



## **Editorial**

# **Problems, challenges and opportunities: the small business as a setting for management accounting research**

This special issue is devoted to management accounting in the small firm. It comprises five studies which address various aspects of this topic, which have been undertaken from different perspectives and which involve different research methodologies. The editorial below reviews the potential for and significance of research in this area and assess the contribution made by the five studies.

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### **1. Introduction**

It is now widely recognized that small firms are not only numerous, but constitute a vital force in modern information-based economies. Small firms make up the vast majority of the business population within the U.K. (over 90 per cent) and contribute nearly two-thirds to national employment. Of these, a significant and stable minority (about 10 per cent) experience unusually high performance and growth. These dynamic and frequently innovative firms are sometimes described as 'gazelles'. Part of the reason for the reassertion of the importance of small firms is that their flexibility makes them well suited to the niche opportunities which are so characteristic of the 'new' economy. A crucial attribute of the small firm, if it is to be successful, or even if it is to avert poor performance and failure, is proper management of information, especially as regards monitoring and control. It is in this quarter that management accounting assumes great importance, for small firms now have the capacity to operate and develop quite sophisticated monitoring and control systems based on contemporary management accounting practice. This special issue investigates the scope, variety, role and operation of contemporary management accounting practice in the small firm. It does so both in detailed individual small firm studies and with large samples of small firms. Of particular note is that the management accounting perspective is important, not only to the 'gazelles', but also to the struggling small

firms. In this sense, the management accounting approach to monitoring and control is ubiquitous.

## 2. Problems and challenges

Despite its economic importance and the considerable attention afforded the small firm sector by the sister disciplines of economics and management, researching management accounting in the small firm setting has never been fashionable. Consequently published work has been somewhat sporadic (see, for example, Mitchell *et al.*, 2000, for a review). The professional accountancy institutes have produced occasional short, prescriptive monographs (Perry, 1963; Snow, 1967; IFAC/CIMA, 1998) but have, in the main, focused research activity on the financial accounting and auditing aspects of this constituency (Raibarn, 1982; Carsberg *et al.*, 1985; Jarvis, 1996; Pratten, 1998; Marriott and Marriott, 1999). Empirical management accounting research, particularly that designed to investigate technical innovation and development, has been concentrated on the larger enterprise (e.g. Monden and Hamada, 1991; Kaplan, 1994; Anderson, 1995). When change and novelty have been the target of researchers, they have not pursued their aim in small firms where the expertise and capacity to innovate in management accounting is unlikely to exist. Finding a rationale or purpose for management accounting research which can be met in the small firm setting is therefore one of the challenges to be faced in promoting this sector as a research focus.

Underlying this challenge of providing an attractive rationale for management accounting research in the small firm are two practical issues which problematize the research focus. First there is the question of the supply of expertise to deliver a management accounting service in this context. Small firms vary greatly in size from those substantial enough to have in house accountants, however many at the micro end of the scale will have no qualified internal accounting capability and will also lack the resource to buy it in (Nayak and Greenfield, 1994). In effect, in many cases there will be no, or little, formal management accounting to research. This does not, however, leave the research agenda bare. Given the apparent prohibitive costs of servicing these firms with information, the issues of how they cope and how beneficial practice might be promoted and made available to them are fundamental for policymakers and the profession. If properly addressed they can, however, potentially generate substantial economic and social benefits for the small firm fraternity. Second there is the normative question of what form (or forms) management accounting should take in small firms. Here issues of firm heterogeneity in size, capabilities and situation all complicate answers to this question. Not only information type and content but also its presentation in a comprehensible form are important as the capacity of recipients to understand and use it will vary enormously. The provision of a research base from which prescriptive guidance on management accounting practice for the small firm can be derived is therefore one rationale for applied research in the area. It is also an important one as a small number of studies have consistently pointed to a positive link between accounting information and small firm performance (Gul, 1991; Romano and Ratnatunga, 1994; Lybaert, 1996).

### 3. Opportunities

While small firm research offers its particular problems and challenges it also offers opportunities for researchers. These extend well beyond applied research directed at improving practice to this type of enterprise or studies of current practical innovations. The small firm provides a more accessible and advantageous research setting where: (a) management accounting can be studied with greater ease and clarity than is often possible in larger, more complex organizations; (b) the 'birth' and early formative development of management accounting can be observed in new/recent start ups; and (c) the progressive development of management accounting both at technical and organizational role levels is a more marked and practical proposition for observation. It therefore facilitates fundamental research on the origins and evolution of the discipline in an organizational context. Indeed, in the larger firm research can be hindered by the complexities of the organizational context as many complicating factors, often absent in the small firm, are present, e.g. geographical fragmentation, lack of uniformity in intra-organizational accounting, bureaucratic structures and processes hiding informal practices, limited scope of participants' current and historical knowledge and a constant multiplicity of dynamic influences on internal accounting. Coping with the complexities of organizational form and life is one of the great challenges for researchers focusing on one aspect such as management accounting and trying to describe, explain and understand it *in situ*. One research approach to address this issue would be to start in the simplest of settings, i.e. the small firm, and gradually progress (on a longitudinal or cross-sectional basis) to more and more complex contexts. This would facilitate the study of the association of management accounting development with many of the factors suggested by contemporary theory (e.g. agency, markets and hierarchies, contingency, institutional) as being influential. These could include the following key events in the life of the small firm: the influence of contributors of new loan or equity capital; changes in ownership; manifestations of growth including the movement from single to multiple products, entry to new markets and the use of new distribution channels; alteration in organizational structure including the introduction of a new layer of management; segmentation of the firm into cost, profit or investment centres; variation in the firm's financial performance and circumstances; the introduction of new production technology and increased capital investment; intensification of competition and changes in market structure; the introduction of incentive schemes; and the development of new operational routines and procedures. In the small firm many of these factors will represent both large and novel change and this significance will provide a setting in which researchers will be able, more readily, to trace the origins of developments in areas such as management accounting. Some examples of research questions derived from this perspective are as follows. Does the introduction of a second product line create a need for product costing? Does the emergence of middle management require amendments to performance measurement systems? Do short-term liquidity problems influence information provision? Do venture capitalists require certain standards for decision making? It is through the facilitation of research on questions such as these that the small firm provides opportunities for researchers to identify and explore the fundamental forces which shape management accounting practice.

#### 4. Papers in this Issue

An understanding of the processes by which management accounting ideas can enter and develop within the small firm is a pre-requisite for designing policy initiatives which are likely to succeed in improving the accounting information available to small firm management. The papers by Marriott and Perren and Grant provide different insights into these processes. The former is an exercise in 'market research' to ascertain from a sample of small business men and women the barriers which restrict their ability to realize the potential of management accounting. Here there are key lessons for the professional accountant servicing the small business. There is a need to address issues of how information can be simplified and presented in a user-friendly manner, how the potential of computers can be exploited and how interpretation of information can best be undertaken. Particularly for the microbusiness with no internal accounting expertise, these issues represent significant barriers to information use. The latter highlights the key role of people (who form a micro society in each small firm) in 'importing' and using management accounting. Information use is a part of the social construction of the 'world' existing within the firm. It plays a role in important institutionalized routines underlying control and decision-making procedures. New developments are adopted only on the participants' own terms (in ways which fit the existing social world of the firm). Advisers are thus unlikely to succeed with broad prescriptive agendas. Advice and change should be based on a familiarity with the firm and its operations (social and technical) so that new information fits the already existing context in which it will be used.

In the paper by Ritchie and Richardson it is shown that even single firm case studies can generate a lot of insight. Their focus is upon the need to understand, and indeed, appreciate the importance of investigating wrongful trading (and, more generally, poor practice) within the small business. In pursuing their investigation within the firm, an analysis is given of the social dynamics within the firm and the way these interacted with performance, monitoring and control, and reporting. It is a useful contribution to the literature of accountability of the smaller business from an accounting perspective, an area which is currently both misunderstood and under-researched.

Also using an intensive research method within a single enterprise is the paper by Greenhalgh. As with the Ritchie and Richardson paper, this work is strongly grounded in real small business practice and has a similar dynamic element to it arising from the longitudinal perspective taken. In terms of method, Greenhalgh's paper is an exploratory and explanatory case study. The data were based on interviews and meetings with two members of a firm over a period of about a year-and-a-half. Though not quite a struggling firm, in the sense of Ritchie and Richardson, the firm examined by Greenhalgh is a so-called 'runt company' left over from the divestment strategy of a multinational enterprise. Greenhalgh focuses on the role of the controller within the company. He concludes that the controls invoked focused on traditional performance measures and management accounting techniques. Despite the fact that the controller had not gone beyond traditional methods, these alone seem to have been sufficient to negotiate and survive a turbulent period of company history. Taken together, the works of Ritchie and Richardson and of Greenhalgh emphasize that one learns as much in a research sense from examining beleaguered firms as from examining the more popular high-flying, high-performing firms.

In the study of Reid and Smith an apparently quite different type of methodology is adopted. Four hypotheses are explored across a sample of micro firms which was large, in a statistical sense. An unusual characteristic of the sample was that the dates attached to variables allowed a dynamic feature to emerge in the analysis. Specifically, its longitudinal aspect was used to identify the nature and timing of specific contingencies, as identified in the contingency theory of management accounting (see Emmanuel *et al.*, 1990). The dynamic, longitudinal dimensions of this research setting provide a shared reference point with the works of Greenhalgh and of Ritchie and Richardson. A variety of multivariate statistical techniques (correlation, cluster and regression analyses) is used to explore and test hypotheses generated by this theory. Generally, the findings are supportive of contingency theory, though they suggest that its scope may need to be somewhat reduced when one moves from a large firm's to a small firm's context.

## 5. Conclusion

Researching management accounting in the smaller firm has not been fashionable but, as outlined above, we can learn a great deal about the fundamentals of management accounting development from these firms. The studies contained in this special issue demonstrate this and exemplify the great potential that exists for management accounting research in this somewhat neglected area. The ideas which the papers in this issue contain and the questions which they raise can, hopefully therefore, act as a catalyst to stimulate the future management accounting research which the significance of the small business sector deserves.

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