

# Meet the transparents

Businesses could find themselves in jeopardy unless they consider their own credit ratings and those of the businesses they trade with, experts warn

**The importance of business credit ratings is an issue often referred to, but rarely addressed. For this reason, while many are keen to talk up the 'green shoots of recovery', little airtime is being given to a looming crisis that is awaiting businesses in 2010.**

The credit crisis highlights the need for every business to assess the ability of their suppliers to supply or the ability of their customers to pay. Before either an order is given or one is taken, many businesses check their trading partner's latest credit rating. The problem is that current Companies House filings reflect performance during the worst of the recession when many businesses experienced their worst trading performance ever, hampered by the increasing reluctance of banks to lend and suppliers to extend credit. Hard work has restored many businesses' finances. Many are hoping to build on that progress in 2010.

## Backwards step

This could be jeopardised just when recovery is in sight because Credit Referencing Agencies (CRAs) use statutory annual accounts filed at Companies House as an important part of their credit assessments. New credit ratings will be based on annual statutory accounts that reflect a business's performance during the worst recession for a generation.

Professor Russel Griggs, chairman of the CBI's UK SME national council, believes many remain unaware of this and therefore it is difficult to say how this scenario will play out. 'I can't predict what the full effects of this might be and I don't think



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the finance and credit industry knows either,' he says.

Griggs is quick to say that any sort of doomsday scenario is avoidable if all parties work together and SMEs and large corporates work alongside the credit and finance industries. 'It is all about improving accountability and transparency and increasing information flow between trading partners. That's not just the responsibility of businesses; the credit, finance and supply chain managers need to be communicating to their customers exactly what is

required of them,' he says. Martin Williams, managing director of credit referencing agency Graydon, agrees that everyone has a part to play. 'It is our responsibility to make it clear to businesses exactly what information they need to supply in order to be properly assessed. However, it is also crucial that owners and managers move away from the mentality that regards all financial information about their businesses as private and confidential. They must embrace the idea that transparency of up-to-date financial information can be a positive thing for both themselves and for their suppliers and customers,' he says.

## Open books

Griggs agrees: 'Businesses don't have anything to fear about being more financially transparent as no one wants bad debtors or failures in supply. Survival – let alone growth – depends on better management of a business's own finances and then to share this with their trading partners. This is very much a two-way exercise as, in turn, it is essential that every supplier and customer sees that business in the best possible light.'

'Nervousness in the finance and credit markets can only continue,' concludes Glenn Collins, head of advisory services, ACCA UK, 'therefore now is the time for businesses to take control of their own credit ratings and also understand the credit ratings of those they do business with. Financial transparency of monthly management accounts will be crucial to achieving this and offset the negative impact of end-of-year accounts that reflect the poor trading year.'