of working capital that has proved particularly problematic is trade credit management, with recognition of the problem of late payment leading to the introduction of the statutory right to charge interest on late payment of commercial debt in 1998. However, the legislation has proved to have had little impact upon payment periods (Wilson, 2008; FSB, 2000; Barclays Bank, 1998) and cash flow and payments from customers continue to be cited as business problems (FSB, 2012a; NatWest/SERTeam, 2005). In addition, trade credit is particularly significant in macro-economic terms (Paul and Wilson, 2006), and in terms of the transactions and balance sheets of SMEs (Chittenden et al, 1998). Management of trade credit is therefore an important and problematic component of working capital that has implications for cash flow, liquidity and the availability of internal sources and hence formed the focus for this research.

The economic importance of SMEs to the UK has been well established (Bank of England, 2004; Fraser 2004) with the performance of SMEs intrinsically linked to the performance of the UK economy (Fraser, 2004). Within SMEs, small business service firms have been identified as providing particular macro-economic benefits (Glancey et al, 1998; Keeble et al, 1992) with higher growth rates, the creation of high quality employment, survivability during recession and the beneficial impact upon clients and the wider local economy particularly noted (Glancey et al, 1998). Within SME research however an emphasis upon manufacturing firms has been identified (Ram, 1999), whilst investigations into the working capital management of small firms have tended to cover a broad range of industries.

Small professional firms offering highly skilled services fit with Keeble's (1991) definition of small business service sector firms, providing strategic information and expertise and

for whom intangible, knowledge based assets are particularly important (Ram, 1999). However, firms characterised with high levels of intangible assets potentially find it more difficult to raise finance. Such firms also establish close relationships with clients (Proudlock et al, 1999) that involve specialised interaction in the provision of often bespoke advice or services (Ram, 1999). These highly customised relationships with clients (Masurel and van Montford, 2006) imply the significance of the client firm relationship, whilst management of amounts owed is a key element of the working capital cycles of small, professional firms. Hence small professional firms represent a sector of particular macro-economic importance within which to investigate trade credit management and for whom trade credit constitutes a particularly important aspect of financial management situated within a rich, complex, social context.

An investigation of trade credit management within small professional firms therefore formed the focus for this research and addressed the research objectives stated above. An inductive, qualitative research paradigm was adopted with structuration theory broadly determining the ontological position. A multiple case study research strategy in accordance with Eisenhardt's (1989) road map facilitated the building of theory from cases. Semi-structured interviews provided the main source of qualitative data but additional sources of evidence included; field notes, firm websites and further documents. Data analysis produced causal maps of cases that represented grounded depictions of firm practice and causal influences that were firstly aggregated intra profession, and then finally inter-profession in order to consolidate analysis of practice and surface axial codes. From cross case analysis, organising meta-level constructs emerged providing a framework for the final synthesis of analysis, as discussed subsequently. The proceeding discussion therefore presents cross profession analysis and surfaces key findings, highlighting the empirical contributions of this research.

10.2 Research findings

10.2.1 A synthesis of key research findings: Organising meta-level constructs and trade credit management within small professional firms

The purpose of this section of the concluding chapter is to synthesise inter profession analysis from across firm practice, using organising meta-level constructs to frame the

discussion. These meta-level constructs emerged from analysis and their meaning is derived from their context. Therefore, the meta-level constructs although familiar are self-defining with their meaning embedded within the analysis. The cross cutting constructs provide cumulative terms with which to explore the interaction and influence of causal axial codes in a narrative manner. The use of structuration theory as a theoretical lens allows the conceptualisation of trade credit management practice as emergent from the complex interaction of practitioner agency and social structures. Earlier analysis of firm practice surfaced the exercise of practitioner agency, the influence of social structures, and their interplay. This section therefore proceeds with discussion of organising meta-level constructs from a structuration theory perspective. As previously discussed, the cross case network of causation presented below summarises and displays the influence of causal axial codes upon key areas of firm trade credit management practice.

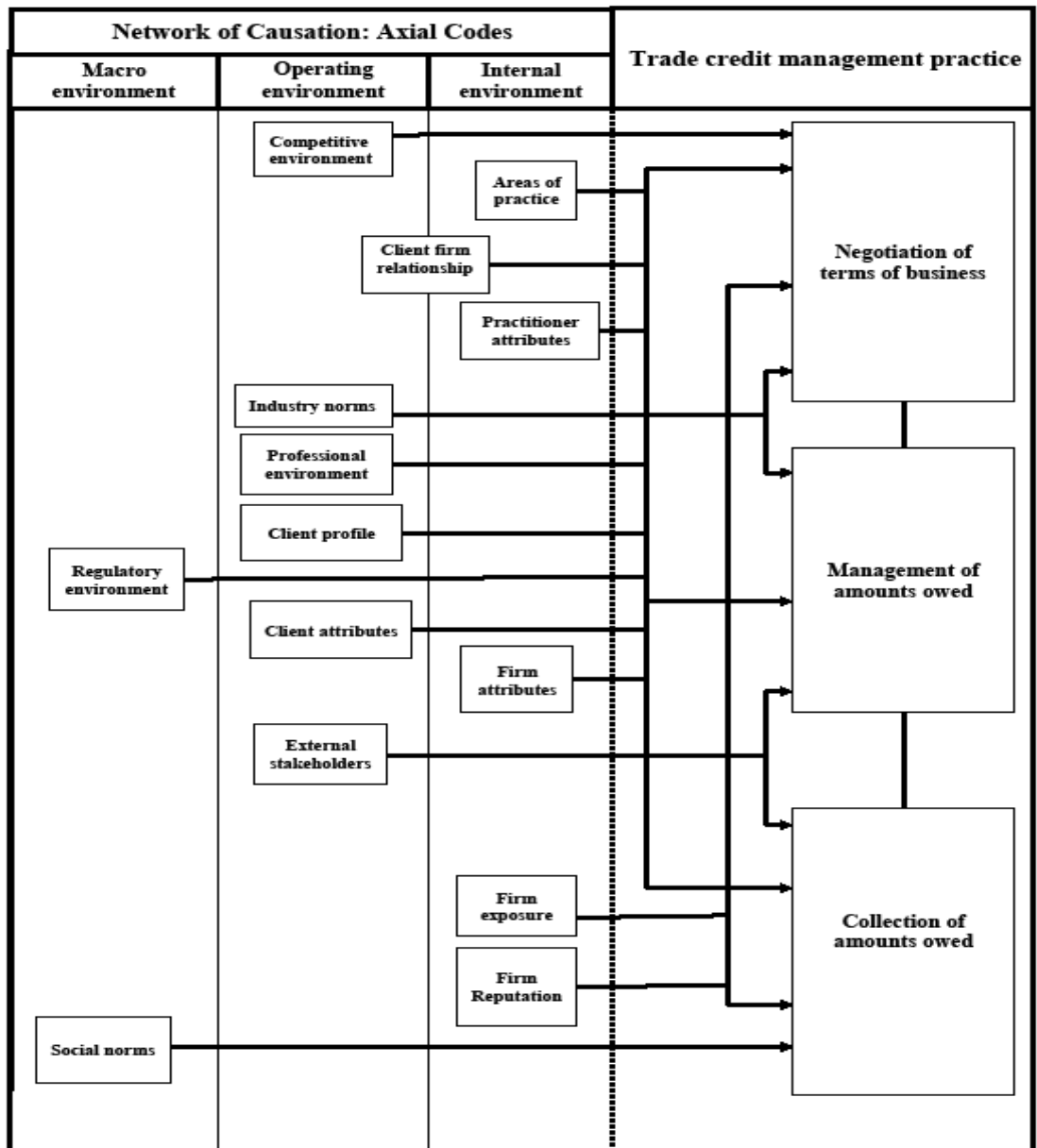


Figure 4: Cross Case Network of Causation

10.2.1.1 Norms

The organising meta-level construct *Norms* emerged from data analysis and provided an explanation that brought together in particular discussion of [*Industry norms*] and [*Social norms*]. However, additional causal axial codes that included [*Areas of practice*], [*Regulatory environment*] and [*Professional environment*] could be seen to reflect and

enshrine established payment *Norms* that influenced firm practice across all three sections of the organising central framework.

As recognised within earlier research, (for example, Jarvis et al, 1996; Wilson and Summers 2002), [*Industry Norms*] have been widely identified as a considerable influence upon credit terms and periods set by SMEs, and were similarly apparent within practitioners' accounts of practice with particular reference to decisions regarding the payment period. Within architecture, surveying and accountancy firms practitioners clearly perceived the existence of social structures that embodied the expectations of clients. Explicitly communicated, formal payment terms were largely determined with reference to [*Industry norms*], and thus the actions of practitioners upheld and entrenched payment *Norms*. *Norms* governing payment terms therefore emerge from practitioners' observations of social structures, yet their actions serve to reiterate and create them within a reflexive relationship. As such, the agency of the practitioner in setting formalised terms could be considered to be constrained by *Norms* apparent within social structures.

However, further evidence revealed how the *actual* application of credit terms and the effective payment period was compromised by firm *Motivation* and evaluations of *Risk*, with the influence of [*Industry norms*] upon terms of payment often limited to legitimating formal expressions and the collection of amounts owed, whereby practitioners referred to prevailing *Norms* themselves in order to encourage payment by a client. Practitioners revealed how rather than a passive, rigid application of payment terms, the reality of practice was instead characterised by the exercise of the practitioner's agency, and consideration of mitigating factors; practitioners demonstrated the capacity to act and engage with the social structure, creating multidimensional layers to practice. This resonates with the findings of Summers and Wilson (2003), who concluded that trade credit was useful in supporting sales and growth, despite the constraints imposed by industry norms.

The influence of *Norms* within the existing literature has also tended to focus upon initial payment terms however discussion of the *Management of amounts owed* further revealed implications for billing decisions and work in progress management that were the result of industry specific *Norms* resulting from long established work practices. The causal influence of norms upon the *Management of amounts owed* were manifested in distinctive

fashion through the following axial codes; [*Areas of practice*], [*Regulatory environment*] and the [*Professional environment*]. For architects, the [*Professional environment*] determined payment *Norms* that were embedded into practice by the professional association. As noted above, solicitors did not refer explicitly to the influence of [*Industry norms*] upon the payment period but were clearly constrained by the existence of long established payment practices and engrained *Norms* associated with the [*Decision to bill client*], and with which there was grudging compliance. These did not appear to be mitigated by other causal influences; the decision to take a case on within a particular area of practice determined the associated payment *Norms* to which the practitioner complied, whilst the professional environment legitimised and enshrined billing and payment *Norms*.

Firm practice therefore evolved in accordance with these *Norms* that were considered representative of the expectations of clients, and over which the practitioner was perceived to have little control. As before, the actions of practitioners are both the result of social structures and are yet responsible for them, through their routine reproduction. To suggest however, that practitioners acceptance of *Norms* was entirely passive again belies the agency of practitioners; many acknowledged an expedient rationale for the existence of particular billing dates and this will be further explored in later discussion.

The discussion above has considered how the organising meta-level construct *Norms* draws together and explains the influence of causal axial codes situated within the firms internal and operating environment. However within the macro-environment the causal influence of [*Social norms*] was apparent, particularly with regards to the *Collection of amounts owed*, and [*Determine methods of collection*]. Practitioners' accounts of practice revealed the nature of their decision making when undertaking collection. Of foremost importance was the relationship with clients and related commercial *Motivation*, to be discussed within further sections. However, also distinctly apparent was the influence of perceived behavioural *Norms* with practitioners anxious to avoid adopting approaches that could be perceived to be aggressive or confrontational; practitioners were reluctant to use late payment legislation despite formally acknowledging their right to charge interest within their formal terms of business. Additionally, practitioners referred to a sense of embarrassment and discomfort when attempting to retrieve payment. Such findings resonate with the work of Howorth and Wilson (1999), who found evidence of tentative and apologetic credit management, particularly with regards to collection practices. The

practitioners' approach to the collection of payment was therefore partly determined in response to the social systems that shape behaviour, with practitioners' actions again perpetuating and contributing to the existence of these *Norms*.

This discussion of *Norms* across firm practice and profession has highlighted contributions to existing understanding of the mechanisms by which the influence of *Norms* is manifested. As has been previously identified, formal terms of business were determined with reference to prevailing payment *Norms*, yet further evidence highlighted how their actual application was mitigated by additional causal influences. However, the existence of *Norms* shaping the reality of firm practice was clearly apparent with regards to billing decisions and the management of work in progress, highlighting in particular the significance of long established work practices that have been embedded over time and through the actions of professional associations. Collection practices were also determined with reference to societal *Norms*. Interestingly, the most widely recognised influence of industry *Norms* upon formal business terms proved to have a limited impact upon the reality of firm practice. The qualitative data collected revealed ingrained *Norms* to be associated largely with billing decisions and collection of amounts owed.

Whilst *Norms* were therefore significant for small professional firms trade credit management, firm practice was however neither wholly compliant nor passive, with practitioners continuing to exercise their personal agency where possible, adapting terms in line with, for example, their commercial *Motivation*. *Norms* are therefore representative of social structures which the trade credit management practices of small professional firms are responsive to, and yet these *Norms* exist *because* of the actions of practitioners. *Norms* provide a legitimating function for practitioners in the actions they undertake and the practices they formulate. Although the agency of the practitioner is constrained in some respects, the relationship is a reflexive one, and highlights the capacity of the practitioner to subvert *Norms* informally through their personal agency. The accounts of practice revealed the complex, multilayered nature of *Norms*, with informal dimensions of practice creating intra firm *Norms* that impacted directly upon firm practice and that existed alongside widely recognised *Norms*, whose influence in practice was limited to formal expressions of terms of business.

10.2.1.2 Regulation

As an organising meta-level construct **Regulation** provided an explanation that brought together two causal axial codes both of which were situated within the external environments of the firm, namely the [*Professional environment*], situated within the operating environment, and the [*Regulatory environment*], situated within the macro environment. For professional firms the regulatory and authoritative influence of professional bodies was clearly apparent, serving to hold professional firms accountable for their activities and encourage the management of practices in line with codes of conduct and behaviour. Similarly, the regulatory nature of government and tax regimes had implications for firms in terms of billing, whilst also providing a useful lever through which to encourage clients to pay. Both the professional bodies and regulatory regimes could be perceived as seeking to coordinate and control the behaviour of firms, imposing formalised practices through the exercise of their authoritative capacity. However, whilst evidence suggests that firm practice is indeed shaped by these dominating, external social structures, there is also evidence highlighting the ability of practitioners to exercise their power in their relationships with dominating professional bodies in particular, with the agency of practitioners enabling them to meet imposed requirements whilst adopting in parallel trade credit management practices with higher perceived utility.

In particular, with regards to the *Negotiation of terms of business*, practitioners' accounts of practice highlighted how when evaluating clients, approaches determined by the [*Professional environment*] were adopted in some cases despite their perceived limited usefulness. However where this occurred practitioners did not rely upon such approaches, instead making decisions based upon informal methods of client evaluation derived from practitioners' **Experiential learning** with regards to effective practice. Similarly, the content and format of initial client agreements were externally imposed by professional bodies yet actual agreements used by practitioners were adapted and amended in order to provide clients with clear and easily communicable terms of business. Hence power is two way; external, dominating social structures prescribe formalised aspects of practice however analysis has revealed how practitioners exercise their own power through their ultimate adoption of informal, bespoke practices considered both more effective and appropriate.

Consideration of the *Management of amounts owed*, again revealed the dominating role of professional bodies within the *[Professional environment]*, particularly for solicitors, with practitioners demonstrating awareness of codes of conduct and practice for dealing with clients, and formalised procedures that they are expected to adhere to. These general practices were orientated around the *[Organisation of credit management]* and in particular were concerned with the protection of client interests, which tended to be enacted in line with professional body recommendations. Further evidence was provided with regards to the *[Decision to bill client]*, as professional associations enshrined particular billing dates according to long established work practices.

The *[Regulatory environment]* largely captured tax implications that influenced the *[Management of work in progress]* and the *[Decision to bill client]*, with practitioners mindful of VAT implications. However the dominant presence of regulatory authorities also provided practitioners with a lever with which to secure client payment, acting as an ultimate incentive for the client to pay practitioners, whose knowledge of which informed *[Assessment of amounts outstanding]*. For solicitors the distinctiveness of the profession and external influence of the law society was captured within the *[Professional environment]*, regulating to some extent methods of collection.

Regulation as an organising meta-level construct therefore explained aspects of the causal significance of the *[Professional environment]* and the *[Regulatory environment]*. The influence of external stakeholders upon the management practices of SMEs has been recognised within previous research, for example Howorth and Westhead (2003), Deakins et al, (2002), however the regulatory nature of external social structures has been less well developed with regards to the trade credit management practices of small and medium sized professional firms. Within this research the causal influence of *[External stakeholders]* was apparent in an advisory capacity. The multi-dimensions of practice revealed an interesting picture; the professional bodies and regulatory regimes form distinct, dominating aspects of social structure for small professional firms. However, power flows in both directions; practitioners adopt prescribed practices where considered appropriate and necessary yet adapt and amend these formal expressions extensively where they see fit. Furthermore, the accounts of practice revealed the primary importance of informal alternatives to practitioners, despite external recognition and sanction of normative practices. The personal agency of the practitioner is exercised within the

dialectic of control; practitioners are not merely subordinate to the regulatory nature of social structures.

10.2.1.3 Power

The above discussion of *Regulation* highlighted aspects concerning the interrelatedness of *Power* and *Regulation*, and indeed within this analysis *Power* has emerged as intrinsically related to a range of organising meta-level constructs. The dynamics of *Power* were also apparent within the causal influence of a number of axial codes, situated across all three environmental levels that were dominated by axial codes relating to clients. In particular the causal influence of *[Client attributes]*, *[Client profile]* and the *[Client firm relationship]* reflected aspects of *Power*. However, in addition *Power* had implications regarding the causal influence of the following axial codes; *[Regulatory environment]*, *[Professional environment]*, and *[Areas of practice]*.

The accounts of practice revealed how the axial codes reflected aspects of *Power* and the shifting nature of *Power* dynamics between firm and client. In actions reminiscent of Giddens' (1984) 'dialectic of control' firms, in what could be conceived as 'subordinate' positions, utilise resources under their control to manage the client and ultimately secure payment. According to Giddens (1984) domination structures are concerned with the exercise of *Power* over resources and this discussion of *Power* highlights the significance of such considerations for small professional firms when managing trade credit, with their ability to leverage resources at their disposal to influence the payment behaviours of clients central to their practice.

The *Negotiation of terms of business* highlighted how for solicitors when making decisions regarding requesting money on account, *[Client attributes]* informed implicit, evaluations of client behaviour that generated demands for funds and that could be both collaborative and controlling in nature. For solicitors, the *[Decision to request money on account]* was also informed by the *[Client profile]*, as an important determinant of the conditions under which payment could be leveraged, or payment intentions tested. Interestingly, for the remaining professions, the influence of causal axial codes with regards to the *Negotiation of terms of business* was not explained by *Power*, reflecting the particular nature of solicitors firms and the standardised nature of initial terms of business for the remaining professions.

The distinctiveness of solicitors firms was again highlighted with regards to the *Management of amount owed* as *[Areas of practice]* emerged as representing an important causal influence upon the *[Decision to bill client]*; an influence partially explained with reference to **Power**. The **Norms** determined for solicitors by *[Areas of practice]* were proactively utilised to leverage payment from clients with their legitimating function providing practitioners with a rationale with which to validate their billing decisions. In addition, the ability to control processes important for the client, and determined by *[Areas of practice]*, provided solicitors with the opportunity to surface payment intentions. The ability of the practitioner to exert influence over the client was therefore recognised and utilised, with **Power** ultimately providing a meta-level construct that explained one dimension of the causal significance of the above axial codes for solicitors.

For the other professions, **Power** similarly explained the causal significance of axial codes upon firm practice. The *[Decision to extend credit]* was a significant one for accountants, architects and surveyors, unlike solicitors whose decisions in this regard tended to involve requests for monies on account, as previously discussed. In particular the causal influence of *[Client profile]* upon the *[Decision to extend credit]* was observed to partly result from practitioners evaluations of the client's incentive to pay, and their ability to leverage payment. The demand of repeat clients for further services provided the opportunity for practitioners to exploit their **Power** and use their leverage to secure payment and thus reduced their perception of **Risk**; this knowledge impacted upon credit decisions informally as for repeat clients informal extensions of the credit period were tolerated, whilst for one off clients credit extensions tended to be restricted. Such extensions of credit to repeat clients could however be interpreted as clients, aware of their commercial potential for the firm, utilising their bargaining position in order to fund their own positions. Generally, practitioners were aware of, and evaluated, the dynamic shifts in **Power** between client and firm, with the causal influence upon practice more complex than consideration of the influence of the dominance of clients, or their size and proportion of custom might imply.

Power was particularly useful in understanding the causal influence of axial codes upon the *Collection of amounts owed* and echoed the discussion above with practitioner's evaluations of their ability to leverage payment again central to their practice. Practitioner decisions regarding *[Evaluate ease of collection]* were informed by the causal influence of

the *[Regulatory environment]*, the *[Professional environment]*, the *[Client profile]* and *[Areas of practice]*. These axial codes informed practitioner's evaluations of their leverage and ability to exert control in securing payment, and therefore directed the allocation and concentration of collection efforts. Again for solicitors only, *[Areas of practice]* was a significant influence upon practice, indicating the extent to which practitioners could control processes and funds in a manner distinct from the other professions, and that subsequently informed practitioner evaluations regarding ease of collection. Finally with regards to the *Collection of amounts owed*, the *[Assessment of amounts outstanding]* reflected the interaction of **Risk** and **Power**, with practitioner's keen to minimise the leverage of clients to extend payment, focusing upon proactively managing any potential for disputes that might provide clients with a legitimating agenda. This approach was also demonstrated with regards to *[Determine methods of collection]* where in some circumstances the *[Client firm relationship]* was cultivated by the practitioner in order to provide a lever through which their payment might be prioritised.

Power therefore provides an organising meta-level construct that draws together the causal influence of several axial codes upon firm practice, particularly in terms of 'back end' trade credit management. Existing research regarding trade credit management within SMEs has tended to explore related issues from the perspective of the influence of dominant clients, in relation to their size or proportion of firm business, and in particular their capacity to impose upon the firm extensions to the credit period (see for example; Howorth and Wilson, 1999; Wilson and Summers, 2002). Analysis of practitioner's accounts of practice has similarly revealed how the characteristics of the client can cause the adaptation of trade credit management practices, yet issues of dominance did not appear paramount, resonating with the findings of Howorth and Wilson (1999). Instead, the *[Decision to extend credit]*, was driven by complex assessments of **Risk** and **Motivation**, and expedient trade-offs to be explored further within later discussion. Extensions of credit were not solely determined by the **Power** relationship between dominant client and firm, yet the commercial potential of repeat custom did afford clients **Power** in their negotiating position, an issue, as stated, to be explored further within consideration of **Motivation**.

The significant causal influence of client related axial codes has highlighted the importance of securing ongoing business, and has revealed how domination structures are not merely

imposed upon practitioners. **Power** does not flow in one direction from client to firm; practitioners identify and evaluate mechanisms through which they are able to manipulate and influence the payment behaviours of clients, and the potential do so in the future. Where the ability of the firm to exercise their leverage is compromised, practitioners focus resources and collection efforts. Indeed, clients who are large and provide repeat custom, and therefore might be considered ‘dominant’, tend to offer greater scope for practitioners in terms of leveraging payment than one-off, smaller clients with whom repeat business is unlikely to be established. Interestingly, Wilson and Summers (2002) found that firms with dominant buyers experienced longer credit periods, yet repeat purchase was associated with shorter credit periods.

Within the ‘dialectic of control’ (Giddens, 1984) practitioners can therefore be observed to utilise opportunities to influence client behaviour, concentrating efforts accordingly where circumstances are otherwise. For small professional firms, the *[Decision to extend credit]* reflects to some extent the increased bargaining **Power** of repeat clients. However, these decisions must be considered within the grounded reality of practice and with reference to the complex assessment of commercial **Motivation**, **Risk** and **Expediency**. Extensions of credit are not simply imposed by dominant clients upon passive firms; practitioners are pro active and engaged, assessing the potential of client firm relationships and identifying where the dynamics of power provides leverage in their trade credit management.

10.2.1.4 Knowledge of client

An overarching consideration of trade credit management has also revealed the role of gathering knowledge regarding the client, and the informal mechanisms that facilitate this. Indeed, informal resources have proved particularly important to firm practice, with the causal influence of axial codes explained in part in terms of their often generic signalling qualities regarding the potential payment behaviour of clients. The organising meta-level construct **Knowledge of client** therefore draws together in particular client related axial codes which include; *[Client attributes]*, *[Client profile]* and the *[Client firm relationship]*. In addition **Knowledge of client** explains aspects of the causal influence of *[Practitioner attributes]* and *[Firm attributes]*.

Knowledge is derived in idiosyncratic ways and practitioners act upon this knowledge incorporating it within their decision making alongside evaluations of commercial

potential. Characterisation of ‘good’ trade credit management might be expected to include the proactive gathering of knowledge regarding clients so that practitioners are able to anticipate payment behaviours, and indeed Howorth and Wilson (1999, p.311) identified that firms that did so suffered less from the problem of late payment, especially those that:

‘took positive steps to manage cash flow, in particular planning around the known payment profile of each customer’.

However, a normative perspective of trade credit management might also identify formal sources of information as having an important role, whilst little emphasis is placed upon consideration of the clients circumstances. The findings of this research have highlighted the dominance of informal sources of knowledge gathered within a specific context, and mindful of implications for the long term commercial relationship with the client. As will be explored below, the informal signalling effect of axial codes has emerged above the gathering of information via formalised channels perhaps because of the multi-dimensional nature of firm practice and the utility of embedded evaluations versus the functional nature of, for example, a credit rating or reference.

With regards to the *Negotiation of terms of business*, the *[Evaluation of client]* and the *[Decision to request money on account]* both highlighted how the influence of causal axial codes upon firm practice could be explained in terms of the importance of **Knowledge of client**. Practitioner evaluations favoured informal sources and drew on stocks of knowledge that were in part tacit, and largely determined by both *[Practitioner attributes]* and *[Firm attributes]*. Similarly, for solicitors in particular the *[Decision to request money on account]* reflected knowledge of potential client payment behaviour, as signalled by *[Client attributes]*, and provided the opportunity to engage proactively with the client, influencing their payment behaviour according to practitioners assessments.

Consideration of the *Management of amounts owed*, unsurprisingly highlighted the significant role of client related axial codes in informing the stocks of knowledge that practitioners acted upon. Both *[Client profile]* and *[Client attributes]* were perceived to signal information regarding the likely payment behaviour of clients, incorporated within the *[Organisation of credit management]*. **Knowledge of client** formed the basis for proactive credit management, with practitioners anticipating the payment pattern of clients and adapting accordingly. The *[Decision to extend credit]* was informed by *[Client attributes]* and reflected practitioners’ knowledge of the need to negotiate bureaucratic

client systems and a willingness to adapt to client circumstances. Similarly the *[Management of working progress]* highlighted decision making that was informed by consideration of client focused circumstances. Many aspects were proactive and flexible, anticipating requirements determined by the scale of the job, *[Client profile]*, or concerned primarily with the management of client expectations, *[Client attributes]*, and the balancing of commercial potential with the implicit required investment in work in progress. However, other aspects might be regarded as imposed with practitioners accepting levels of investment in work in progress as the natural result of particular client features and prevailing *Norms*.

Knowledge of a client's payment systems and anticipation of their payment behaviour was particularly important for the *[Decision to bill client]* and again both *[Client attributes]* and *[Client profile]* proved to be dominant causal influences upon firm practice. As above, billing decisions reflected practitioner's specific **Knowledge of client** that was informed by *[Client attributes]*. Billing decisions anticipated the payment behaviour of clients through consideration of the client's systems and associated bureaucratic procedures, whilst billing was also used proactively to facilitate client management of cash flow and costs. Evidence again highlights a collaborative approach with practitioners mindful of the implications for payment whilst being prepared to use billing to exercise their discretion when clients experience financial difficulties. Whilst *[Client attributes]* signalled information of a client specific nature to practitioners that informed their billing decisions, *[Client profile]* signalled information more generic in nature. The *[Client profile]* causally influenced billing decisions by signalling information at a generalised level, allowing practitioners to build their **Knowledge of client** with reference to some basic criteria, billing accordingly. The interconnectedness of **Risk** and **Knowledge of client** was also clearly apparent within billing decisions, with assessments of **Risk** informed by the practitioner's **Knowledge of client**.

Similar themes to those discussed above were apparent within analysis of the *Collection of amounts owed*, with client related axial codes again dominant. The causal influence of these axial codes upon firm practice can also again be considered at a client specific level, *[Client attributes]*, and at a more generalised level, *[Client profile]*. Findings further resonate with previous areas of practice, with the practitioner's **Knowledge of client**

explaining the causal influence of the aforementioned axial codes across the three key aspects of the *Collection of amounts owed*.

Once again, [*Evaluate ease of collection*] highlighted practitioners concern with the ability of the client to manage their cash-flow, with [*Client attributes*] signalling information that in this context was used to inform evaluations of when payment was likely to be received. Furthermore, as above, knowledge of client systems allowed anticipation of payment delays to be incorporated within [*Evaluate ease of collection*]. However, in this context *Client satisfaction* [*Client attributes*] added an interesting dimension; practitioners were aware of the opportunities for clients to legitimise their procrastination with regards to payment where they were dissatisfied with the service provided. Evaluations were also influenced by [*Client profile*]; in particular the *Type of client* and *Repeat clients* informed practitioners with regards to the ease of collection, with implications for payment associated with these features. The causal interaction of axial codes was also apparent, with the [*Client firm relationship*] often established as the result of repeat interactions with clients, which then allowed the further development of practitioners ***Knowledge of client***.

As with the discussion above, the [*Assessment of amount outstanding*] was similarly informed by [*Client attributes*], aspects of which provided practitioner with particular ***Knowledge of client***. Practitioners used this knowledge to understand the nature of delayed payments and viewed them within the context of specific client circumstances. Once again, practitioner's assessments revealed evidence of collaborative accommodation of clients experiencing temporary financial difficulties, and assessments of client dissatisfaction and the subsequent impact of client procrastination. These informal knowledge sources allowed the assessments of practitioners' to incorporate expectations of client payment schedules, established through consideration of client circumstances with a long term perspective that anticipated and accommodated delays in payment when deemed mutually beneficial.

The final aspect of the *Collection of amounts owed* to be discussed is [*Determine methods of collection*]. Once again the dominant causal influence of [*Client attributes*] is apparent whereby collection methods are shaped and adapted in accordance with specific client circumstances. Collection methods are tailored to particular clients, rather than the uniform application of formalised and systematic procedures. ***Knowledge of client***, as determined

by the practitioner's awareness of client circumstances, is central to the methods adopted; practitioner knowledge of how client systems are organised and the client's particular preferences with regards to the collection methods employed directs efforts and approaches accordingly. Practitioners adopt what are considered to be the most effective and efficient methods of collection that reflect their *Knowledge of client*, and maximise the impact of their efforts whilst avoiding antagonising clients.

Knowledge of client as an organising meta-level construct is therefore a primary explanation regarding the influence of client related causal axial codes. Firm practice is nuanced, informed by client specific knowledge, and highlights the emphasis practitioners place upon an informal, grounded understanding of the client. Indeed, the role of formal, secondary sources in providing information to practitioners appears extremely limited, with for example, very limited use of credit assessments. Practitioners are particularly sensitive to the circumstances of the client, which clearly reflects the importance of commercial *Motivation* and results in collaborative practice with a long term perspective. *Knowledge of client* is derived from two key axial codes; [*Client profile*] and [*Client attributes*]. The signalling qualities of these codes occurs at both a generic and specific level, with the information gathered used to build practitioner knowledge and provide informal frameworks for decision making that also incorporate evaluations of *Motivation* and *Risk*.

Firm practice is therefore characterised by informal mechanisms that facilitate the proactive evaluation of the payment behaviours of clients and allow practitioners to anticipate, and collaboratively accommodate, delays in payment where necessary and appropriate. However, firm practice is not entirely proactive; some evidence identifies the acceptance of client payment schedules that are largely imposed upon firms and the adoption of collection methods primarily to avoid antagonising the client. Despite this, the dominant picture that emerges from the analysis is of practitioners who are informed and aware of the likely payment behaviour of clients, and whose practice is further tempered and informed by commercial *Motivation* and evaluations of *Risk*.

Informal dimensions of practice are dominant, providing effective mechanisms for practitioner's decision making. These implicit frameworks are the result of practitioners on-going, reflexive monitoring with stocks of knowledge constructed proactively from

client related sources that reflect client orientated contextual circumstances. These stocks of knowledge therefore allow practitioners to approach trade credit management from an informed position; generally there is awareness of the payment profile of clients and the anticipation of potential problems, in accordance with what might be considered as 'best practice', and that likewise has been identified as effective trade credit management practice by Howorth and Wilson (1999). However, 'best practice' would also articulate normative concepts of profit maximisation through the use of formal, secondary sources of information; clearly such approaches have been ignored by practitioners. Again the imposition of such normative practice upon practitioners would seem largely pointless; effective, informal mechanisms are in place that serves their purpose effectively and appropriately and that highlight the practitioner as a proactive, responsive agent.

10.2.1.5 Risk

Risk emerged as a pervasive organising meta-level construct that transcended a number of causal axial codes, particularly those concerned with clients. **Risk** is deeply embedded within nuanced firm practice and therefore draws together the influence of causal axial codes in complex and implicit explanations that also reveal important interactions with other organising meta-level constructs. Client related codes are therefore significant for **Risk** and include; *[Client profile]*, *[Client attributes]*, and the *[Client relationship]*. In addition **Risk** draws together causal aspects of *[Areas of practice]*, *[Professional environment]*, *[Practitioner attributes]* and *[Firm exposure]*. **Risk** in this research is therefore defined by its context and is broad in scope referring to evaluations that concern firm practice across all of the three key areas of the central organising framework.

Existing research has tended to focus upon the adoption of normative practices acknowledged to facilitate assessments of risk within trade credit management, and the frequency of their review, for example Peel et al (1996) where the collection of survey data was concerned with the checking of credit worthiness, and the categorisation of clients according to solvency and late payment risk. Within this research, an inductive, qualitative approach to data collection has surfaced informal dimensions to the evaluation of risk that dominate the adoption of formalised practices and have revealed the significance of implicit approaches. The decision-making frameworks of practitioners are complex, grounded in contextual reality and involving the interaction of numerous meta-level

constructs; they are not determined solely on the basis of economic rationality presupposed by normative practice.

When considering the *Negotiation of terms of business*, the *[Evaluation of client]* is clearly primarily concerned with assessing the risk associated with the receipt of a client's future payment. The causal influence of a range of axial codes was apparent, as was the lack of reliance upon formalised techniques. Practitioners demonstrated their awareness of formal techniques of credit checking clients and their rejection of them, preferring instead to rely upon informal assessments and implicit stocks of knowledge. Similarly, when considering *[Risk assessment of case]* and the *[Decision to request money on account]*, the causal axial codes influencing practice signalled information to practitioners regarding assessments of **Risk**. The causal influence of client related axial codes were considered by practitioners to be particularly dominant in informing their assessments, whilst for solicitors the *[Areas of practice]* was a significant determinant of risk in relation to the *[Risk assessment of case]*. Evaluations of **Risk** also offered some explanation as to the causal influence of *[Client profile]*, the *[Professional environment]* and the *[Client firm relationship]* upon *[Establish terms and agreements]*. Practitioners proactively anticipated potential issues with the formal expression of terms, ensuring clarity and ease of communication, and thus avoiding the potential for misunderstandings and subsequent delays in payment. Firm practice therefore highlighted informal evaluations of **Risk** capable of incorporating a range of motivations and focused on establishing and managing the potential payment behaviour of clients.

Risk, as a concept exists to some extent as a shared construct; approaches to the evaluation of risk are well documented within normative practice, derived from the principles of neo classical economics and enshrining a profit maximising rationality. Normative, 'best practice' approaches would typically involve, for example, formally credit checking clients prior to the delivery of services or goods. The accounts of practitioners demonstrated their awareness of such approaches and their choice to evaluate risk otherwise, adopting informal techniques of evaluation, perceived to both provide more valuable information and incorporate a range of complex considerations. This was true even where practitioners adopted formal practices in order to satisfy regulatory influences. The agency and reflexive monitoring of practitioners is clearly apparent; practitioners do not simply adopt normative practices and even if these are imposed upon them, there are informal approaches operating

in parallel providing what is perceived to be higher quality, actionable information. Lack of adoption of normative practice may not therefore be simply explained as ‘poor’ financial management but instead may reflect the agency of the practitioner in constructing effective, informal frameworks of practice.

Dimensions of **Risk** were also apparent in explaining the causal influence of axial codes upon the *Management of amounts owed*. The [*Organisation of credit management*] was influenced by [*Areas of practice*]; [*Areas of practice*] provided the practitioner with information regarding how and when payment was likely to be received, indicating associated **Risk** and influencing the organisation of the credit management function accordingly. For solicitors [*Areas of practice*] was particularly significant with regards to **Risk**, with decisions regarding the extension of credit dominated by professional **Norms** and billing decisions that were largely explained with reference to *Client funding* [*Areas of practice*]. The [*Decision to bill client*] also proved for solicitors to be a particularly significant aspect of the *Management of amounts owed*, with evidence highlighting the trade-off of the **Risk** associated with non payment and potential delays in payment, which was informed by [*Areas of practice*].

However, for accountants, architects and surveyors the [*Decision to extend credit*] was largely influenced by the axial codes of [*Client profile*] and [*Client attributes*]. These axial codes were perceived to inform practitioner’s assessments of **Risk**, signalling information regarding the likelihood of both the client paying and of delays in payment. Trade-offs were again apparent; practitioners tolerated or accepted delayed payment where the associated **Risk** of payment was considered to be low, impacting upon the extension of credit. Firm practice reflected both passive and proactive practice; evidence highlighted how in some cases payment schedules appeared to be imposed by the client, whilst in others billing dates and stage payments were stipulated in order to manage the client’s payment. Client related axial codes were seen to influence other aspects of the *Management of amounts owed* in similar ways and reflected practitioners’ implicit evaluations of clients, and their anticipation of a client’s potential payment behaviour. With regards to the [*Management of work in progress*] the **Risk** profiles of clients again informed practice, with practitioners trading off evaluations of the **Risk** of non payment against the funding of investments in working in progress. These assessments and trade-offs with regards to **Risk** are of course intrinsically related to **Power** dimensions within the

practitioners relationships with clients; where the practitioner can exercise **Power**, there is less perceived **Risk**, and visa-versa.

Similar themes associated with **Risk** were apparent for the [*Decision to bill client*] and highlighted the implicit, informal nature of practitioner's assessments. The [*Client profile*] and [*Client attributes*] informed these assessments, highlighting considerations of **Risk** with regards to the clients association with the work undertaken, the need to manage client expectations, and the subsequent identification of billing triggers. These informal **Risk** assessments explain the causal influence of the axial codes upon the [*Decision to bill client*] and highlight how the practitioners **Knowledge of client** is central to firm practice. Evidence also suggested that the [*Decision to bill client*] provided the practitioner with the opportunity to exercise their discretion, offering support to clients in times of financial difficulty, particularly where a [*Client firm relationship*] has been established, whilst managing client payment expectations in order to minimise payment problems, and hence reduce the associated **Risk**.

Finally with regards to the *Management of amounts owed*, practitioner perceptions of **Risk** were apparent in the [*Firm financing decision*] whereby the avoidance of debt finance was attributed to a desire to maintain tight financial control and minimise the firm's **Risk**. The evidence again reflected the interaction of **Risk** and **Motivation**, with practitioners emphasising their desire to maintain financial control.

When considering the *Collection of amounts owed*, the evaluation of risk was of fundamental importance to [*Evaluate ease of collection*]. Practitioners evaluations were not time determined, nor formalised but consisted of consideration of the information they had access to; information that was determined by the axial codes. In particular, [*Client attributes*], [*Client profile*], [*Client firm relationship*] and the [*Areas of practice*] all informed the **Risk** assessments of practitioners with regards to [*Evaluate ease of collection*], directing the allocation of resources and efforts accordingly, and facilitating the familiar trade-offs between **Risk** and anticipated delays in payment. The nature of the practitioners assessments were informal and implicit, and centred upon developing their understanding of the client and their likely payment practices. The axial codes were perceived by practitioners to signal information regarding **Risk** which therefore contributed to their evaluations.

The [*Assessment of amounts outstanding*] reflected similar dimensions of **Risk**, with practitioners in this context informed by the causal axial codes, [*Client attributes*], [*Practitioner attributes*] and [*Client profile*]. A primary concern for practitioners was that of proactively managing the **Risk** of potential disputes arising with regards to payment, and the causal influence of the aforementioned axial codes determined, according to practitioners, aspects of a firm's exposure to such issues. For solicitors particularly, the [*Client profile*] was perceived to signal information regarding the likelihood of a fee dispute. As with [*Evaluate ease of collection*], practitioner's assessments are informal, grounded within the client specific context, and reflect the interaction of **Risk** and **Power**, alongside other meta-level constructs. The final aspect of the *Collection of amounts owed*, [*Determine methods of collection*], also reflected dimensions of **Risk** with the causal influence of [*Firm exposure*] highlighting how the **Risk** profile associated with a particular client may for some firms impact upon the collection methods adopted.

Risk as an organising meta-level construct highlights across practice the importance and perceived effectiveness of informal approaches whilst the qualitative accounts of practice have surfaced the often implicit evaluations undertaken by practitioners. Conceptualisations of **Risk** are long established within normative practice, and have been enshrined within formal approaches mainly concerned with front end trade credit management practice. Recommended approaches to the management of **Risk** within trade credit management are therefore often developed and articulated from this position, with the implicit economic assumptions of the maximisation of utility as a key objective. These accounts of practice have, however, demonstrated that practitioners rely upon informal mechanisms for the evaluation of **Risk** and even in the scenarios where formal methods have had to be adopted to fulfil regulatory obligations, there exists in parallel informal dimensions that in reality form the basis of the practitioners' decision making. Alternative frameworks for decision making are used which more appropriately reflect the complex reality of trade credit management within small professional firms. Such frameworks incorporate a range of objectives and evaluate **Risk** as emerging from context specific influences, captured within the axial codes. Clearly the signalling role of the causal axial codes is of fundamental importance to practitioners, who implicitly assess the information content provided, and balance the trade off between **Risk** and the likelihood of receiving payment accordingly. Therefore, even where concepts of **Risk** and manifestations of normative practice exist at what could be conceived as a structural level, there is little

evidence that these can be imposed, or are embraced by practitioners as effective forms of practice. Practitioners actively monitor the outcome of their evaluations, and have organised practice to reflect the utility of informal approaches, thus highlighting their role as responsive and reflective agents.

10.2.1.6 Expediency

As an organising meta-level construct, *Expediency* refers to firm practice that although not optimal in a normative sense is appropriate to purpose, with an often pragmatic rationale underpinning the approaches adopted. As with *Risk*, *Expediency* proved pervasive within explanation of the influence of numerous causal axial codes upon firm practice. Firm practice was therefore often implicitly expedient, and *Expediency* provides an overarching construct that draws together the influence of the following causal axial codes; [*Regulatory environment*], [*Professional environment*], [*Client profile*], [*Client firm relationship*], [*Firm attributes*], [*Client attributes*], and [*Areas of practice*].

The expedient decision making of practitioners is inherently associated with their rationality, an area previously explored within SME research, for example Curran et al, (1997) and Jarvis et al (1996). This research questioned the presumption that normative practice, derived from that considered appropriate for large firms and with profit maximisation the assumed objective, should be appropriate for SMEs. Similarly, the implication that non adherence to normative practices implied ‘poor management skills’ (Curran et al, 1997, p.27) was challenged with findings that identified sophisticated and context appropriate practice, grounded in the complex interaction of a range of rationalities and norms (Curran et al, 1997). Furthermore, as Jarvis et al (2000, p.131) identified:

‘small-business owners appear resistant to adopting the ‘good practice’ techniques on offer’ in spite of easy access to a plethora of materials championing the adoption of such’.

The findings above therefore resonate with this research; *Expediency* explains the influence of causal axial codes upon firm practice where rather than adopt normative practices determined with reference to profit maximising criteria, practices have been adapted or evolved independently and informally, reflecting the context specific, grounded nature of the trade credit management practices of practitioners and the complex interaction of a range of both axial codes and organising meta-level constructs. Indeed, when discussing conclusions regarding *Motivation* later within this chapter, similar issues

surface regarding the complex rationalities of practitioners. From a structuration perspective, consideration of *Expediency* highlights how normative practice might be enshrined and upheld within social structures, yet practitioners as reflexive and responsive agents rarely passively adopt these approaches; agents monitor action and interaction, with practice emerging that is appropriate and idiosyncratic. However, firm practice also has a role in upholding and reinforcing normative practice, with ‘best practices’ adopted to satisfy external, regulatory and professional influences, whilst additionally providing guidance in some aspects of the efficient organisation of trade credit management that is recognised as such by practitioners. Clearly, normative practices do not dominate trade credit management practices within small professional firms but their influence is mediated through social structures implying that their uptake might be observed both in terms of paying lip-service to regulatory and professional pressures, and in the adoption of normative, formal practices considered to be effective and appropriate.

With regards to the *Negotiation of terms of business*, *Expediency* provided an overarching explanation of the influence of numerous causal axial codes upon the [*Evaluation of client*], [*Decision to request money on account*], and [*Establish terms of business*]. Discussion of firm practice has established the importance of informal approaches to the [*Evaluation of client*] that were able to incorporate practitioner’s complex *Motivation* and evaluations of *Risk* and *Power*, and that were fit for purpose. Informal client evaluations may not be derived from normative practice but emerged as effective and appropriate approaches in accordance with the causal influence of axial codes. Practitioners’ preference for informal mechanisms of evaluating clients reflected the perceived utility of the information gathered and a rejection of the formalised approaches of which they demonstrated awareness. The influence of causal axial codes upon the evaluation of clients could therefore be explained in terms of *Expediency*; normative practices in this context failed to incorporate the complexities associated with the meta-level constructs *Motivation*, *Power* and *Risk*. Instead practitioners adopted approaches that were expedient; these were appropriate to context-specific circumstances and whilst not ‘optimal’ in a normative sense, fulfilled the requirements of practitioners by considering wider objectives than profit maximisation.

Similarly, the causal influence of the [*Regulatory environment*] and the [*Professional environment*] upon [*Establish terms of business*] highlighted structural, regulatory

influences upon firm practice. Professional bodies particularly encouraged the adoption of generic agreements that mediate between the practitioner and client, facilitating the communication of the terms of their agreement. However, these agreements were rarely used in their recommended form but were adapted by practitioners in accordance with the influence of other causal axial codes, for example the *[Client profile]* and the *[Client-firm relationship]*, in order to provide agreements appropriate to the circumstances. Certainly practitioners acknowledged the importance of a formal agreement existing between themselves and the client, but they were unwilling to simply adopt normative prescriptions. Practitioners monitoring and evaluation of their own practice generally resulted in the use of agreements that were fit for purpose and in particular managed client expectations by effectively communicating information regarding payment schedules and the incurrence of costs, that facilitated clients cash management.

Consideration of the *Management of amounts owed* revealed how **Expediency** explained in part the *[Organisation of credit management]* with this functional area of firm practice reflecting pragmatic approaches that ensured the efficient use of resources and that were also generally in line with normative practice. Similarly, *[Firm attributes]* captured the causal influence of resource constraints upon the *[Organisation of credit management]*, and highlighted how despite practitioners awareness of ‘best practice’, the availability of resources frequently acted as stimulus to trade credit management practices. For practitioners there was clear recognition as to the importance of cash flow within the firm and these resource based triggers acted as prompts to the practitioner, rather than reference to ‘best practice’ techniques.

Further evidence of expediency was highlighted within the *[Decision to extend credit]* where decision making was often characterised by expedient trade-offs between **Risk** and potential return; where the **Risk** associated with payment was considered minimal, and in circumstances where *Client systems [Client attributes]* were known to delay payment, these delays were tolerated and resulted in informal extensions to credit periods. Decisions were informed in particular by *[Client profile]*, *[Client attributes]* and *[Areas of practice]*. Similarly, for the *[Management of work in progress]*, levels of work in progress were in part determined by the same causal influences, with practitioners accepting the investment necessary where informal assessments of risk and commercial potential implied this was necessary. An expedient perspective that reflected commercial **Motivation** and was

grounded within the specific circumstances associated with clients clearly provided a more appropriate frame of reference for practitioners than that of profit maximisation when making decisions about the extension of credit and the management of work in progress.

The [*Decision to bill client*] also reflected expedient dimensions. The [*Professional environment*] and [*Regulatory environment*] determined billing stages that reflected **Norms** of practice, but that were also recognised by practitioners as providing pragmatic, easily communicated payment dates for clients, and therefore implied an efficient use of firm resources, [*Firm attributes*]. Billing stages often coincided with a ‘finished product’, providing the client with a clear signal that payment was due. Practitioners did not passively adopt the billing stages determined by their external environments; their accounts indicate recognition of the pragmatic reasons why these payment **Norms** had become engrained within practice, and hence their adoption. However, practitioners billing decisions reflected additional expedient dimensions that were determined by opportunities to develop relationships with clients. Indeed, billing was to some extent utilised by practitioners to collaborate with clients in terms of the client’s own cash flow management. The firm’s commercial **Motivation** and evaluations of **Risk** clearly interact so that payment **Norms** are not necessarily imposed; billing decisions may be made pragmatically with reference to established payment **Norms** but they are also adapted and manipulated expediently in order to incorporate complex **Motivation**. Firm practice therefore is unlikely to simply mirror prescriptions of normative practice with regards to the *Management of amounts owed*, instead approaches reflect expedient decision making, appropriate for purpose and capable of incorporating a range of objectives and long term commercial **Motivation**.

Consideration of the *Collection of amounts owed* provides corresponding evidence as to the importance of **Expediency** as a meta-level construct in explaining the influence of causal axial codes upon firm practice. With regards to the [*Ease of collection*], client related axial codes (namely; [*Client firm relationship*], [*Client profile*], and [*Client attributes*]) inform practitioners evaluations of **Risk**, signalling information and directing firm resources and collection efforts accordingly. Whilst not ‘optimal’ the axial codes above, with the addition for solicitors of [*Areas of practice*], reflect practitioners informed anticipation of payment issues and a pragmatic focus upon those clients considered most problematic. Likewise, effort and resources are not expended where evaluation of **Risk** and

Knowledge of client imply that in spite of delays payment is likely to be forthcoming. The evaluations of practitioners reflected expedient dimensions; rather than the adoption of mechanistic, normative approaches, idiosyncratic, informal evaluations focused upon client specific circumstances, with resources directed accordingly. The same rationale was apparent when considering the [*Assessment of amounts outstanding*], whereby the causal influence of *Resource constraints [Firm attributes]* implied the expedient allocation of resources to their most effective use. Resource constraints again acted as triggers to assessments, yet this did not simply imply passive trade credit management, but reflected that with limited resources practitioner's decisions reflect consideration of the most productive use of their time.

The above discussion consolidates consideration of *Expediency* as an organising meta-level construct that explains the influence of causal axial codes upon the trade credit management practices of small professional firms. Firm practice can generally be characterised as pragmatic, fit for purpose, and grounded in the context specific circumstances of managing trade credit and clients. Practitioners are aware of normative, 'best' practice approaches, particularly as these are enshrined within social structures, yet firm practice highlights their agency, with reflexive monitoring resulting in the adaptation of approaches to reflect the contextual circumstances in which practice is situated. Evidence from across the central organising framework highlighted similar issues. Practitioners were not ignorant of the principles and concepts of normative practice embodied within the social structures within which they operated, and indeed where pragmatic and fitting 'best' practice was adopted. However, the complexity of motivations and objectives implied that in many circumstances normative practice, with profit maximisation its core rationale, did not provide effective approaches to the management of trade credit for practitioners. Practitioners instead adopted informal, idiosyncratic techniques that reflected their position as reflexive agents and highlighted how the imposition of normative practices embodied within social structures was likely to be largely ineffectual. Firm practice was therefore determined in part by an overarching, expedient rationale whereby trade credit management techniques that were appropriate and effective were adopted; evidence suggests that where normative practices were regarded by the practitioner as fit for purpose they were utilised, however informal practice, capable of incorporating a complex range of motivation and objectives clearly dominated.

10.2.1.7 Motivation

The organising meta-level construct *Motivation* provided an important explanation as to the causal influence of axial codes that relates in direct ways to the discussion of *Expediency* above. *Motivation* is again a familiar term but the meaning within this research is derived from its context specific nature with regards to firms' trade credit management. *Motivation* cannot always be attributed to individual practitioners; accounts of practice also refer collectively to *Motivation* with regards to the firm as a whole, or to sets of practitioners and employees that are directly involved with the firm. *Motivation* is often implicit and embedded within the influence of causal axial codes; as an organising construct therefore *Motivation* transcends the causal axial codes, explaining their impact upon firm practice and drawing them together at a meta-level.

The practitioners' accounts of practice revealed evidence of trade credit management decision making that would be difficult to understand purely in terms of profit maximisation criteria. The above discussion highlighted the importance of previous research in exploring the rationality and goals of owner/managers within SMEs, with Jarvis et al (2000, p.125) highlighting that of a range of goals pursued, 'the most important appear to be business survival and stability but these are often interwoven with more esoteric aims, such as altruistic goals, status considerations and professional pride'. Analysis of qualitative data has surfaced findings which resonate; the causal influence particularly of client related axial codes is explained largely in terms of long term commercial *Motivation* difficult to capture directly within a profit based proxy, whilst further evidence highlights the importance of stability and security over the profit maximisation assumption enshrined within normative practice. The evidence presented of practitioner's engaged, collaborative trade credit management indeed highlights context determined approaches not representative of 'best' practice, established without explicit reference to profitability, and that further resonate with Jarvis et al (2000), who found that profit did not constitute a performance measure that owner/managers used very much. Trade credit management practice is deeply embedded within a social context and, as Curran et al (1997) found with price setting within SMEs, a profit maximising rationality does not take this onboard.

The research of Summers and Wilson (2003) is of particular interest to a consideration of *Motivation* within trade credit management. Summers and Wilson (2003) explored the

extension of trade credit and variation in terms, and the grounds for such decisions. Indeed, they found that there were ‘subtle and complex motivations over and above those predicted by standard theory’ (Summers and Wilson, 2003, p.1). In particular, Summers and Wilson (2003) found both the extension of credit and variation in terms could be explained as being customer focused, providing the opportunity to develop relationships, support existing clients and attract new ones. Clearly the findings of this research provides similar evidence, however **Motivation** explains the causal significance of axial codes across trade credit management practice; the influence is pervasive in that the commercial **Motivation** of practitioners is evident in practice from decisions regarding initial evaluations of clients, to collection methods employed, as will be synthesised below.

Consideration of the *Negotiation of terms of business* highlighted how even in the very early stages of dealing with clients practitioners were focused upon the long term, adopting informal methods of evaluation partly in order to build trust with clients. For some practitioners, there was an explicit pursuit of stability rather than growth; new clients were rare and certainly not sought, implying a limited role for initial evaluations. A dominant feature of firm practice was the collaborative dimensions to practitioner’s decision making; practitioners were motivated to negotiate terms of business in a collaborative manner in order to secure long term commercial relationships wherever possible. This manifested itself in a variety of ways; solicitors used the *[Decision to request money on account]* partly in order to enable clients to manage their cash flows, as seen through the causal influence of *[Client attributes]* and *[Client profile]*, whilst *[Establish terms of business]* reflected practitioners **Motivation** to secure clients and their payment. Further evidence suggested that in some cases, ethical **Motivation**, *[Firm attributes]*, were an influence upon fee scales and forms of agreement. Managing a client’s expectations with regards to the incurrance of costs and payments was therefore acknowledged to be of particular significance. Clearly this should minimise issues with payment whilst allowing practitioners to develop long term commercial relationships with clients. The complexity of **Motivation**, whilst in the long term not necessarily incompatible with profit maximisation, is not recognised within formalised prescriptions of normative practice for the *Negotiation of terms of business*.

Similar themes to the above discussion were unsurprisingly apparent within consideration of the *Management of amounts owed*. Evidence of collaboration with clients was clear

within decisions regarding the extension of credit, the management of work in progress and billing. Credit terms were adapted in accordance with *Client circumstances* [*Client attributes*] in order to support them through difficult trading conditions; practitioners were willing to invest in order to secure an ongoing relationship with the client. Practitioners undertook informal assessments of commercial potential that were weighed against the full recovery of work in progress, whilst billing decisions were not simply triggered by administrative systems, but offered the opportunity for practitioners to exercise their discretion. The [*Decision to bill client*] afforded the practitioner with the scope to signal their willingness to invest in the relationship, to develop goodwill with the client, and in addition proactively manage client expectations and satisfaction with regards to payment. Amongst the axial codes, [*Client profile*], [*Client attributes*], [*Client firm relationship*], and [*Firm attributes*] and [*Practitioner attributes*], were prominent with practice generally proactive and responsive, driven by commercial and collaborative motivations.

Within the [*Organisation of credit management*] and [*Firm financing decision*] there was in addition evidence of the causal influence of [*Firm attributes*] and [*Practitioner attributes*] that reflected issues of **Motivation**. Practitioners discussed the significance of tight control of their overall financial situation in terms of maintaining stability and discipline, and a preference for avoiding the use of external finance. This also resonates with previous research discussed above that highlighted the importance to owner/managers of a range of objectives, and the significance of survival and stability (for example, Jarvis et al, 2000).

Consideration of practice with regards to the *Collection of amounts owed* again surfaced trade credit management practices influenced by axial codes whose role could be partly explained with reference to **Motivation**. The [*Assessment of amounts outstanding*] highlighted how practitioners considered the circumstances of clients, [*Client attributes*], and the importance of client retention, [*Client firm relationship*], within their informal assessments, with practitioners willing to accommodate clients where motivated to do so. This supportive, collaborative approach reinforces stability as an inherent but important objective; practitioners would prefer to retain existing clients where possible and are prepared to collaborate to this end with clients where payment difficulties might be temporarily experienced.

With regards to [*Determine methods of collection*] firm practice reflects the causal influence of the [*Client firm relationship*], [*Client attributes*], [*Firm reputation*] and [*Firm attributes*]. As might be expected the focus shifts in this context, with practitioners keen to protect the [*Firm reputation*] and avoid signalling negative information to clients. Most importantly, practitioners were keen to protect both existing and potential business prospects, with implications for the methods adopted. The practitioner's commercial **Motivation** took precedence, with the methods adopted generally non-confrontational and non-intrusive. For example, despite practitioner awareness of late payment legislation there was little evidence of its actual application, even if it was referred to within their terms of business. Clearly protection of the [*Client firm relationship*] and the [*Firm reputation*] is the primary concern of practitioners, whilst the causal influence of [*Client attributes*] further underlines the perceived potential benefits of collaborative dimensions. The evidence suggested that practitioners are focused upon the potential commercial implications of collection methods and assess the benefits of a supportive, collaborative approach rather than utilising collections methods that might be considered aggressive or intrusive, and that therefore might result in the loss of clients.

The above discussion has synthesised how trade credit management within small professional firms is shaped by **Motivation**. The normative **Motivation** underpinning financial management is assumed to be that of profit maximisation, and it is from this objective that normative approaches are derived. However this research has revealed the significance for practitioners of the stability of the firm and maintenance of existing commercial relationships with clients wherever possible, and the implications for trade credit management. Practitioners utilised various aspects of trade credit management to demonstrate their commitment and investment in the client firm relationship, hoping to secure future business through a collaborative, flexible approach. In addition, trade credit management was informally proactive, often designed in order to manage client expectations with regards to cost and payment, and hence minimise payment issues.

Imposing normative practice fails to recognise these dominant motivations, situated at a practitioner level, and reflecting a more complex rationality than that of profit maximisation. Practitioner's commercial **Motivation** reflects what appears to be their primary concern; the ongoing stability and continuation of their firms. Research concerned with the adoption of normative practice would not recognise these important informal,

motivational dimensions that have emerged from the qualitative accounts of practice and that influence trade credit management practice across the central, organising framework of practice. The notion of profit maximisation is embodied within social structures and provides the rationale for normative practice yet such approaches do not incorporate motivational complexities. Practitioners are proactive agents who reflexively monitor their practice and understand that formalised, 'best practice' techniques exist, but that chose instead to rely upon informal mechanisms that better serve their ends. This is particularly clear in the context of the late payment legislation which, despite providing the practitioner with legitimating structures upon which to draw, is seldom applied within any of the participating firms. The reflexive, context determined and frequently reviewed informal assessments of the agent accommodate motivational complexities and can be focused upon the potential to develop long term business relationships with clients which may, or may not, ultimately increase the profitability of the firm.

10.2.1.8 Experiential learning

The final organising, meta-level construct to consider is that of *Experiential learning*. *Experiential learning* is closely related to *Knowledge of client* but has a broader scope, focused upon not just the building of stocks of knowledge regarding clients, but upon evidence of learning occurring through the experiences of both practitioner and firm and shaping trade credit management practice accordingly. Hence, *Experiential learning* provides an explanation that transcends the influence of causal axial codes which reflect the experience of the firm or the practitioner; learning can be located with the practitioner or collectively within the firm. *Experiential learning* is therefore important to understanding the causal influence particularly of *[Practitioner attributes]* and *[Firm attributes]*, but also provides an explanation for the causal influence of client related axial codes gathering together; *[Client attributes]*, *[Client profile]*, and *[Client firm relationship]*.

Perren et al (1998) considered management control and decision making in small firms, finding that the learning of owner managers tended to be problem focused, emphasising the need for support delivered with regards to a particular context, the importance of tacit routines and that skills were acquired as problems were encountered and the firm grew. Deakins et al (2002) considered particularly financial management and learning within SMEs, considering in particular the process of financial management, and how small firms

learnt and made decisions. In accordance with Perren et al (1998), Deakins et al (2002) found that financial management processes were evolving and dynamic, and that firm's required bespoke solutions, rather than generic advice. In addition, and related to earlier discussion of *Motivation*, Deakins et al (2002, p.16) highlight how the rationality of owner-managers is affected by social and cultural norms and conclude that 'interventions must be based on helping the entrepreneur to learn rather than imposing prescribed solutions and (top down) financial management consultancy'.

Discussion of *Negotiation of terms of business* surfaced the causal influence of *[Practitioner attributes]* upon the *[Evaluation of client]*. This causal axial code captured experience at the level of the individual and implied an association with levels of awareness of formal methods of evaluation, even if these were not applied. The experience profile of the practitioner was also associated with tacit stores of knowledge that were accessed in order to undertake implicit client evaluations. For solicitors, the *[Decision to request money on account]* was similarly influenced by *[Firm attributes]* and *[Practitioner attributes]* with *Experiential learning* at both an individual and firm level explaining one dimension of the causal relationship. Requests for money on account were therefore seen to be prompted in some cases by the previous experience of the practitioner or firm, whilst exposure to formal methods of client evaluation did not necessarily result in their application. *Experiential learning* within firms in terms of *Negotiation of terms of business* was therefore apparent only in the causal influence of the characteristics of practitioners and firms however this did not manifest itself necessarily in obvious or comparable ways, highlighting the idiosyncrasies associated with trade credit management practice.

Experiential learning further explained the causal influence of *[Firm attributes]* upon the *Management of amount owed*, and in particular the *[Organisation of credit management]*. Decisions regarding the centralisation of the administrative functions of trade credit management were shaped by experiences of the firm, rather than the individual, and specifically these experiences were often associated with cash flow problems in the past. There was however evidence of *Experiential learning* that extended beyond the characteristics of either practitioner or firm, and was associated instead with repeated interactions with clients, captured within *[Client profile]*. When managing *Repeat clients* *[Client profile]*, practitioners were able to learn from their previous payment experiences,

Experiential learning which then informed their practice and the [*Organisation of credit management*]. This was also apparent with regards to the [*Decision to bill client*], whereby **Knowledge of client** and **Experiential learning** interact; **Experiential learning** through repeated interactions with clients informed the practitioners knowledge and facilitated the adaptation of billing decisions for particular clients, in particular contexts.

For the *Collection of amounts owed*, **Experiential learning** was similarly largely associated with *Repeat clients [Client profile]*, and the establishment of a [*Client-firm relationship*]. Payment histories informed [*Evaluate ease of collection*] as practitioners drew upon their experience, anticipating client payment behaviour and planning accordingly. These findings were echoed within [*Assessment of amounts outstanding*], where assessments were informed through an evaluation of [*Client attributes*] and the establishment of [*Client-firm relationship*]. Practitioner's **Experiential learning** with regards to clients contributed to their **Knowledge of client**; the learning process however can be seen as dynamic and practitioners reflected upon the process involved, discussing how their experiences of client procrastination became associated with [*Client attributes*] and that subsequently firm practice implicitly anticipated these issues and proactively managed them. However, as well as **Experiential learning** occurring with regards to clients, [*Firm attributes*] captured the causal influence of practitioners previous experience of bad debts, with some evidence highlighting how the formalisation of firm practice increased as a result, and that the [*Assessment of amounts outstanding*] was stimulated because of practitioners reference to such events. Both formal and informal aspects of firm practice can therefore be seen to evolve with **Experiential learning** to some extent with regards to the [*Assessment of amounts outstanding*]. The final aspect of *Collection of amounts owed* once more reiterates the discussion above. For [*Determine methods of collection*], the causal influence of [*Client attributes*] reflected practitioners past experience of payment issues. The **Experiential learning** of practitioners prompted aspects of practice that proactively managed client expectations and satisfaction, with collection methods tailored to particular clients.

Experiential learning therefore captured the causal influence of a number of axial codes upon trade credit management practices observed within small professional firms. Learning attributed to past experiences was apparent, and associated with either the individual practitioner, or the firm. The other key stimulus to learning was the experience

of dealing with clients, both at an individual client level (*[Client attributes]*, *[Client-firm relationship]*), and more generically (*[Client profile]*). **Knowledge of client** and **Experiential learning** closely interact; the distinction between the two for this research is the wider remit of **Experiential learning** that captures practitioner's reflections on practice, and how practice has been shaped through the experience of both individual practitioners and the firm collectively. **Experiential learning** has thus resulted in the adoption of both formal and informal practices, the choice determined by consideration of what is most appropriate. Practitioners behave as reflexive agents, monitoring and reviewing practice, reflecting on their experiences, and adapting practice accordingly. Both informal and formal approaches are available to them and as with a toolkit their selection is dependent upon the context, circumstances, and an assessment of effectiveness. **Experiential learning** does not therefore conclude necessarily with the adoption of normative practices; indeed firm practice is unlikely to be influenced by top-down prescriptions but instead emerges from the grounded experiences of both firm and practitioner.

10.3 Implications of empirical findings

The above discussion synthesises findings from the data analysis in terms of the organising meta-level constructs that cut across both firm practice and axial codes to provide explanations for firm practice and causal influences at a conceptual level. The implications of the above discussion will now be considered in light of existing understanding of trade credit management within small firms, as previously discussed within the literature review.

The first research question was concerned with investigating how small professional firms managed trade credit. As discussed within the literature review, existing research concerning the financial management practices of small firms has focused mainly upon the normative practices that SMEs did (did not) use. The approach to this research, as set out in detail within the methodology chapter, was to gather and analyse qualitative data inductively, using a multiple case study research strategy. This approach therefore resulted in the emergence of an inductively derived framework of practice around which causal influences were mapped. The process involved the causal mapping of each case; intra profession aggregation; and finally cross profession analysis.

The synthesis of empirical data has revealed aspects of firm practice that were previously unexplored. In particular the significance and role of informal practice that reflects the micro-world of the practitioner has emerged creating a multi dimensional understanding of firm practice that reflects the complexities of trade credit management within small professional firms and identifies idiosyncratic and nuanced practices. In essence, this research has revealed in-depth the hidden, informal dimensions of how small professional firms manage trade credit. Practitioners were conceptualised as agents within an approach broadly derived from structuration theory, and their ability to reflexively monitor and take action was identified and discussed with regards to the trade credit management practices adopted.

However, structuration theory, and therefore this research, is also concerned with structures and how they both enable and constrain agents. This research therefore also identified and discussed the uptake and use of formalised aspects of normative practice that represented macro-level knowledge, often enshrined within structural properties. Findings have highlighted the sometimes parallel relationship between the use of formal and informal trade credit management practices, and aspects of firm practice where formal approaches have been widely used. The recursive nature of the relationship between agent and structure was explored and practice could be seen as emergent from these interactions; imposed prescriptions of formalised, normative practice were sometimes subverted or adapted through informal mechanisms yet there were aspects of trade credit management largely characterised by adherence to formal approaches. In addition there was evidence to suggest that for some practitioners the adoption of formalised practices would enable them to manage trade credit more effectively. This research therefore presents empirical evidence that reveals the hidden nature of informal trade credit management practice within the micro-world of the practitioner whilst recognising the existence and potential influence of formally expressed macro-level knowledge.

The second aspect of this research concerned why small professional firms adopted particular trade credit management practices and was concerned therefore with investigating explanations through the surfacing of causal axial codes which emerged from intra profession analysis, and were then aggregated cross profession. Existing research has investigated explanations for firm practice largely through deductive hypotheses testing, with hypotheses often derived from neo classical economic theory. The emergent causal

axial codes indicated a range of influences upon practice that in particular highlighted the significant influence of clients and commercial motivations, and that resonated with existing research findings. However, the axial codes also depicted a complex web of causality for which the organising meta-level constructs provided a further level of analytical explanation. The constructs, as discussed earlier, provided transcending analytical properties that facilitated the synthesis of firm practice and causal explanation, across firm practice and across cases. Clearly emergent from discussion of causal axial codes and subsequently meta-level constructs were causal explanations of practice that did not reflect profit maximising objectives; the causal explanations instead reflected motivations that although undeniably commercial in nature, were also grounded in expedient rationales, with the pursuit of stability and survival dominant objectives. Trade credit management was, therefore, often determined by practitioners focus upon developing long term, stable and collaborative relationships with clients.

The meta-concepts provided a useful framework of reference within which to synthesise empirical findings and further deepen understanding of trade credit management within small professional firms from a structuration theory perspective. Of the emergent meta-level constructs, both *Norms* and *Regulation* had clear structural properties. *Norms* exist within social structures and practice is created with reference to them, whilst at the same time recursively upholding and entrenching them, and *Regulation* was concerned with formal, normative practice, externally imposed by social structures largely determined by professional environments. The practitioner as reflexive, agent reacted to *Norms* both in adherence and subversion. Regulatory dimensions of structure similarly resulted in actions that incorporated both adopting imposed forms of trade credit management whilst adapting and amending these where appropriate and maintaining in parallel informal practices perceived to be more effective that formed the basis for practitioner's decision making. Agents are not subordinate; the reality of trade credit management practice emerges from recursive interaction of agency and structure, existing within a duality.

Power might be expected to sit primarily within domination structures, and existing research tends to examine the influence of dominant clients upon trade credit management, of which there was also some evidence within this research. However the dynamics of *Power* were apparent within the 'dialectic of control' with practitioner's evaluations of shifting leverage in relationships with clients informing their practice. Therefore *Power*

was not entirely wielded by dominant clients, but shifted between client and practitioners with implications for trade credit management. Closely related to *Power* is *Risk* and practitioner evaluations of *Risk* were evident across firm practice. *Risk* as a concept is well defined within normative practice, with correspondingly well developed management techniques. However, firm practice was dominated by evaluations of *Risk* that were informal, context driven and that could incorporate the complex reality and objectives of practitioners. Normative practice was not adopted as informal mechanisms that provided alternative frameworks for decision making appeared to be considered more effective and appropriate. This was true even where formal practices were used to satisfy external bodies.

The rationality of the decision making of practitioners also emerged as significant, with evidence of *Expediency* as a key characteristic; trade credit management practices considered effective, fit for purpose and capable of incorporating complex motivations were preferred over normative practice derived from profit maximising criteria. Choices reflected practitioner's reflexive agency; practitioners demonstrated awareness of formal practices but these were only adopted where considered appropriate. In addition to *Expediency*, *Motivation* highlighted the powerful influence upon practice of the rationality of practitioners. Practitioners exhibited concern over establishing long term, collaborative relationships with clients, appearing to value stability over profit maximisation. Trade credit management was manipulated and adapted to serve these ends with demonstrations of commitment and investment to the client accommodated within flexible, informal firm practice.

The final meta-concepts reflected distinct, important aspects of practitioner agency which informed trade credit management. Firstly, *Knowledge of client* was informed largely through the perceived information signalling qualities of axial codes and idiosyncratic approaches to the gathering of information with limited use of formal, secondary sources. Evaluation of client payment behaviour added to stocks of knowledge, whilst proactive reflection and monitoring resulted in effective informal mechanisms. *Knowledge of client* was concerned directly with clients, however there was further evidence of generic, *Experiential learning* and in particular how practice was shaped by the experiences of practitioners. These experiences acted as stimuli to change, and in some cases increased formalisation of practice. However, the uptake of formal or informal practices was

determined by the context, circumstances and assessment of effectiveness. Firm practice emerged from the grounded experiences of practitioners, rather than top down prescriptions. The above discussion has attempted to identify and highlight key findings from this empirical research in light of existing research concerning financial management practices within SMEs. In adopting an approach broadly in line with structuration theory, this research has investigated both the micro-world of the practitioner, and the potential influence of macro-level knowledge apparent within social structures. The dominant role of informal practices and mechanisms for SMEs when managing trade credit has been revealed in-depth, highlighting practitioners as reflexive agents who possess the power to 'act otherwise'.

Grounded, causal explanations for practice have also surfaced axial codes, derived inductively and explained by the meta-concepts, which represent the complexity of practitioner's decision making yet also sometimes echo hypotheses tested deductively within existing research. This research does not mean to imply that trade credit management within small firms is always adequate, but instead reveals how practice could be conceived as emergent from the interaction of practitioner agency and social structures, existing in a duality as conceptualised within structuration theory. The apparent significance of practitioner's micro-worlds and their role as purposive, reflexive agents manifests itself within informal dimensions of practice. Prior to this research research studies had found evidence of the lack of adoption of formalised financial management practices. This research therefore also offers a potential explanation other than the conclusion of 'poor' practice; practitioners are knowledgeable, purposive agents who rely heavily upon previously unrecognised and unexplored informal dimensions that reflect complex, causal explanations.

10.4 Research findings: Theoretical and policy implications

10.4.1 Theoretical implications: Positioning within the SME research field

The above discussion of findings has highlighted the empirical contributions of this research. The theoretical implications will now be explored, positioning findings within the context of existing research concerning financial management, and more specifically working capital management. Discussion of SME research generally identifies the

dominance of quantitative, positivist, small business research (Curran and Blackburn, 2001; Grant and Perren, 2002; Blackburn and Kovalainen, 2009), resulting in calls for an expansion of paradigmatic approaches rather than paradigmatic constriction (Grant and Perren, 2002).

Similarly, existing research concerning the financial management of SMEs is dominated by largely deductive, quantitative studies underpinned with the assumption that normative practice is appropriate for small firms, an assumption that has been criticised on several grounds (Jarvis et al, 1996). The limited number of qualitative investigations regarding financial management practices within small firms reported contradictory findings, highlighting effective and appropriate practice. These contradictions have been explained with reference to the contrasting methodological positions with researchers argued to be focusing either upon the uptake of normative practice, or upon the micro-world of owner-managers (Perren and Grant, 2000). Perren and Grant (2000) suggest that a methodological approach that recognises the owner-managers micro-world and macro-level, normative practice could address these inconsistencies.

Research focused upon working capital management was largely associated with the uptake of normative practices through the collection of survey based data (for example, Peel and Wilson, 1996; Peel et al, 2000) or deductive hypothesis testing (for example, Petersen and Rajan, 1997; Wilson and Summers, 2002), which enshrined a profit maximising objective heavily criticised as a proxy agenda for small firms (Jarvis et al, 1996). Such approaches have yielded empirical findings regarding formal working capital management and the role of macro-level knowledge, yet have largely ignored the micro-world of the practitioner and the potential role of informal dimensions of practice. Firm practice has been depicted in terms of what firms did (did not) do and why within a normative, positivist framework only. Understanding of working capital management within SMEs could therefore be considered to be suffering from issues of paradigmatic constriction as discussed above.

Paradigmatic debates within the small firm literature therefore informed the ontological positioning of this research and the subsequent methodology adopted. Structuration theory (Giddens, 1984), developed as an attempt to reconcile the dichotomy between objectivist and subjectivist ontologies and address the structure/agency debate at a macro-level,

provided a broad theoretical lens through which to view this research. The approach therefore was to adopt a methodology that could also accommodate recognition of the underrepresented micro-world of the practitioner and the role of macro-level normative practice, whilst exploring the interaction between them. A qualitative, inductive methodology, with a multiple case study research strategy therefore enabled the surfacing of informal practices embedded in rich, complex contextual conditions, recognised the potential for macro-level influences, and allowed the development of grounded, causal explanations. Through qualitative data analysis of multiple accounts of practice the situated reality of how trade credit is managed and why particular practices are used was investigated.

In terms of the theoretical implications of this research the empirical findings discussed earlier have identified the significance of hidden, informal dimensions of practice previously underrepresented and little understood with regards to financial and working capital management within SMEs. Paradigmatic positions have important implications for findings that require careful consideration; a limited range of perspectives results in limiting understanding through the potential capacity to ignore either the micro-world of practitioners, or the influence of macro-level knowledge. As previously discussed, the paradigmatic positioning of existing research concerning working capital management in SMEs had resulted in an understanding based upon normative practice and the role of macro-level knowledge. These findings therefore extend understanding of the informal, micro-world of the practitioner from an underrepresented paradigmatic position and support the findings of research in other areas of small firm management and decision making that have similarly identified the significance to owner-managers of informal dimensions of practice that have also been identified as appropriate and effective (for example, Curran et al, 1997; Perren et al, 1998).

Previous research also identified problematic issues associated with the assumption that owner-managers should be utilising normative practices. The use of normative practice assumes a profit maximising rationality that has been challenged on the grounds that owner-managers have a wider range of complex motivations and that other forms of rationality are important within their decision making (Curran et al, 1997; Jarvis et al, 1996; Jarvis et al, 2000). As discussed within empirical research findings above, this research provides further supporting evidence of the importance of stability and survival to

small firms, with practitioners striving to create long term, mutually beneficial relationships with clients, demonstrating their willingness to invest in relationships and thus approach trade credit management collaboratively. Although ultimately the decision making of practitioners in the long term could prove compatible with increasing profit, there is little evidence to suggest that profit maximising criteria or associated proxies influence the trade credit management of practitioners.

As identified the existing research regarding working capital management practices within small firms is dominated by quantitative, positivist approaches concerned with the adoption of normative practice. However, these research findings resonate with certain aspects of previous findings, as discussed above and within earlier analysis chapters. For example, Summers and Wilson's (2003) found that the extension of trade credit could be largely explained with reference to customer related reasons; this research similarly surfaced the important causal influence of client related axial codes. Despite the existence of normative studies of working capital management that investigate the practices of both small and larger firms, Paul and Boden (2008, p.279) identify that 'trade credit management is an important but neglected element of working capital' and that 'there is a dearth of research-based understanding about how and, in particular, why certain credit policies are formulated and applied'. It could therefore be argued that this research addresses directly these empirical questions within the context of small businesses, using an alternative methodology to surface previously under-represented, informal dimensions of practice whilst also exploring the role of normative practice, and the interaction between agency and structure.

This research therefore provides evidence that reiterates the importance of developing understanding from a range of paradigmatic perspectives; understanding of trade credit management in the context of normative, formal practice only has provided a one dimensional view that fails to recognise the diverse range of goals and motivations of practitioners. The structuration theory (Giddens, 1984) approach of this research has highlighted the interaction of structure and agency, intending to privilege neither but instead investigate how practice emerges, deepening understanding and addressing empirical gaps concerning how trade credit is managed within small professional firms, and why particular practices are used. The key theoretical implications of this research could therefore be conceived in terms of encouraging the adoption of alternative paradigms

for research agendas that extend beyond normative conceptions of management and decision making, and that attempt to reconcile, or at least avoid, the polarisation of objectivist and subjectivist positions.

10.4.2 Policy and advisory implications

The above research has important implications in terms of implementing effective policy and providing appropriate advice with regards to small firm trade credit management. The empirical evidence has highlighted the often ineffective top down prescription of normative practices, even where this has been introduced with the intention of supporting the trade credit management of SMEs, for example late payment legislation. Furthermore, where regulatory influences have prescribed the use of normative practices presumed to reflect ‘best’ practice their uptake has often been subverted, adapted, or used in parallel alongside informal techniques perceived to provide greater utility. As the preceding discussion has established, normative prescriptions for firm practice fail to recognise that decision making and management within SMEs is characterised by complex, context-specific motivations and goals, often originating from a preference for stability and survival, rather than directly attributable to a profit maximising rationality. The key implications for policy makers from this research are therefore summarised below:

- Policy makers and advisors should view practitioners within small professional firms as reflexive agents who actively monitor actions to create appropriate, context specific trade credit management practice, rather than place emphasis upon the universal adoption of normative prescriptions.
- The complex motivations and objectives of practitioners within small professional firms should be recognised by policy makers and advisors, rather than the imposition of trade credit management prescriptions with an assumed profit maximising rationality.
- To fully understand trade credit management within small professional firms it is necessary to surface informal dimensions of firm practice that reflect implicit evaluations and decision making.

- As the trade credit management of practitioners within small professional firms is grounded within context-specific interactions with clients, advisors need to similarly incorporate contextual complexities, guiding practitioners from this perspective.
- Administrative and functional aspects of trade credit management within small professional firms largely reflect formal practice implying that certain dimensions of firm practice are procedurally driven and amenable to prescriptive advice.
- Trade credit management should be viewed holistically as an integrated aspect of firm management that incorporates complex motivations and objectives.

10.5 Limitations and recommendations for further research

The empirical and theoretical implications of this research suggest recommendations for further research either in extending and broadening the SME sectors considered, or in applying the methodological paradigm and approach to additional areas of small business management and practice. This research study chose to focus upon small professional firms that have distinctive characteristics and environmental contexts which could constitute a limitation in terms of the applicability of these findings to other SME sectors. There is therefore scope to consider trade credit management within other SME sectors using the same methodology, and adopting the same ontological position.

However, as Curran and Blackburn (2001, p.121) identify, ‘no research paradigm solves all the epistemological questions about how we can acquire a credible and complete understanding of the small business’, going on to argue that the strength of qualitative research lies in its ability to analyse at the micro-level, decision making and management, whilst its weakness is in an inability to consider the macro-level, the ‘out there’. This research has attempted to recognise both the micro-world of the owner manager, and the macro-level influence of normative practice, however it is possible that the qualitative research methodology adopted has limited representation of institutions and structures situated within the macro environment. Yet issues of paradigmatic constriction have been identified within the SME field and the methodological approach of this research and the

broad, structuration theory perspective could be seen as addressing this imbalance and adding to a body of knowledge already well informed with regards to the impact upon small firm management of macro situated structures. The methodological and ontological positioning of this research therefore has the potential for application to additional aspects of SME management practice, in order to surface informal and formal dimensions and explore their interaction.

In summary therefore, recommendations for further research include:

- Investigate trade credit management within other small firm sectors applying the same methodological approach, with a structuration theory perspective.
- Apply the same methodological approach with a structuration theory perspective to investigate additional aspects of SME management and practice.

10.6 Final conclusions

The financial characteristics and capital structures of small firms imply the importance of effective management of internal financial resources. Liquidity and cash flow for SMEs is of primary concern and hence it is important to understand and evaluate how working capital is managed. This research chose to focus upon a particularly problematic element of working capital, trade credit management, within small professional firms, a sector that has been recognised for its macro-economic contribution. The client firm relationship within professional firms is significant, with close personal interaction and the provision of often bespoke services and advice, whilst amounts owed forms an integral aspect of their working capital cycle. Two central research questions were identified that addressed firstly how small professional firms managed their trade credit, and secondly why particular practices were used.

These questions had been addressed within existing research from a mainly quantitative, positivist methodological position with findings therefore interpreted with reference to normative practice. Explanations for firm practice were derived from deductive hypothesis testing of normative theory that reflected a profit maximising assumption. However,

paradigmatic debates within SME research highlighted contradictions arising from methodological positioning that questioned interpretations that financial management within SMEs was poor, and identified issues associated with establishing understanding of firm practice from the perspective of one, dominant paradigmatic perspective. As a result, this research adopted a qualitative research paradigm underpinned with a structuration theory approach intended to access the micro-world of the practitioner whilst recognising macro-level knowledge enshrined within social structures.

Emergent causal maps and cross case analysis surfaced informal, implicit dimensions of firm practice, alongside the role of normative practice. Causal axial codes captured case specific influences, aggregated firstly intra profession and subsequently across professions. From analysis of qualitative data, organising meta-level constructs emerged providing a cross cutting, narrative framework of trade credit management within small professional firms. To conceive of firm practice in terms of normative prescriptions only, without recognition of the role of informal dimensions is to ignore trade credit management approaches of fundamental importance to small professional firms.

Implicit, complex, and contextually specific approaches to the management of trade credit were revealed from cross case analysis, as were causal drivers of firm practice. The motivations and objectives of firm's were concerned primarily with securing and maintaining long term collaborative relationships with clients, rather than upon the maximisation of profits assumed by normative theory. Management of trade credit was largely appropriate and effective, with complex, implicit evaluations emerging from the influence of causal axial codes. The role of formal, normative practice was in addition recognised for particular functions, yet the scope and use of normatively derived techniques was limited. The conceptualisation of trade credit management practice as emergent from the interaction of agency and structure facilitated consideration of formal and informal dimensions within an approach that avoided imposing theoretically derived explanations, or prescriptions of practice.

This research has therefore contributed to knowledge by revealing previously overlooked dimensions of firm practice within an overarching framework of organising meta-level constructs that has allowed exploration of the practitioner as reflexive agent in their interactions with the social structures within their environment. Thus, this research has

addressed an empirical gap, extending and deepening existing understanding of trade credit management within small professional firms from an underrepresented paradigmatic perspective, with qualitative data analysis providing grounded answers to how firms manage their trade credit, and why particular practices are used. Furthermore, this research adds to calls for paradigmatic positions to extend beyond that of the dominant positivist approaches that conceive of small firm management in terms of normative practice and decision making and instead embrace the complex rationality and motivations of practitioners. In their discussion of structuration theory and entrepreneurship, Sarason et al (2010) referred to the W.B. Yeats poem, '*Among School Children*' to ask 'how can we know the dancer from the dance'; a question used earlier within the entrepreneurship arena by Gartner (1989). This research sought not to distinguish 'the dancer from the dance' but hopes to have highlighted how the performance should be appreciated from a multitude of angles.

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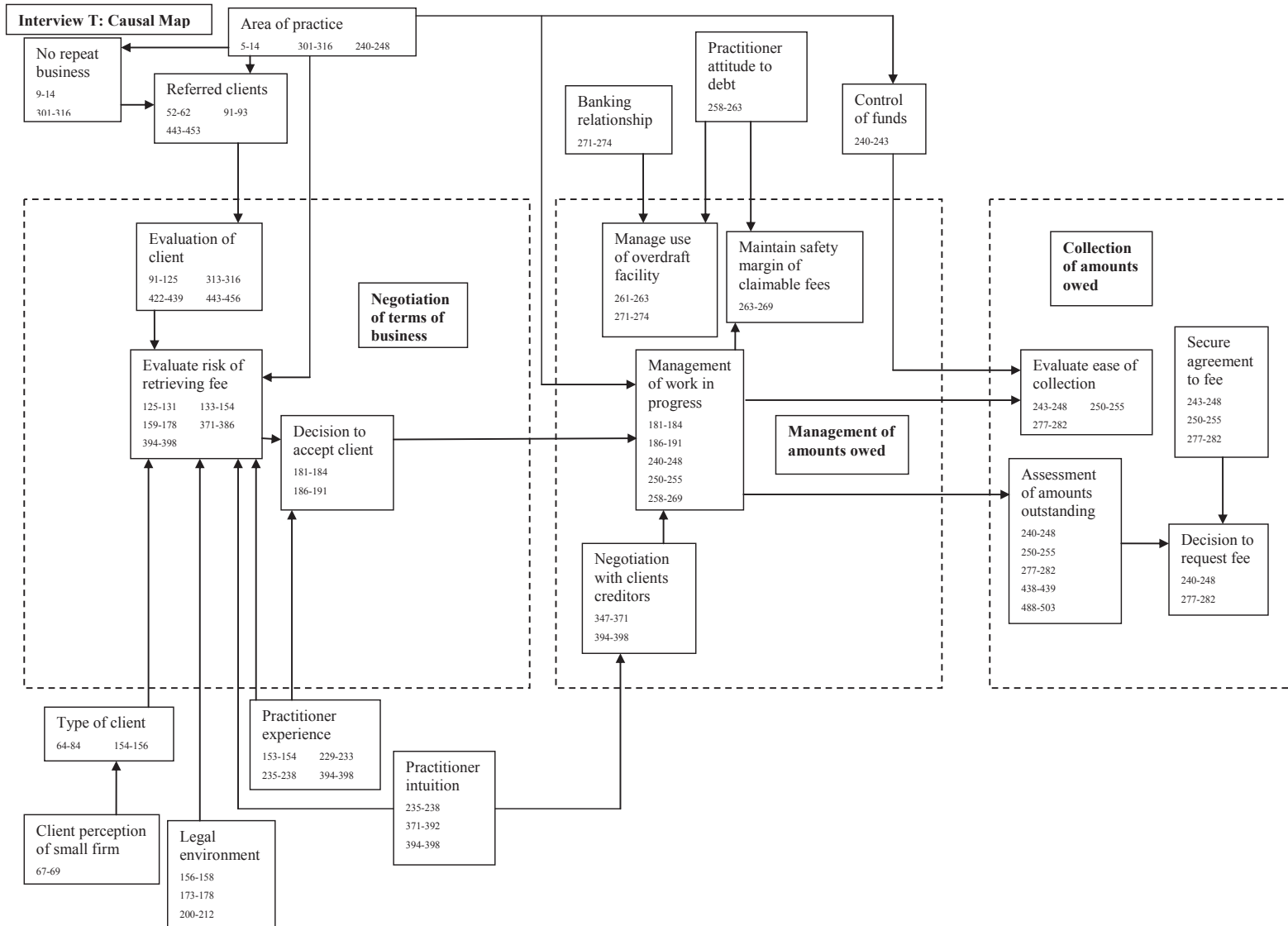
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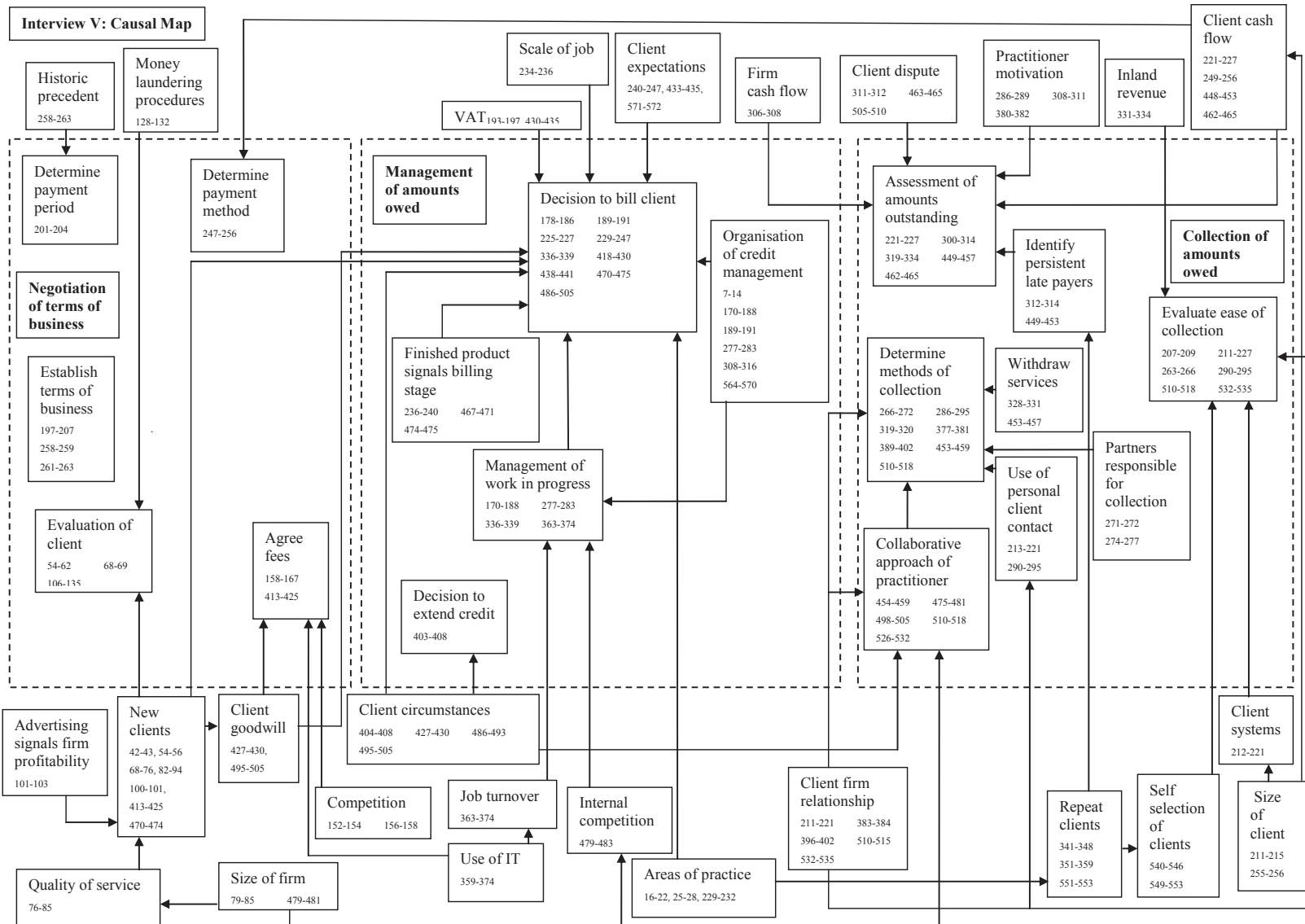
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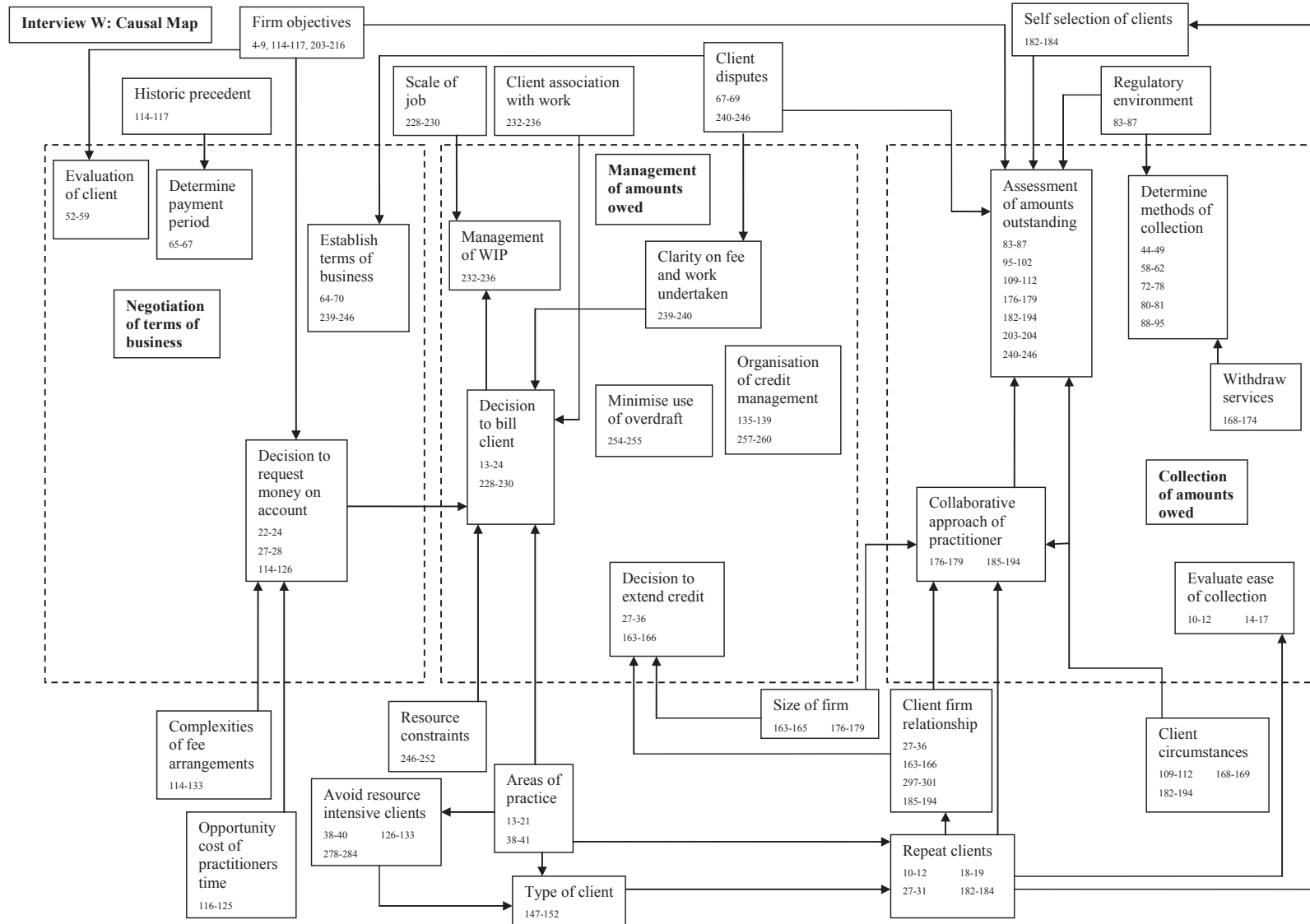
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Appendix 1:
Case Specific Causal Maps

Appendix 1a.
Causal Maps: Accountants

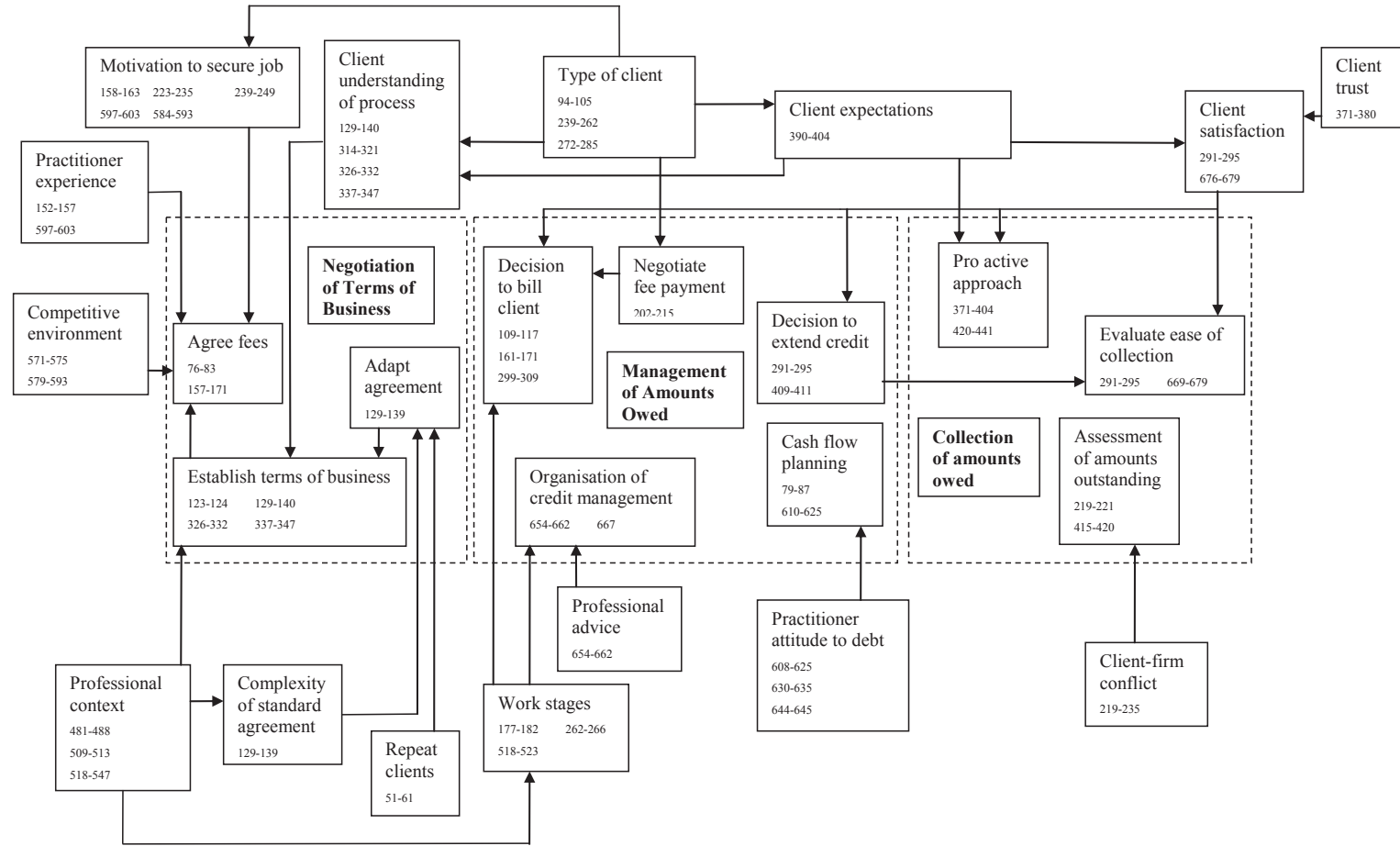


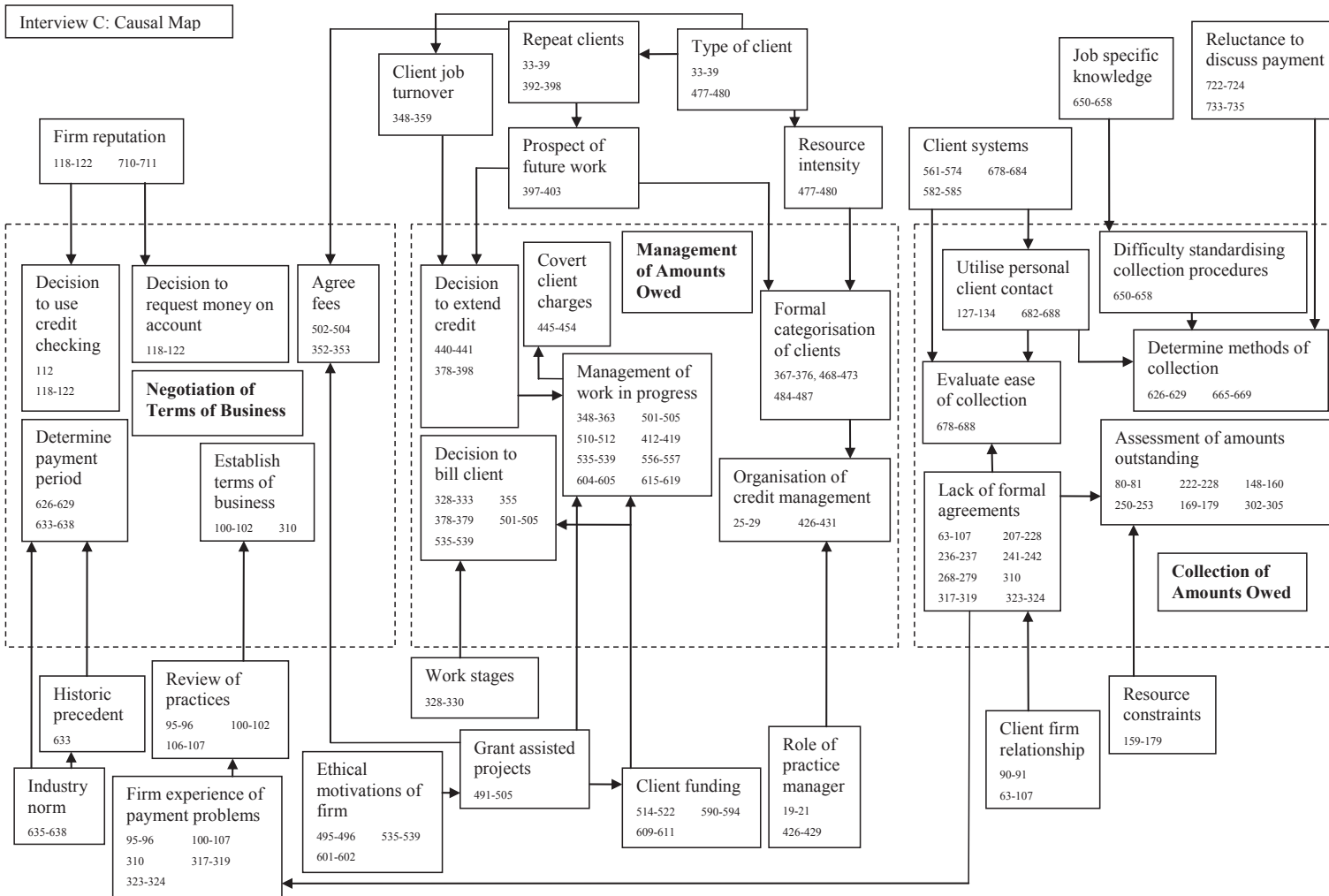


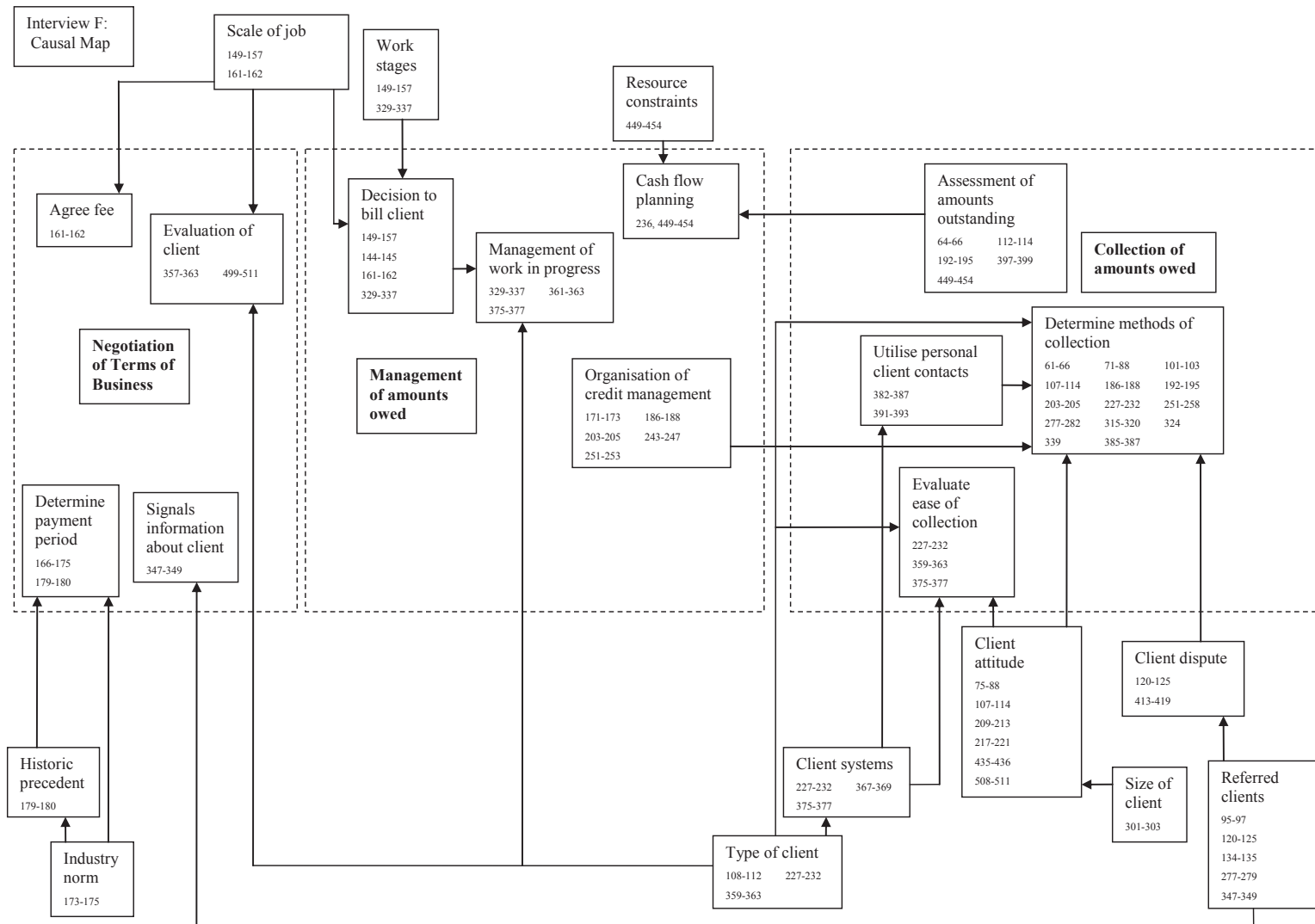


Appendix 1b.
Causal Maps: Architects

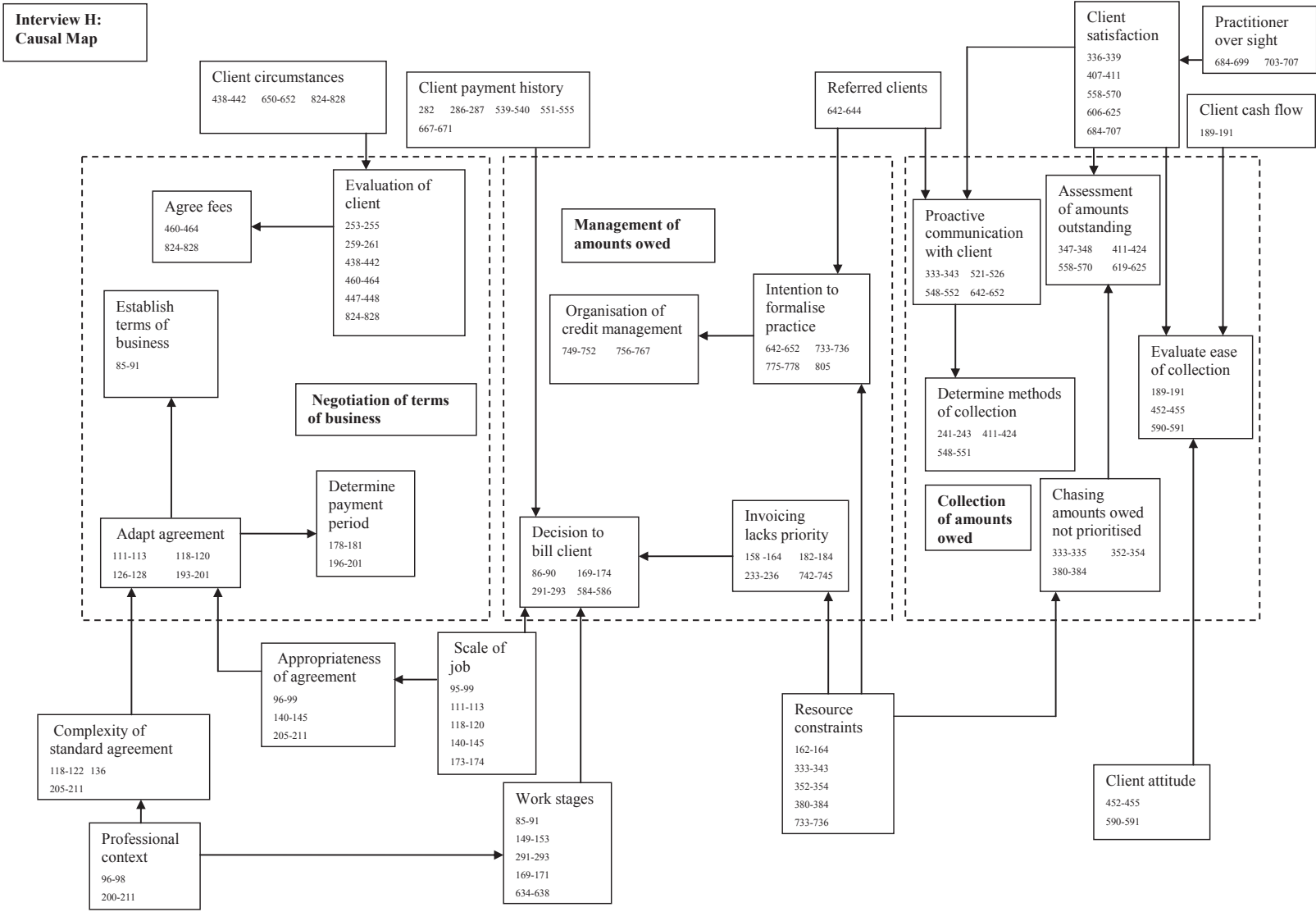
Interview B: Causal Map



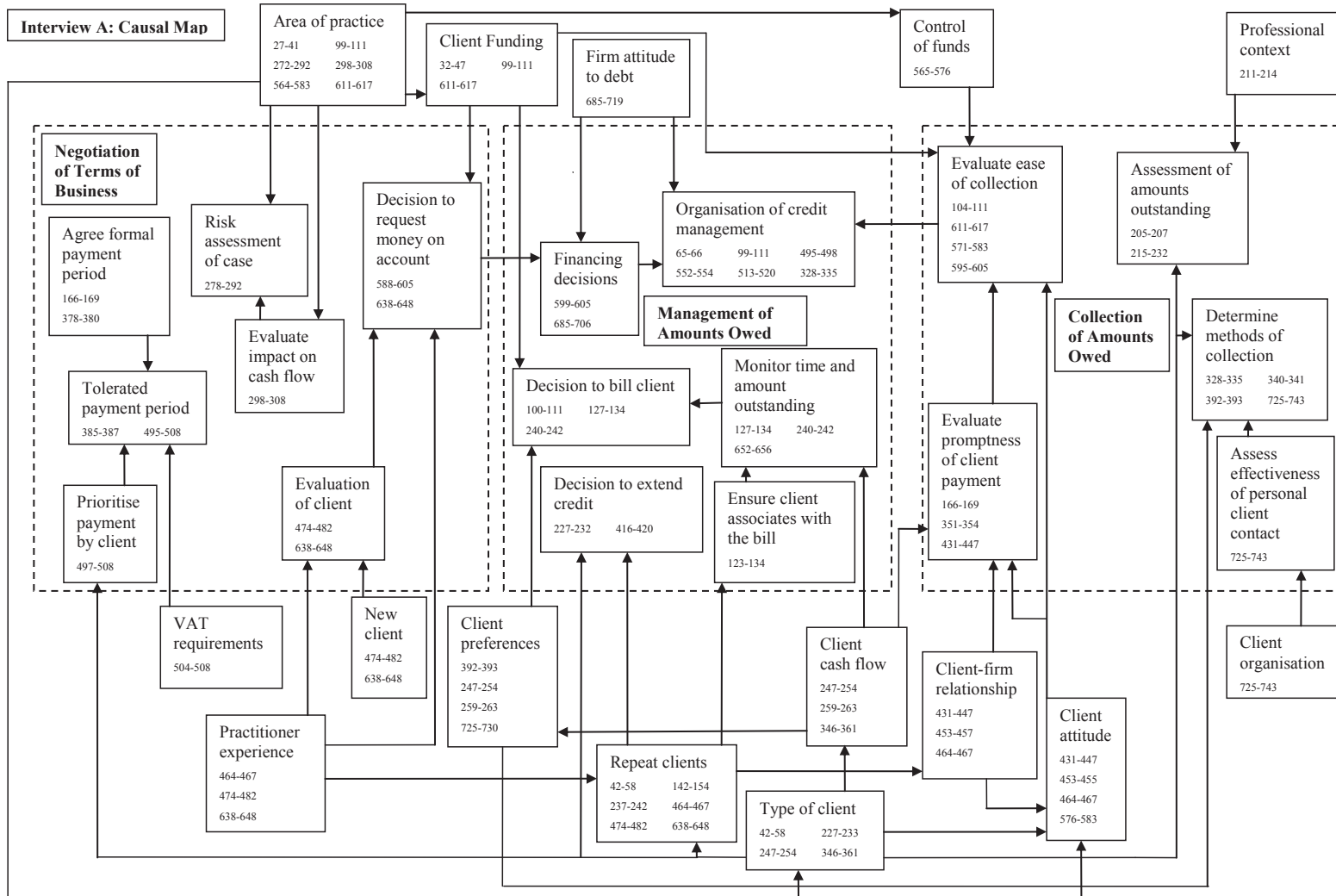


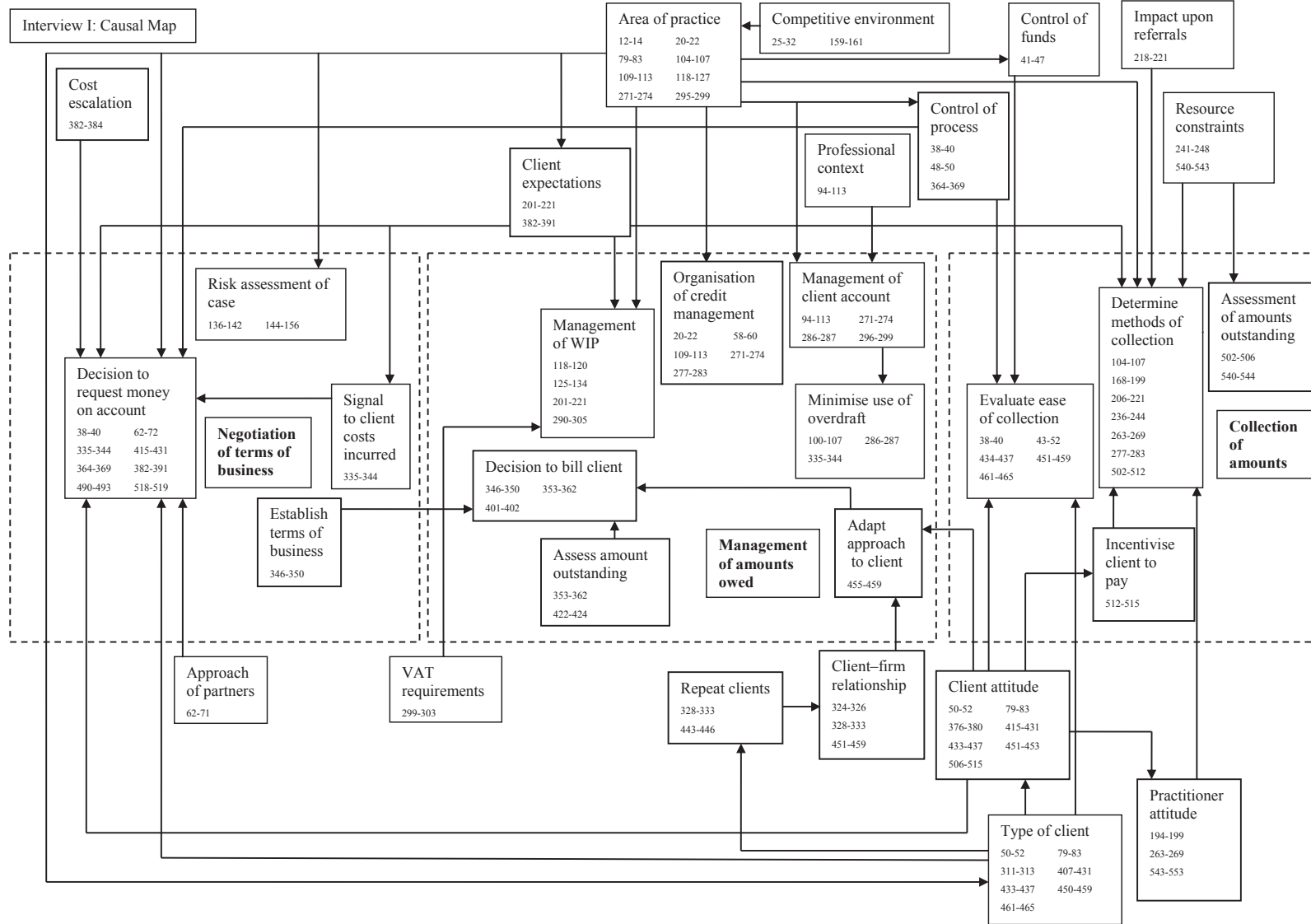


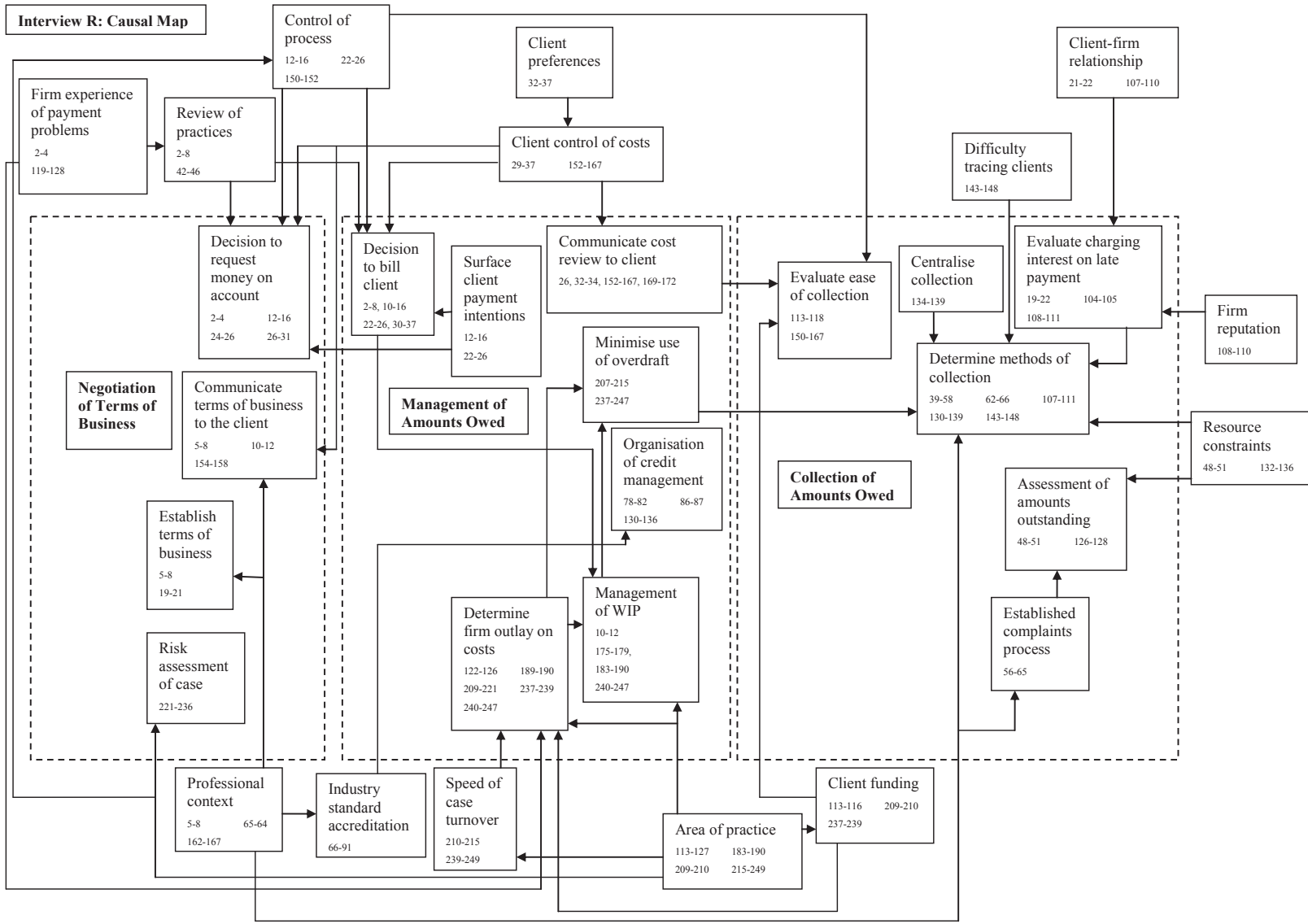
**Interview H:
Causal Map**



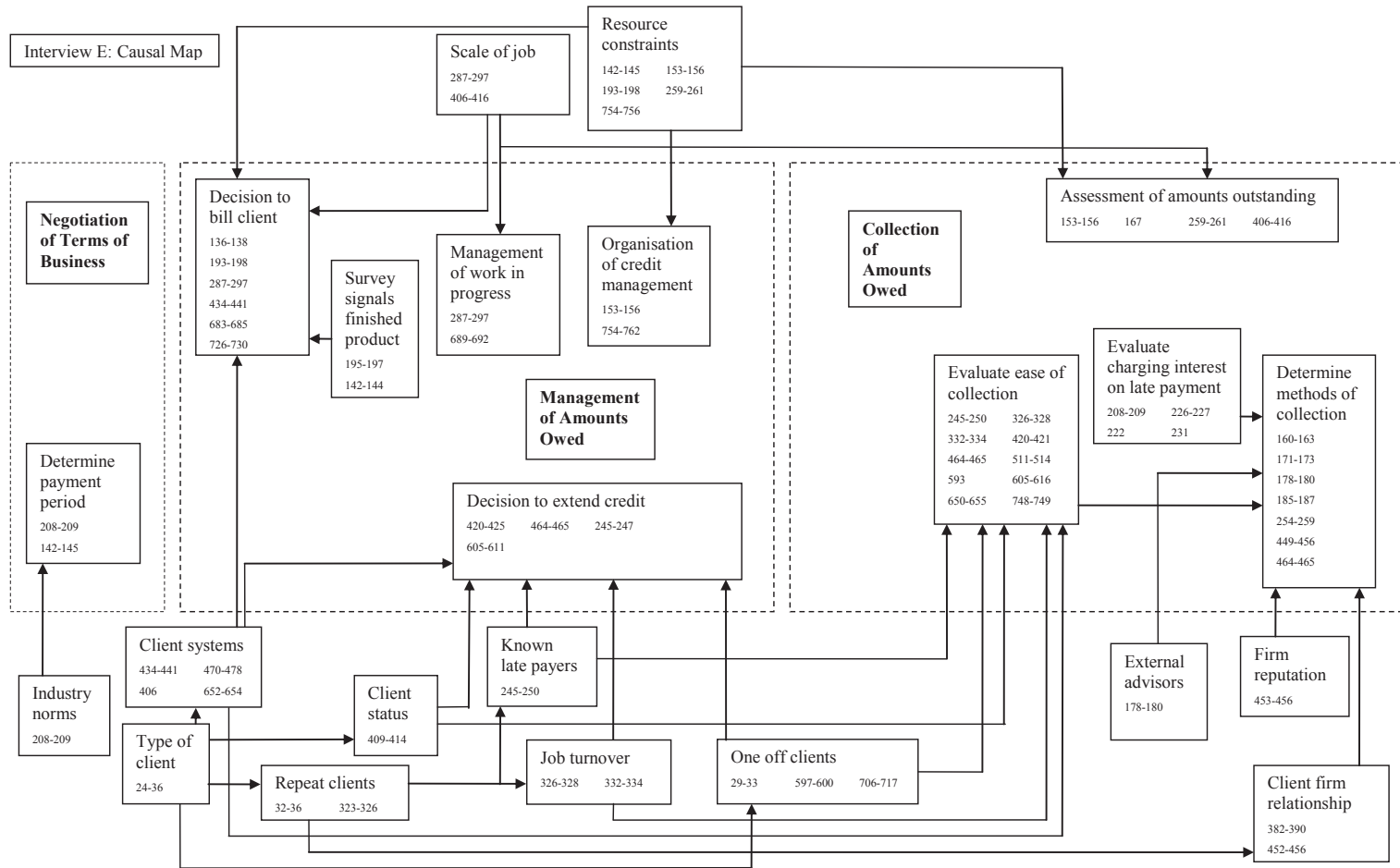
Appendix 1c.
Causal Maps: Solicitors

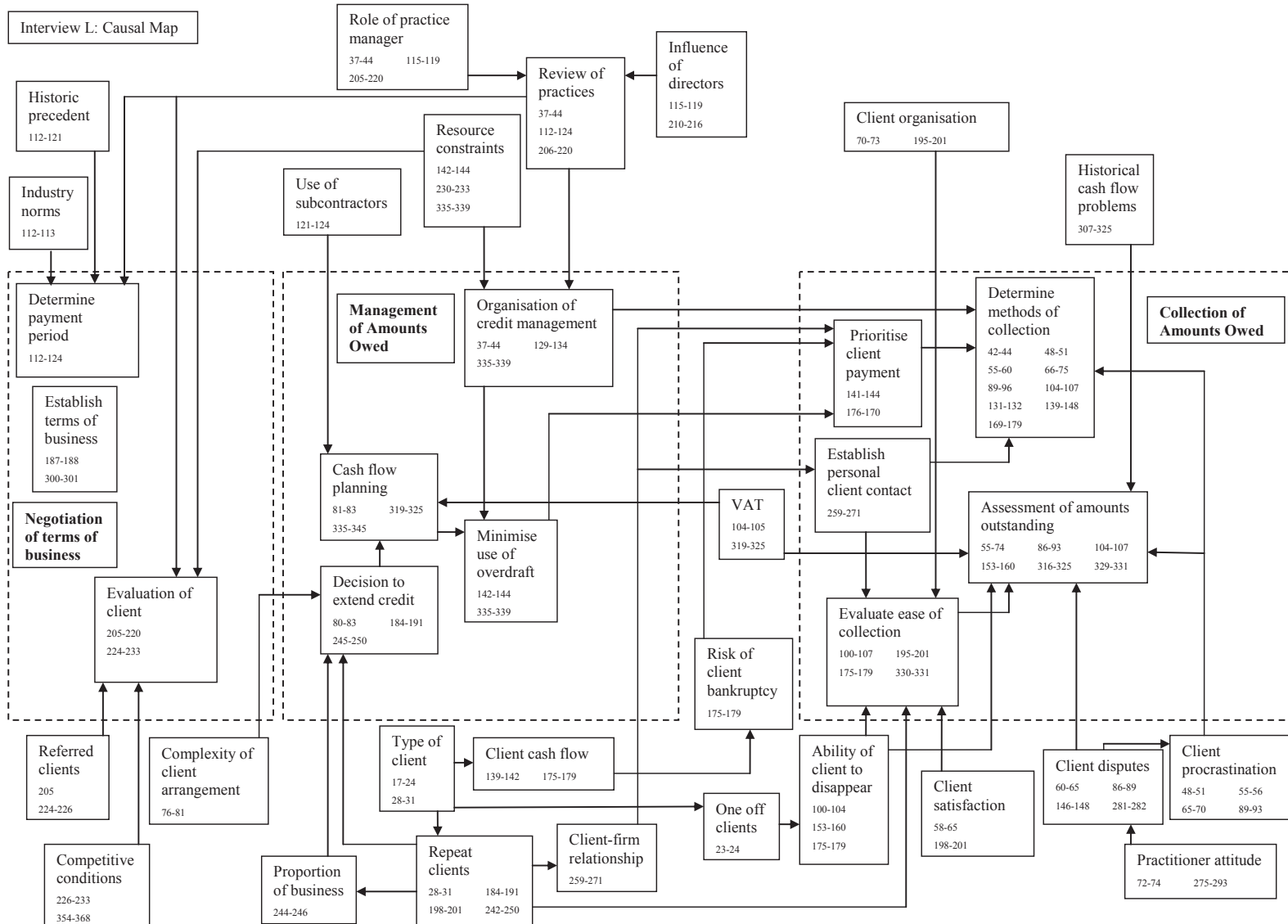




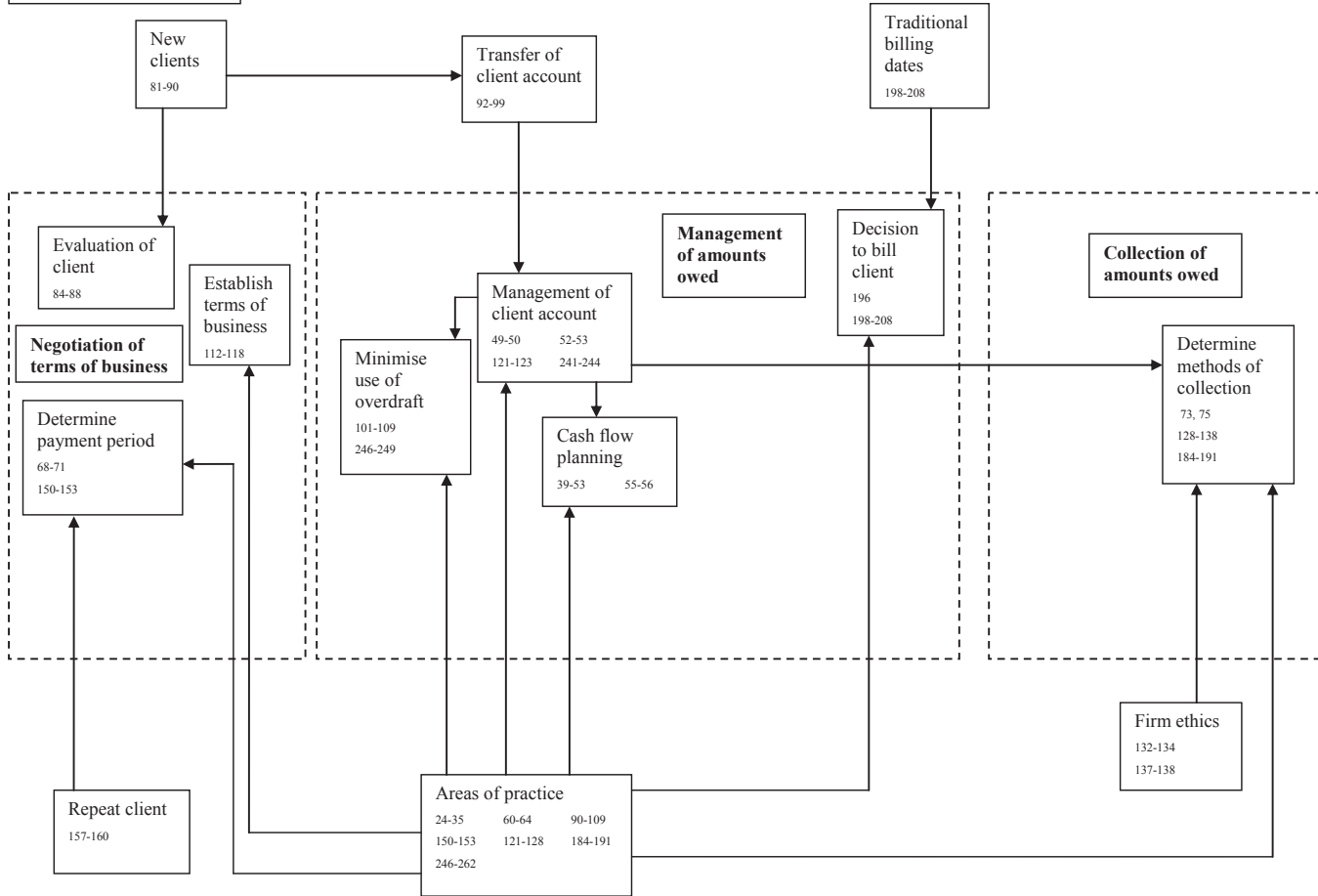


Appendix 1d.
Causal Maps: Surveyors





Interview M: Causal Map



Appendix 2:
Intra Profession Coding Frameworks

Appendix 2a
Coding Framework: Accountants

Axial Coding Framework: Accountants

		Direct influence upon practice			Indirect influence upon practice		
Axial Codes:	Causal Map Coding:	Negotiation of terms of business	Management of amounts owed	Collection of amounts owed	Interaction of causal map influences	Interaction of axial codes	
Client attributes ^{T,U,V,W}	Client attitude ^T	Client perception of small firm ^T				Type of client ^T	Client profile ^T
	Client circumstances ^{U,V,W}			V	U,V,W		
	Client control of costs ^U		U	U			
	Client expectations ^{V,W}	Client association with work ^W		V,W			
	Client cash flow ^V		V		V		
	Client systems ^V				V		
	Use of IT ^V	Job turnover ^V	V	V			
	Client satisfaction ^{V,W}	Quality of service ^V Client dispute ^{V,W}	W	W	V,W	New clients ^V	Client profile ^V
Client profile ^{T,U,V,W}	Referred clients ^{T,U}		T,U				
	Type of client ^{T,U,W}		T		Referred clients ^U Client control of costs ^U Client firm relationship ^U Networking ^U Repeat clients ^W	Client attributes ^U Client firm relationship ^U Firm attributes ^U	
	Size of client ^{U,V}			U	Client systems ^V Client cash flow ^V	Client attributes ^V	
	Repeat client ^{V,W}	Self selection of clients ^{V,W}			V, W	Client firm relationship ^W	Client firm relationship ^W
	New clients ^V		V			Client goodwill ^V	Client firm relationship ^V
	Scale of job ^{V,W}			V,W			
Areas of practice ^{T,V,W}	Areas of practice ^{T,V,W}	No repeat business ^T Avoid resource intensive clients ^W	T	T,V		Referred clients ^T Repeat clients ^V	Client profile ^{T,V}
				W		Type of client ^W Repeat clients ^W	Client profile ^W
	Control of funds ^T				T		
Practitioner attributes ^{T,U,V}	Practitioner experience ^T		T				
	Practitioner motivation ^V				V		
	Practitioner intuition ^T		T				
	Practitioner attitude to debt ^T			T			
	Practitioner empathy ^U					Client firm relationship ^U Type of client ^U	Client firm relationship ^U Client profile ^U

External stakeholders ^T	Banking relationship ^T			T				
Firm attributes ^{u,v,w}	Firm marketing ^{u,v}	Networking ^u	}	U				
		Advertising signals firm profitability ^v					New clients ^v	Client profile ^v
	Firm cash flow ^v				V			
	Firm experience ^u			U				
	Size of firm ^{u,v,w}			U	W	V,W	Type of client ^u Practitioner empathy ^u Quality of service ^v Internal competition ^v	Client profile ^u Practitioner attributes ^u
	Use of IT ^v	Job turnover ^v			V			
	Firm objectives ^w			W		W		
	Resource constraints ^w	Opportunity cost of practitioners ^w		W	W			
Internal competition ^v				V				
Client firm relationship ^{u,v,w}	Client firm relationship ^{u,v,w}		}	U	W	U,V,W		
	Client retention ^u					U		
	Client goodwill ^v			V	V			
Social norms ^u	Reluctance to discuss payment ^u				U			
Industry norms ^{u,v,w}	Industry norms ^u		}		U			
	Historic precedent ^{v,w}			V,W				
Professional environment ^{u,w}	Professional environment ^u			U				
	Complexities of fee arrangements ^w			W				
Regulatory environment ^{t,v,w}	Regulatory environment ^{t,w}		}	T		W		
	Inland revenue ^v					V		
	VAT ^v					V		
	Money laundering procedures ^v			V				
Competitive environment ^v	Competition ^v			V				
Interaction of axial codes:								
Influencing factor:	Factor Influenced:							
Case T								
Client attributes		Client profile						
Areas of practice		Client profile						

Case U							
Client profile	Client attributes						
Client profile	Client firm relationship						
Client profile	Firm attributes						
Practitioners attributes	Client firm relationship						
Practitioners attributes	Client profile						
Firm attributes	Client profile						
Firm attributes	Practitioner attributes						
Case V							
Client attributes	Client profile						
Client profile	Client attributes						
Client profile	Client firm relationship						
Areas of practice	Client profile						
Firm attributes	Client profile						
Case W							
Areas of practice	Client profile						
Client profile	Client firm relationship						
Consolidated interaction of axial codes:							
Client attributes	Client profile ^{T,V}						
Areas of practice	Client profile ^{T,V,W}						
Client profile	Client attributes ^{U,V}						
	Client firm relationship ^{U,V,W}						
Practitioner attributes	Firm attributes ^U						
	Client firm relationship ^U						
Firm attributes	Client profile ^U						
	Client profile ^{U,V}						
	Practitioner attributes ^U						
Coding the practices of the firms							
Negotiation of terms of business							
Evaluation of client ^{T,U,V,W}	Evaluation of client ^{T,U,V,W}						
Evaluate risk of retrieving fee ^T	Evaluate risk of retrieving fee ^T						
Decision to accept client ^T	Decision to accept client ^T						
Decision to request money on account ^{U,W}	Decision to request money on account ^{U,W}						
Determine payment period ^{U,V,W}	Determine payment period ^{U,V,W}						
Establish terms of business ^{U,V,W}	Establish terms of business ^{U,V,W}						

Determine payment method ^V	Determine payment method ^V						
Agree fees ^V	Agree fees ^V						
Management of amounts owed							
Firm financing decisions ^{T,W}	Manage use of overdraft facility ^T						
	Minimise use of overdraft ^W						
Management of work in progress ^{T,V,W}	Management of work in progress ^{T,V,W}						
	Maintain safety margin of claimable fees ^T						
	Negotiation with clients creditors ^T						
Decision to bill client ^{U,V,W}	Decision to bill client ^{U,V,W}						
	Finished product signals billing stage ^U						
	Clarity on fee and work undertaken ^W						
Decision to extend credit ^{U,V,W}	Decision to extend credit ^{U,V,W}						
Organisation of credit management ^{U,V,W}	Monitor amounts outstanding ^U						
	Organisation of credit management ^{V,W}						
Collection of Amounts Owed							
Evaluate ease of collection ^{T,U,V,W}	Evaluate ease of collection ^{T,U,V,W}						
Assessment of amounts outstanding ^{T,U,V,W}	Assessment of amounts outstanding ^{T,U,V,W}						
	Collaborative approach of practitioner ^{U,W}						
	Identify persistent late payers ^V						
Decision to request fee ^T	Decision to request fee ^T						
	Secure agreement to fee ^T						
Determine methods of collection ^{U,V,W}	Determine methods of collection ^{U,V,W}						
	Collaborative approach of practitioner ^{U,V}						
	Use of personal client contact ^V						
	Partners responsible for collection ^V						
	Withdraw services ^{V,W}						

Appendix 2b

Coding Framework: Architects

Axial Coding Framework: Architects							
Axial Codes:	Causal Map Coding:		Direct influence upon practice			Indirect influence upon practice	
			Negotiation of terms of business	Management of amounts owed	Collection of amounts owed	Interaction of causal map influences	Interaction of axial codes
Client attributes ^{B, C, F, H}	Client expectations ^B	Client understanding of process ^B	B		B	Client satisfaction ^B	
	Client satisfaction ^{B, F, H}	Client dispute ^F Practitioner over sight ^H		B	B, F, H		
	Client systems ^{C, F}				C, F		
	Client attitude ^{F, H}				F, H		
	Client circumstances ^H		H				
	Client cash flow ^H				H		
	Client payment history ^H Client trust ^B				H		Client satisfaction ^B
Client profile ^{B, C, F, H}	Type of client ^{B, C, F}	Motivation to secure job ^B	B			Client expectations ^B Repeat clients ^C Client systems ^F	Client attributes ^{B, F}
		Resource intensity ^C	B, F	B, C, F	F		
		Client job turnover ^C					
	Repeat client ^{B, C}	Prospect of future work ^C	B, C	C			
	Referred clients ^{F, H}		F	H	F, H	Client satisfaction ^F	Client attributes ^F
	Size of client ^F Scale of job ^{F, H}	Appropriateness of agreement ^H	F, H	F, H		Client attitude ^F	Client attributes ^F
Firm attributes ^{C, F, H}	Resource constraints ^{C, F, H}			F, H	C, H		
	Role of practice manager ^C	Review of practices ^C		C			
	Firm experience of payment problems ^C		C				
	Ethical motivations of firm ^C					Grant assisted projects ^C	Areas of practice ^C
Area of practice ^C	Grant assisted projects ^C		C	C		Client funding ^C	
	Client funding ^C			C			

Client-firm relationship ^{B, C}	Client-firm conflict ^B				B		
	Client-firm relationship ^C				C		
Professional environment ^{B, C, F, H}	Professional context ^{B, H}			B			Complexity of standard agreement ^{B, H} Work stages ^{B, H}
	Complexity of standard agreement ^{B, H}			B, H			
	Work stages ^{B, C, F, H}				B, C, F, H		
Competitive environment ^B	Competitive environment ^B			B			
Firm reputation ^C	Firm reputation ^C			C			
Practitioner attributes ^{B, C}	Practitioner attitude to debt ^B				B		
	Practitioner experience ^B			B			
	Job specific knowledge ^C				C		
External stakeholders ^B	Professional advice ^B				B		
Industry Norms ^{C, F}	Industry norm ^{C, F}			C, F			Historic precedent ^{C, F}
	Historic precedent ^{C, F}			C, F			
Social norms ^C	Reluctance to discuss payment ^C				C		
Interaction of axial codes:							
Influencing factor:	Factor Influenced:						
Case B							
Client profile	Client attributes						
Case C							
Firm attributes	Areas of practice						
Case F							
Client profile	Client attributes						
Consolidated interaction of axial codes:							
Client profile	Client attributes ^{B, F}						
Firm attributes	Areas of practice ^C						
Coding the practices of the firms							
Negotiation of terms of business							
Evaluation of client ^{C, F, H}	Decision to use credit checking ^C						
	Evaluation of client ^{F, H}						
	Signals information about client ^F						
Agree fees ^{B, C, F, H}	Agree fees ^{B, C, F, H}						

Communicate terms of business to client ^{B, H}	Adapt agreement ^{B, H}						
Establish terms of business ^{B, C, H}	Establish terms of business ^{B, C, H}						
Determine payment period ^{C, F, H}	Determine payment period ^{C, F, H}						
Decision to request money on account ^C	Decision to request money on account ^C						
Management of amounts owed							
Decision to bill client ^{B, C, F, H}	Decision to bill client ^{B, C, F, H}						
	Negotiate fee payment ^B						
	Invoicing lacks priority ^H						
Decision to extend credit ^{B, C}	Decision to extend credit ^{B, C}						
Organisation of credit management ^{B, C, F, H}	Organisation of credit management ^{B, C, F, H}						
	Intention to formalise practice ^H						
	Formal categorisation of clients ^C						
Cash flow planning ^{B, F}	Cash flow planning ^{B, F}						
Management of work in progress ^{C, F}	Management of work in progress ^{C, F}						
	Covert client charges ^C						
Collection of Amounts Owed							
Evaluate ease of collection ^{B, C, F, H}	Evaluate ease of collection ^{B, C, F, H}						
	Lack of formal agreements ^C						
Assessment of amounts outstanding ^{B, C, F, H}	Assessment of amounts outstanding ^{B, C, F, H}						
	Chasing amounts owed not prioritised ^H						
Determine methods of collection ^{B, C, F, H}	Determine methods of collection ^{C, F, H}						
	Utilise personal client contact ^{C, F}						
	Difficulty standardising collection procedures ^C						
	Pro active approach ^B						
	Pro active communication with client ^H						

Appendix 2c

Coding Framework: Solicitors

Axial Coding Framework: Solicitors							
Axial Codes:	Causal Map Coding:		Direct influence upon practice			Indirect influence upon practice	
			Negotiation of terms of business	Management of amounts owed	Collection of amounts owed	Interaction of causal map influences	Interaction of axial codes
Client attributes ^{A,I,N,R}	Client attitude ^{A,I,N}		I	I	A,I,N	Practitioner attitude ^I	Practitioner attributes ^I
	Client cash flow ^A			A	A	Client preferences ^A	
	Client organisation ^A				A		
	Client preferences ^{A,N,R}	Client control of costs ^R	N,R	A,N,R	A		
	Client circumstances ^N			N	N		
	Client expectations ^I		I	I	I		
Client profile ^{A,I,N}	Type of client ^{A,I}		I,A	A	A,I	Repeat clients ^{A,I} Client cashflow ^A Client attitude ^{A,I}	Client attributes ^{A,I}
	Repeat Client ^{A,I,N}			A		Client-firm relationship ^{A,I} Client circumstances ^N	Client-firm relationship ^{A,I} Client attributes ^N
	New client ^{A,N}		A	N			
Firm attributes ^{A,I,N,R}	Firm attitude to debt ^A			A			
	Approach of partners ^I		I				
	Resource constraints ^{I,N,R}	Appointment of practice manager ^N		N	I,R		
	Firms profitability ^N				N		
	Firm experience of payment problems ^R	Review of practices ^R	R	R			
Areas of practice ^{A,I,R,N}	Areas of practice ^{A,I,N,R}		A,I,N,R	I,N,R	I	Client funding ^{A,N,R} Control of funds ^{A,I,N} Control of process ^{I,N,R} Client attitude ^{A,N} Client expectations ^I Type of client ^{A,I} Speed of case turnover ^R	Client attributes ^{A,I,N} Client profile ^{A,I}
	Client funding ^{A,N,R}		A	A,R	A,N,R		
	Control of funds ^{A,I,N}				A,I,N		
	Control of process ^{I,N,R}		I,R	R	I,N,R		
	Speed of case turnover ^R			R			
Client-firm relationship ^{A,I,R,N}	Client-firm relationship ^{A,I,N,R}			I	A,N,R	Client attitude ^A	Client attributes ^A
Professional environment ^{A,I,N,R}	Professional context ^{A,I,N,R}		N,R	I,N	A,N,R	Industry standard accreditation ^R	
	Industry standard accreditation ^R			R			

Client attributes	Practitioner attributes ^l						
Client-firm relationship	Client attributes ^A						
Coding the practices of the firms							
Negotiation of terms of business							
Risk assessment of case ^{A,I,R}	Risk assessment of case ^{A,I,R}						
	Evaluate impact on cashflow ^A						
Evaluation of client ^A	Evaluation of client ^A						
Decision to request money on account ^{A,I,N,R}	Decision to request money on account ^{A,I,N,R}						
	Signal to client costs incurred ^l						
Determine payment period ^{A,N}	Agree formal payment period ^{A,N}						
	Tolerated payment period ^A						
	Prioritise payment by client ^A						
Communicate terms of business to the client ^{N,R}	Communicate terms of business to the client ^{N,R}						
	Stipulate follow up actions ^N						
Establish terms of business ^{I,N,R}	Establish terms of business ^{I,N,R}						
	Determine payment method ^N						
Management of amounts owed							
Organisation of credit management ^{A,I,N,R}	Organisation of credit management ^{A,I,N,R}						
	Management of client account ^{I,N}						
	Periodic debtor reviews ^N						
	Report debtor position to partner ^N						
	Consult responsible fee earner ^N						
Firm financing decisions ^{A,I,R}	Financing decisions ^A						
	Minimise use of overdraft ^{f,I,R}						

Decision to bill client ^{A,I,N,R}	Decision to bill client ^{A,I,N,R}							
	Monitor time and amount outstanding ^A							
	Ensure client associates with the bill ^A							
	Assess amount outstanding ^I							
	Adapt approach to client ^I							
Decision to extend credit ^A	Anticipate potential payment delays ^N							
	Surface client payment intentions ^R							
Decision to extend credit ^A	Decision to extend credit ^A							
Management of work in progress ^{I,N,R}	Management of work in progress ^{I,N,R}							
	Inform fee earner of WIP ^N							
Management of client costs ^R	Communicate cost review to client ^R							
	Determine firm outlay on costs ^R							
Collection of Amounts Owed								
Evaluate ease of collection ^{A,I,N,R}	Evaluate ease of collection ^{A,I,N,R}							
	Evaluate promptness of client payment ^A							
Assessment of amounts outstanding ^{A,I,N,R}	Assessment of amounts outstanding ^{A,I,N,R}							
	Established complaints process ^R							
Determine methods of collection ^{A,I,N,R}	Determine methods of collection ^{A,I,N,R}							
	Assess effectiveness of personal client contact ^A							
	Centralise collection ^{N,R}							
	Evaluate charging interest on late payment ^R							
	Incentivise client to pay ^I							

Appendix 2d
Coding Framework: Surveyors

Axial Coding Framework: Surveyors

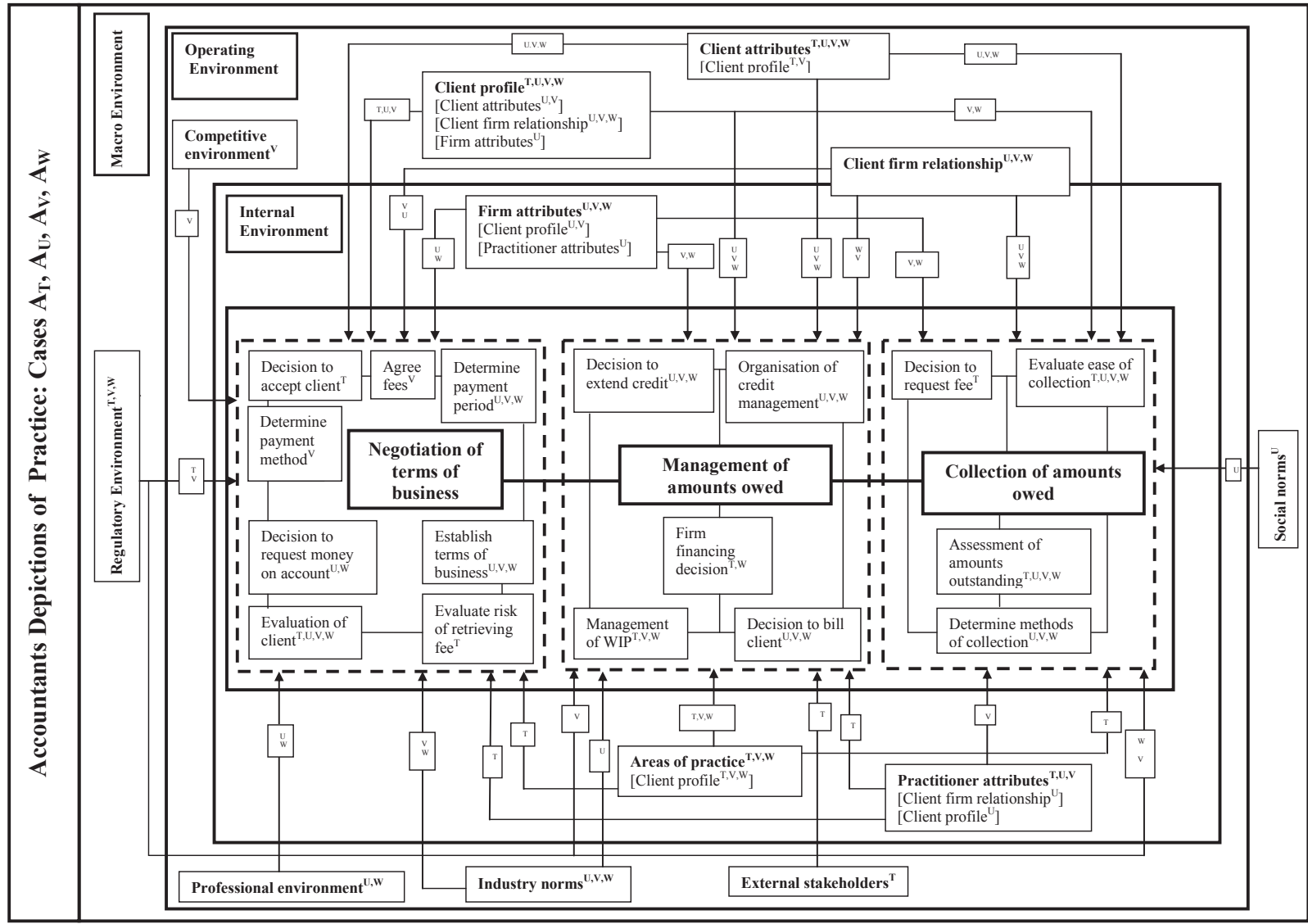
			Direct influence upon practice			Indirect influence upon practice	
Axial Codes:	Causal Map Coding:		Negotiation of terms of business	Management of amounts owed	Collection of amounts owed	Interaction of causal map influences	Interaction of axial codes
Client attributes ^{E,L,Q}	Client systems ^E			E	E		
	Client organisation ^{L,Q}				L,Q		
	Client cashflow ^L	Risk of client bankruptcy ^L			L		
	Client satisfaction ^{L,Q}	Client disputes ^{L,Q} Client procrastination ^L		Q	L,Q		
	Client trust ^Q		Q				
	Client circumstances ^Q				Q		
	Client expectations ^Q			Q			
Client profile ^{E,L,M,Q}	Type of client ^{E,L,Q}	Client status ^E	Q	Q,E	Q,E	Client systems ^E Client status ^E Repeat clients ^{E,L} One off clients ^{E,L} Client cash flow ^L Client firm relationship ^Q	Client attributes ^{E,L} Client firm relationship ^Q
	Repeat clients ^{E,L,M,Q}	Known late payers ^E Job turnover ^E	M,Q	E,L	E,L	Client firm relationship ^{E,L} Proportion of business ^L	Client firm relationship ^{E,L}
	One off clients ^{E,L}	Ability of client to disappear ^L		E	E,L		
	Scale of job ^E			E	E		
	Proportion of business ^L			L			
	Referred clients ^L		L				
	Complexity of client firm arrangement ^L			L			
	Use of subcontractors ^L			L			
	New clients ^M	Transfer of client account ^M	M	M			
Firm attributes ^{E,L,M}	Resource constraints ^{E,L}		L	E,L	E		
	Role of practice manager ^L	Review of practices ^L Influence of directors ^L	L	L			
	Firm experience of payment problems ^L	Historical cash flow problems ^L			L		

	Firm ethics ^M				M		
Areas of practice^M	Areas of practice ^M		M	M	M		
Client firm relationship^{E,L,Q}	Client firm relationship ^{E,L,Q}		Q		E, L		
Professional environment^Q	Professional context ^Q		Q		Q		
	Industry context ^Q		Q			Client firm relationship ^Q	Client firm relationship ^Q
Regulatory Environment^L	VAT ^L			L	L		
Competitive environment^{L,Q}	Competitive conditions ^{L,Q}		L,Q				
Firm reputation^{E,Q}	Firm reputation ^E				E		
	Potential loss of clients ^Q				Q		
Practitioner attributes^{L,Q}	Practitioner attitude ^L					Client satisfaction ^L	Client attributes ^L
	Practitioner experience ^Q					Repeat clients ^Q Type of client ^Q Client trust ^Q	Client profile ^Q Client attributes ^Q
	Practitioner objectives ^Q		Q			Client satisfaction ^Q	Client attributes ^Q
	Practitioner intuition ^Q		Q				
External stakeholders^E	External advisors ^E				E		
Industry norms^{E,L,M,Q}	Industry norms ^{E,Q}		E,Q				
	Historic precedent ^L		L				
	Traditional billing dates ^M			M			
Interaction of axial codes:							
Influencing factor:	Factor Influenced:						
Case E							
Client profile	Client attributes						
Client profile	Client firm relationship						
Case L							
Client profile	Client attributes						
Client profile	Client firm relationship						
Practitioner attributes	Client attributes						

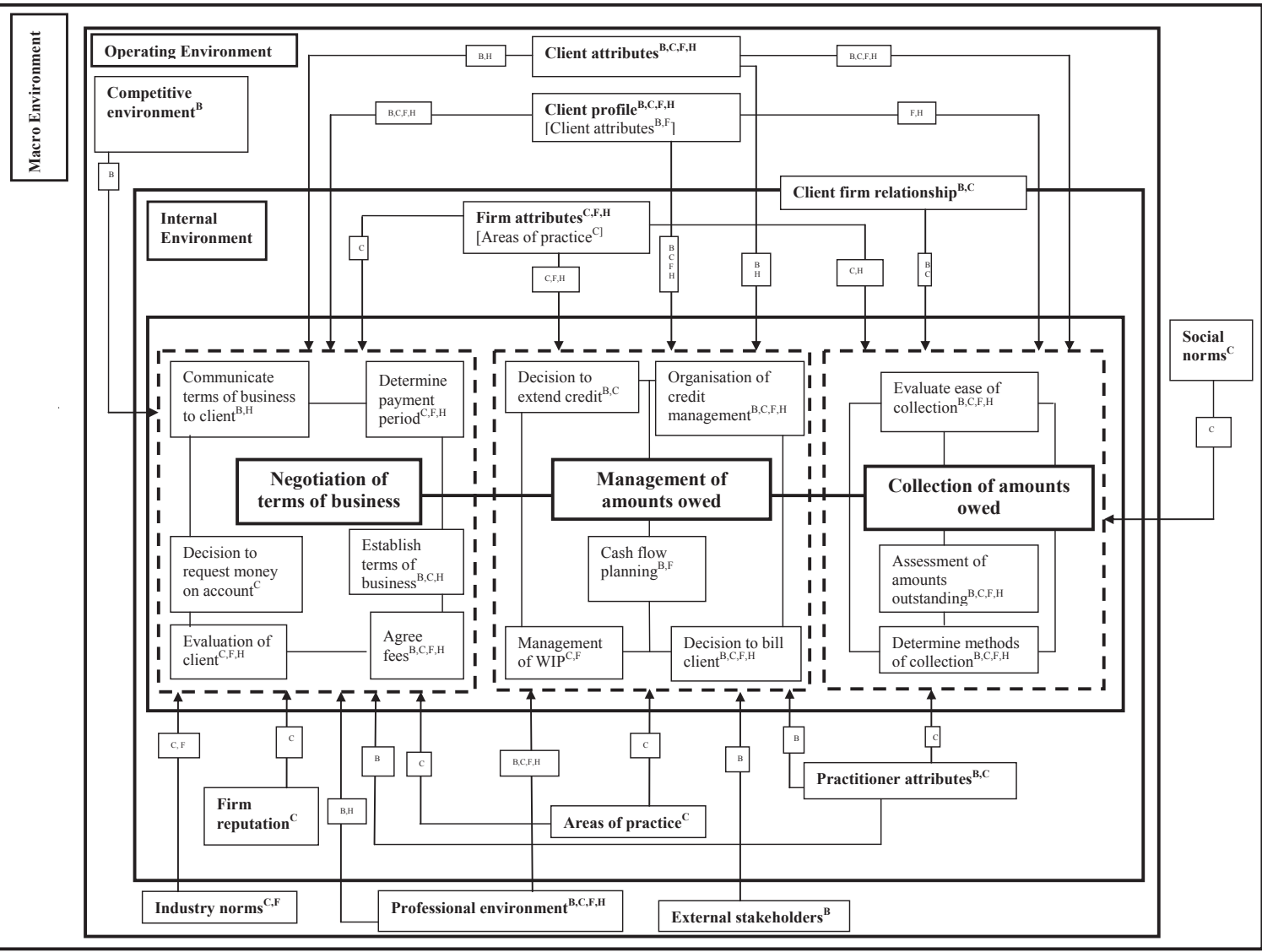
Case Q							
Client profile	Client firm relationship						
Professional environment	Client firm relationship						
Practitioner attributes	Client profile						
Practitioner attributes	Client attributes						
Consolidated interaction of axial codes:							
Client profile	Client attributes ^{E,L}						
	Client firm relationship ^{E,L,Q}						
Practitioner attributes	Client attributes ^{L,Q}						
	Client profile ^Q						
Professional environment	Client firm relationship ^Q						
Coding the practices of the firms							
Negotiation of terms of business							
Evaluation of client ^{L,M,Q}	Evaluation of client ^{L,M,Q}						
Determine payment period ^{E,L,M,Q}	Determine payment period ^{E,L,M,Q}						
Communicate terms of business to the client ^Q	Communicate terms of business to the client ^Q						
	Adaptation of standard agreement ^Q						
Establish terms of business ^{L,M,Q}	Establish terms of business ^{L,M,Q}						
Selection of job ^Q	Selection of job ^Q						
Management of amounts owed							
Organisation of credit management ^{E,L,Q,M}	Organisation of credit management ^{E,L}						
	Management of client account ^M						
	Monitor amounts owed ^Q						
Firm financing decisions ^{L,M}	Minimise use of overdraft ^{L,M}						
	Cash flow planning ^{L,M,Q}						

Cash flow planning ^{L,M,Q}	Determine client cash flow schedule ^Q						
Decision to bill client ^{E,M,Q}	Decision to bill client ^{E,M,Q}						
	Survey signals finished product ^E						
Decision to extend credit ^{E,L}	Decision to extend credit ^{E,L}						
Management of work in progress ^E	Management of work in progress ^E						
Collection of Amounts Owed							
Evaluate ease of collection ^{E,L,Q}	Evaluate ease of collection ^{E,L,Q}						
	Establish personal client contact ^t						
Assessment of amounts outstanding ^{E,L,Q}	Assessment of amounts outstanding ^{E,L,Q}						
Determine methods of collection ^{E,L,M,Q}	Determine methods of collection ^{E,L,M,Q}						
	Evaluate charging interest on late payment ^E						
	Prioritise client payment ^t						
	Establish personal client contact ^t						
	Assess client contact ^Q						

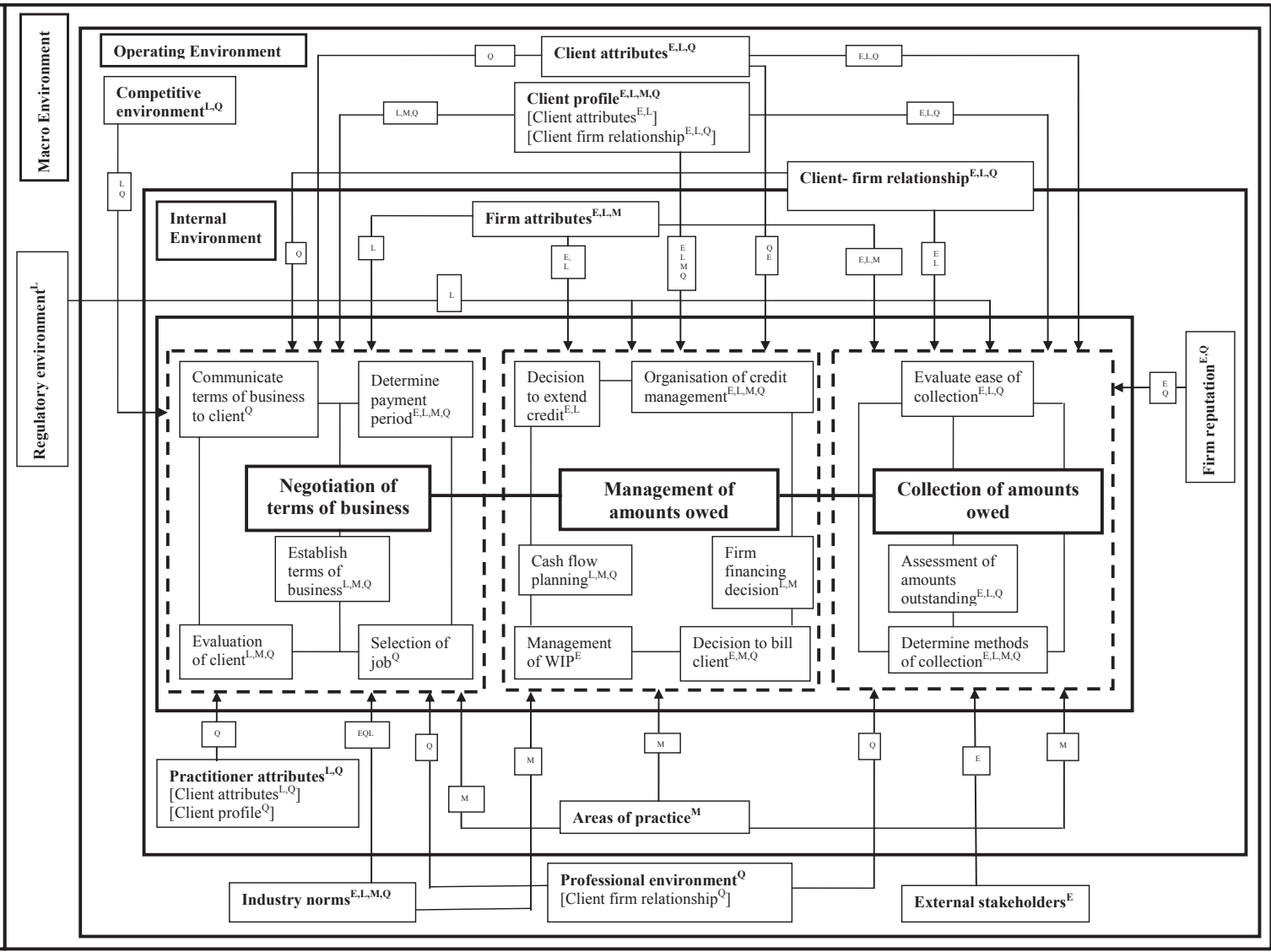
Appendix 3:
Intra Profession Diagrams



Architects Depictions of Practice: Cases AR_B, AR_C, AR_F, AR_H

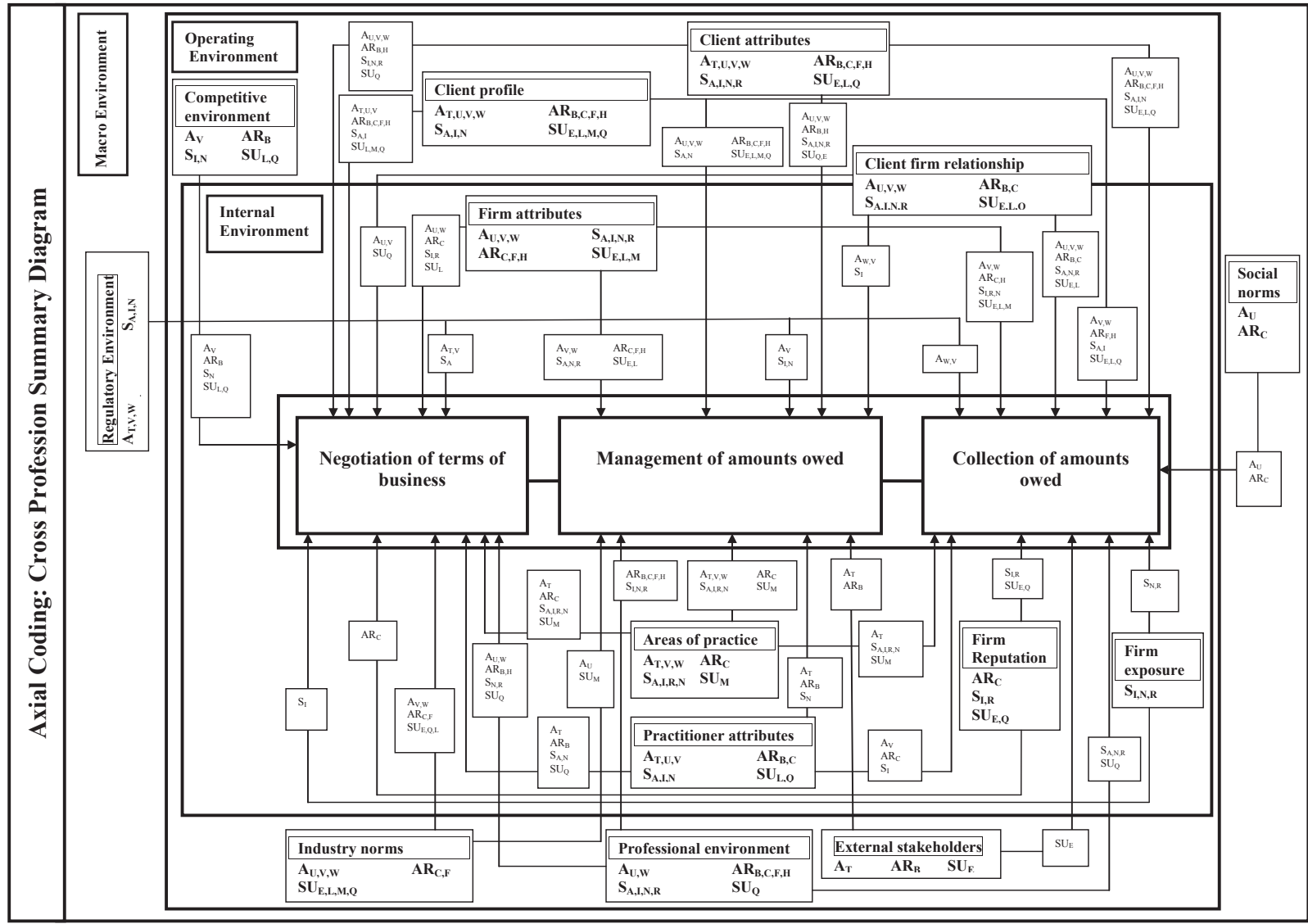


Surveyor's Depictions of Practice: Cases SU_E, SU_L, SU_M, SU_Q



Appendix 4:
Inter Profession Summary Diagram

Axial Coding: Cross Profession Summary Diagram



Appendix 5
Transcript Case S_A

Firm Practice

Transcript Case SA

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Me: Could you tell me about the background to the business?

There are 3 partners, well we are actually set up as a limited company, which is unusual for a law firm because although some law firms are now becoming LLP's, you know that seems more common than limited companies but you know still the traditional partnership is probably the most common.

We didn't all know each other I know Fiona, and Kate and Fiona knew each other and they sort of came up with the idea of getting together I suppose about a year before, so we're talking about summer 2003 and I contacted Fiona just before Christmas 2003.

Me: OK, right, could you give an idea of the profile of your clients?

Well we do some publicly funded work, as you probably guessed from the web site, we do three main areas of work: Fiona and I do employment law and everything else and Kate does housing and community care law most of the housing and community care law is publicly funded and we have a franchise from the legal service commission we also have the ability to provide publicly funded advice on employment but there's no such thing as a full certificate so there's no full legal aid if you like. It's now called legal help but it's what actually used to be the old green forms. So, we have, the housing tends to be predominantly publicly funded clients, and mainly but not exclusively tenants as opposed to landlord, um the employment work tends to be the majority of private clients and we've got about a 50:50 split with employer and employee clients, and um with the employer clients some of them have

Causal Influences

Areas of practice

Client funding

Repeat clients
Type of client

<p>Organisation of credit management</p>	<p>51 been with me for a very long time 52 because I bought them with me from a 53 previous firm, um a lot of the employee 54 clients come to us from yellow pages, 55 the website, and the employee clients 56 tend to be one offs where as the 57 employer clients tend to come back 58 again and again. 59 60 Me: Roughly how many people are you 61 employing? 62 63 Well because we are a limited company 64 we employ ourselves, we have a full 65 time receptionist/pa, we have a part time 66 bookkeeper and we have one part time 67 secretarial assistant, so there's 6. 68 69 Could you give me a rough idea of your 70 annual turnover? 71 72 Um, its, I cant remember, we're just in 73 the process of having our first year 74 accounts, so its with the accountants at 75 the moment we're going to make a small 76 profit for the year but its not going to be 77 anything spectacular, because we've 78 actually invested very heavily, we were 79 in smaller premises, we moved in March 80 we were planning to move in October 81 this year so we've had a lot of 82 investment that we weren't expecting, 83 we've also spent quite a lot on 84 marketing, so we've actually, marketing 85 was over 10% of our turnover which is 86 actually quite high so we've made a 87 profit but it is a small one. 88 89 Me: I asked if you could think of four 90 examples of where you've dealt 91 differently with clients, that you have... 92 93 Well, we actually, touch wood, have had 94 an extremely good credit history, well I 95 suppose it's a bad debt history. In 96 monies over about 60 days I think we've 97 only got about £1000 outstanding so 98 we've kept really good control of that. 99 We don't tend to extend credit anyway, 100 as I say with publicly funded money you</p>	<p>Areas of practice Client funding</p>
<p>Organisation of credit management Decision to bill client</p>	<p>100 as I say with publicly funded money you</p>	<p>Areas of practice Client funding</p>

<p>Evaluate ease of collection</p>	<p>101 bill at the end of the case with the 102 employer clients we tend to bill on a 103 regular basis, so monthly or quarterly, 104 and with employee clients we tend to, 105 well there are different ways of funding 106 them some have legal expenses 107 insurance, we'll get paid anyway at the 108 end, some are funded themselves which 109 means there's always a risk that you 110 wont get paid, and then we do some no 111 win no fee. 112 113 Me: Would it be possible for you to tell 114 me about 4 examples? 115 116 So really we're not really extending 117 credit, you know it didn't really fit us. 118 119 Me: Well, I'm interested in any stories 120 of where you've dealt with clients 121 differently 122</p>	
<p>Ensure client associates with the bill</p>	<p>123 Well, I've done some bills this morning 124 and as I say, its, well one client I've got 125 is a firm of accountants and I give a lot 126 of advice, support, to their HR person 127 and I mean we just bill when they get to 128 about £1000, that's where I feel on that 129 because getting more than that, then 130 that's going to be, oh god what's that.</p>	
<p>Decision to bill client Monitor time and amount outstanding</p>	<p>131 But I try and bill quarterly at the very 132 least otherwise its just gets too long and 133 they get a bill you know and it's a year 134 old and they don't know what it's about. 135 136 Me: Great – I've kind of created this 137 checklist of things that it would be 138 interesting to hear about, for instance for 139 the accountant maybe we could go 140 through these areas... 141</p>	
	<p>142 Well, they're a firm of accountants, the 143 history is that we met one of the partners 144 at a Sussex Enterprise lunch we found 145 our bookkeeper through the same guy 146 and then he arranged a meeting with the 147 HR lady, got on very well and we've 148 been working together ever since. They 149 were using, I cant remember exactly 150 when we started, but it was certainly</p>	<p>Repeat clients</p>

Agree formal payment
period
Evaluate promptness of
client payment

151 before Christmas last year and I mean
152 they were before using us they were
153 using one of the big law firms, so it was
154 quite a leap of faith for them.

155
156 Me: What proportion of your business
157 do they take up roughly?

158
159 We haven't analysed that, its too soon to
160 be doing that sort of analysis, because
161 we wouldn't get a true picture in your
162 first year of trading.

163
164 Me: OK

165
166 And they've always paid, we haven't
167 even had to follow up, our terms of
168 credit are 14 days so, and most clients
169 tend to pay on that.

170
171 Me: So there aren't any key issues...

172
173 Yeah, so I mean there's been no issue
174 there at all. Perhaps the one that you
175 want is our only real bad debt, is which
176 is a bill for £1000 plus VAT. And what
177 happened was that, the type of client,
178 he's a private individual, and he, do you
179 know about compromise agreements? If
180 the employer terminates the contractual
181 relationship and there is a possibility that
182 the employee could take them to a
183 tribunal or a court they will often make a
184 payment and its not enough just to say
185 this is a settlement you have to have a
186 fully drawn up agreement which has to
187 satisfy certain statutory provisions, its
188 known as a compromise agreement
189 traditionally, the employer pay the
190 employees legal costs and this is where it
191 all went wrong because for a number of
192 reasons the client put off completing the
193 agreement we had delivered our bill to
194 the employer and by the time he had
195 decided that he wanted to go ahead with
196 it the employer turned around and said,
197 sorry, don't want to do it any more, and
198 of course there's no binding agreement,
199 its just an offer and so the client now has
200 no money and is saying well its not fair I

<p>Assessment of amounts outstanding</p>	<p>201 shouldn't pay and we're saying well 202 we're terribly sorry but you should 203 because you had, you know its not our 204 fault that you didn't complete this and 205 get your loads of cash. And so we'll 206 have to write it off ultimately because 207 he's got no money... 208 209 Me: So there's no form of recourse.... 210 211 No, the history is that although you can 212 threaten proceedings as a law firm 213 particularly it is historically very 214 difficult to get money from a client</p>	<p>Professional context</p>
<p>Assessment of amounts outstanding</p>	<p>215 because when you deliver a bill, you've 216 got to put a note on the clients 217 entitlement to get a remuneration 218 certificate and you have to have the bill 219 signed by a partner so if they don't pay 220 you'd have to go to court and if you get 221 judgement you're still going to have all 222 the problems of enforcing judgement and 223 you cant use a statutory demand which a 224 lot of businesses would use so you just 225 have to sue and most people just don't 226 get paid because most of the clients 227 where that happens because you 228 wouldn't extend very much credit to an 229 individual they would be mainly 230 companies and companies don't pay 231 because they go down and its not really 232 worth spending money. 233</p>	<p>Type of client</p>
<p>Decision to extend credit</p>	<p>234 Me: Would it be possible for you to tell 235 me about a corporate client... 236</p>	<p>Repeat clients</p>
<p>Decision to bill client Monitor time and amount outstanding</p>	<p>237 Um, yes, I mean for example I act for the 238 Caravan club, I do their employment 239 work, I've acted for them since the late 240 90's again I bill them much the same as 241 the accountants you know quarterly or if 242 the bill goes up. 243 244 How did you establish billing them 245 quarterly? 246 247 Because everyone likes to keep control 248 of their cash flow whether they're a big 249 company or a, I mean some companies, I</p>	<p>Client preferences Client cash flow Type of client</p>

	<p>250 did have one client who was a corporate 251 client who's asked that I bill them 252 monthly, they always wanted a bill at the 253 end of the month so its really what they 254 want. 255 256 Me: So you bill in accordance with what 257 your client... 258 259 Yep, because the one I'm thinking of 260 where I billed every month they were a 261 small company themselves and it helped 262 their cash flow. So they knew exactly 263 where they were on expenditure. 264 265 Me: Are there any other cases? 266 267 So we're boring on that...touch wood 268 we have been very lucky. 269 270 Me: So no other examples? 271 272 Not that would be different, apart from 273 the no win no fee where you can end up 274 not getting any money at all if you lose. 275 276 Me: Do you take much of that business? 277</p>	<p>Client preferences Client cash flow</p>
<p>Risk assessment of case</p>	<p>278 We try to limit ourselves to 6 at any one 279 time but in practice its usually about 3 280 because they have to be worth your 281 while because they reckon that you've 282 got to have 75% chance of success to 283 make it worthwhile and also because 284 you've got 75% of success you've got to 285 have a mark up of 25% on top of your 286 basic fee level and most tribunal awards 287 are not as big as people think, the ones 288 you see in the paper are you know the 289 extraordinary cases. I don't think an 290 awful lot of people realise that to take a 291 case to tribunal these days can cost up to 292 £5000-10000. 293 294 Me: And so the credit side of managing 295 cash flow hasn't impacted significantly 296 on the business? 297</p>	<p>Areas of practice Areas of practice</p>
<p>Evaluate impact on cash flow</p>	<p>298 No not really, apart from the fact that 299 Fiona and I are doing employment work</p>	<p>Areas of practice</p>

	<p>300 and we will look at the cases that we're 301 carrying so for example no win no fee, 302 and if we're really busy obviously with 303 no win no fee, we've got to take a view 304 that if we take too many of them its 305 going to impact cash flow quite 306 considerably. Because you've still got 307 your 50/75% chance that you're not 308 going to get paid for that work at all. 309</p>	
<p>Organisation of credit management Determine methods of collection</p>	<p>310 Me: Sure, could I ask you about your 311 own back ground, what experience 312 you've bought to the business... 313 314 I was, of the three of us I was the only 315 one who was a partner at a previous firm 316 so I had access to information of a 317 financial nature and about financial 318 procedures and so it seemed more 319 logical that I should take on the role of 320 finance director, also my two partners, 321 bless them, don't really know the 322 difference between a cash flow statement 323 a profit and loss account. 324 325 Me: Does any part of the credit control 326 function lie with your bookkeeper? 327 328 Yes, what she will do, she does all the 329 entering on the system and she also tries 330 to control, what she does is flag what 331 bills, you know, how old any debts are 332 and we will decide to have a go at a low 333 key chase from me or one of the other 334 partners first and then take action and 335 pass them back to her. 336</p>	
<p>Determine methods of collection</p>	<p>337 Me: Could you describe what a low key 338 action may be? 339 340 Well it would just be a letter saying your 341 account is outstanding. 342 343 Me: Do you find your sending many 344 out? 345 346 Not a lot, no, it depends on the type of 347 business. I had a client outstanding at the 348 beginning of the year and they were a 349 property letting company and they were</p>	<p>Client cash flow Type of client</p>

<p>Evaluate promptness of client payment</p>	<p>350 obviously going through a tight time 351 themselves and so obviously they see a 352 way of credit in pushing payment of 353 their bills so you know they'll put it right 354 back and it wasn't until the file got to 355 Jeanette's desk and she made the phone 356 call saying its on my desk to issue 357 proceedings that we got paid, even 358 though we've had a previous bill for a 359 small amount that they paid by return so 360 obviously they were just using it as way 361 of their own cash flow management. 362 363 Me: So how may cases get to that stage 364 do you think? 365 366 Not many, to be fair. I must admit more 367 in my last firm did because the corporate 368 clients that we had tended to be more 369 entrepreneurial companies or start ups 370 themselves which obviously had a higher 371 risk rate. 372 373 Me: OK, that's all really useful. Was 374 there an overall firm decision when you 375 began as to how you would set your 376 credit terms? 377</p>	
<p>Agree formal payment period</p>	<p>378 Yes we decided that it would all be 379 terms of payment in strictly 14 days, and 380 so it was all decided between us. 381 382 Me: Could you just explain again how 383 you would chase payment... 384</p>	
<p>Tolerated payment period</p>	<p>385 Well it depends really usually I suppose 386 we've got 14 days so we would start 387 chasing after 28. 388 389 Me: Right and that would take the form 390 of.... 391</p>	
<p>Determine methods of collection</p>	<p>392 A letter, or a phone call, depending upon 393 who the client is. 394 395 Me: Have you ever been in the position 396 where you have to follow up on that first 397 stage... 398</p>	<p>Client preferences</p>

<p>Decision to extend credit</p>	<p>399 We haven't actually issued proceedings 400 against anybody yet, touch wood. Apart 401 from the one I mentioned that we will 402 have to right off because I mean he's got 403 no money, so there's no point doing 404 anything about it. 405 406 Me: Certainly. Have you have to think 407 about any approaches you would take to 408 encourage prompt payment? 409 410 No. 411 412 Me: Are there any external factors that 413 have effected how you extend credit, or 414 how much? 415 416 Well I mean obviously if we have a new 417 corporate client it will depend very much 418 on, I mean if we were, main corporate 419 clients who run up big bills are all 420 people who have all been known to me. 421 422 Me: Could you tell me about any 423 particular instances with them? 424 425 Well as I say they all pay promptly so 426 they're not really a problem. 427 428 Me: Its interesting for me to hear about 429 even if they pay promptly... 430</p>	
<p>Evaluate promptness of client payment</p>	<p>431 Well I think its just because the type of 432 clients that they are, this one here I've 433 got is quite a big company they employ 434 over 500 people and they've got 435 branches in the Gatwick area and 436 Manchester and Birmingham and yet 437 they are essentially a family business 438 themselves and they are very loyal to 439 their suppliers and it's the way, as are 440 the caravan club, you know they've 441 always looked upon it that way they 442 don't necessarily go into a big London 443 firm just because for status, if they get 444 good service they will stick, so they, that 445 sort of client tend to be a very good 446 payer because of the values that they 447 have. 448</p>	<p>Client firm relationship Client attitude</p>

Organisation of credit management

499 days, when the bills 28 days old, if I give
500 them 3 months the company could've
501 gone down by then. If they are in trouble
502 there's more chance they're likely to pay
503 my bill or part of it, and you know
504 something's better than nothing. And the
505 other thing is you know we've got VAT
506 quarters and if it slips over into the next
507 VAT quarter we end up paying VAT and
508 they haven't paid us.

509
510 Me: You mentioned diary notes could
511 you explain please?

512
513 Yeah, well what we have on our
514 computer system we have a financial
515 package on our system and it tells you
516 when bills are 30, 60 and over 90 days
517 old, and so when you run your reports it
518 tells you exactly where you are on your
519 credit control and you can spot where
520 problems are.

521
522 Me: Have you had that system from the
523 beginning?

524
525 Yeah, we've got a combined package,
526 we've got a case management package
527 which does the sort of letters and runs
528 the cases and then we've got a financial
529 package which is linked in.

530
531 Me: And you all have access to all that
532 information?

533
534 Yep, we all have lap tops, at the moment
535 we only have 2 fixed pc's, so we all have
536 the ability to take our lap tops home and
537 work from home.

538
539 Me: What made you chose that
540 particular package?

541
542 It got a very good write up in the law
543 society's survey, as good a reason as any
544 really.

545
546 Me: Seem to be getting through this
547 extremely quickly...

548

VAT requirements

<p>Organisation of credit management</p>	<p>549 Well its probably because we are not a 550 traditional type business, you know, 551 we're not retail, although we're selling a 552 product and a lot of the work we've 553 done, the publicly funded work, we 554 haven't got the big credit control. In my 555 previous firm we were carrying an awful 556 lot of bad debt, but then the business was 557 13 years old. 558</p>	
<p>Evaluate ease of collection</p>	<p>559 Me: Have you made a positive decision 560 to structure your work in such a way that 561 you can avoid some of the problems of 562 bad debt... 563</p> <p>564 Two things really, one because we're in 565 the early stages and secondly it's the 566 kind of practice that we are, the kind of 567 work we do. You know in actual fact 568 some firms are even better of than us, 569 you know if you're doing conveyancing 570 you don't complete unless you have all 571 the money in and your bill comes out, 572 you know if you sell a house your 573 money comes out of that. You're selling 574 a business, your money comes out of the 575 sale proceeds of the business, you may 576 carry very little bad debt, its more on the 577 litigation side where you're dealing with 578 people who are spending vast sums of 579 money to go to court and you know if 580 people are successful they're always 581 happy paying their bill but if they lose 582 their case they'll always blame the 583 solicitor even if its their own fault. 584</p>	<p>Areas of practice Control of funds</p>
<p>Decision to request money on account</p>	<p>585 Me: Could you explain how publicly 586 funded money comes through to you? 587</p>	
<p>Evaluate ease of collection</p>	<p>588 Well what happens is we get what they 589 call block contract work which means 590 that we are able to do what they call 591 starts it's a very odd description, but you 592 have the ability to take on 15 or so many 593 mini cases you know a month or a year 594 or whatever and then there's full 595 certificated work. Now with the block 596 funded work we get paid money on 597 account by the legal services 598 commission which more or less, well</p>	<p>Client attitude</p>

Financing decisions	<p>599 actually it was the only reason we could 600 start the way we did because when we 601 started we got £5000 a month on account 602 from them which meant that we didn't 603 have to put capital in ourselves and it 604 made an awful lot of difference to the 605 way we operated. 606 607 Me: Right, in an ongoing sense, I 608 suppose it depends who you have as 609 clients...</p>	
Evaluate ease of collection	<p>611 Yes, but we're still going to have a large 612 chunk of publicly funded work, although 613 it doesn't pay anything like as well as 614 the private client work, so yep I think it 615 is important the kind of work that you 616 do, that makes the difference to 617 recovery. 618 619 Me: So I asked whether you could think 620 of four examples of where you've dealt 621 with clients differently and I wondered 622 whether is it because you cant see the 623 differences between the clients that you 624 cant talk me through these... 625 626 Well, it hasn't been a problem as such 627 and that's the way I looked at it, 628 obviously the publicly funded work is 629 different from the private client work 630 and we sort of say, most of the 631 arrangements we have are more or less 632 sort of, there's nothing set down in stone 633 at the moment as to how we manage 634 that. 635 636 Me: Informally though.... 637</p>	<p>Areas of practice Client funding</p>
Evaluation of client Decision to request money on account	<p>638 As I say I haven't got any new sort of 639 employer clients where we've done what 640 I said we'd do which is get director 641 guarantees and money on account, I 642 mean that's what you do best practice if 643 you're taking someone new on but as I 644 say the big ones that we've had have 645 been existing clients and have always 646 paid promptly when we've invoiced and 647 they'd be offended if we asked for 648 money on account at this stage.</p>	<p>Practitioner experience New client Repeat clients</p>

<p>Monitor time and amount outstanding</p>	<p>649 650 Me: OK... 651 652 As I say you'd never want with any 653 client, when you talk about extending 654 credit, much more than a couple of 655 thousand pounds outstanding at any one 656 time. 657 658 Me: So you might have some warning 659 bells in terms of time scale and in terms 660 of liability... 661 662 Yes now you see I went last week to do 663 some work for a big London firm with 664 offices around the world and I mean they 665 probably wouldn't look at it at all like 666 that because a lot of their bills could be 667 you know 30-40 thousand just for doing 668 transactions you know so that for us as 669 bill would be big. 670 671 Me: OK, is there anything that you 672 thought I might ask you that I haven't 673 asked you? 674 675 Um, I mean I see this as about the 676 financing and if I, I know this is about 677 managing credit, but also what my 678 advice, well actually there's a couple 679 pieces of advice, what I would say to 680 people if they were starting their own 681 businesses, well you should really, if you 682 can, afford to live without drawing any 683 money from the business for the first 684 year just try and have enough money to 685 out aside to do that and the second piece 686 of advice would be to avoid borrowing, 687 you now try and avoid borrowing if you 688 can. Because you know borrowing will 689 often give you a false sense of security 690 and the fact that we haven't you know 691 we've got an over draft facility now but 692 we didn't take that out until we moved in 693 march which meant for the first 9 694 months we were keeping a very close 695 eye on things because we didn't have the 696 facility there so that's why we were 697 managing our credit so well and I think 698 that if you relax and think oh well I've</p>	<p>Firm attitude to debt</p>
<p>Financing decisions</p>	<p></p>	<p></p>

Determine methods of collection
Assess effectiveness of personal client contact

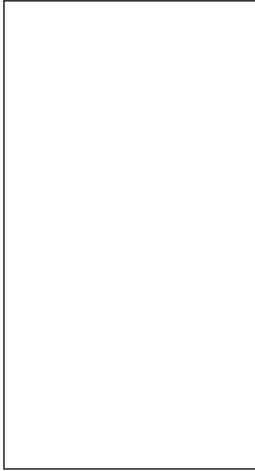
699 got bank borrowing I've just borrowed
700 £20,000 from the bank we know you
701 forget that you've got to repay it, its not
702 your money and so you take your eye of
703 it, you know bills that are outstanding
704 and so on, so if you keep your borrowing
705 down to a minimum it does help you
706 focus. And we weren't extravagant on
707 premises or on anything we did so we
708 kept very tight control, and not have an
709 overdraft either, so I think we did very
710 well. I don't think we would have had to
711 get the overdraft if we didn't move early,
712 because we were going to put some
713 money aside for the move but....Its not
714 just to look at this in isolation if you
715 keep the rest tight you will keep this, its
716 very easy to keep complacent you know
717 you haven't its not your money – but the
718 money that I'm owed by my clients is
719 my money.

720
721 Me: Yes, what do you find the most
722 effective way of getting some action
723 after 14 days?

724
725 Depends on the identity of the client,
726 purely that. I mean some clients don't
727 like the telephone, some clients
728 depending on who you're working for,
729 probably pointless in picking up the
730 phone to your contact, you know
731 because your contact is only the HR
732 director, not the person who's going to
733 pay the bill but if you have a sort of, like
734 one of Fiona's where she's got a client
735 who is really a one man company he's
736 100% shareholder and doesn't have a
737 finance director doesn't have HR, you
738 know she had a bill she wanted paid she
739 picked up the phone to him but I pick up
740 the phone to one of mine and I they're
741 going to say 'well I cant do very much
742 you put in a letter and they'll pass it on
743 to the appropriate person'.

744
745 Me: Right, so contacts and the nature of
746 the client has an impact...
747

Client preferences
Client organisation



748 Yeah, I think that's probably it, its a bit
749 different because we are so new I think
750 and when I saw your hour and a half I
751 thought that's a bit sort of..you know.

752
753 Me: Thanks that's really useful, thanks
754 for finding the time.

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