

**Research Note****Management Accounting Needs of SMEs and the Role of Professional Accountants: A Renewed Research Agenda**

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**Abstract**

*In this paper we discuss the importance of management accounting information for the owner-managers of small and medium enterprises (SMEs). We firstly, trace developments in management accounting thoughts and theories, and this is followed by the nature of SMEs and their demand for management accounting information. We then discuss the pressures on small accounting practitioners (SAPs) and their ability to meet SMEs' management accounting needs. The paper ends with opportunities, challenges and future directions for SMEs, SAPs, and researchers in management accounting and control systems (MACS).*

**Keywords**

**SMEs  
Managing Accounting  
Professional Accountants  
Small Accounting Practitioners**

**Introduction**

Small and medium enterprises (SMEs), defined by the Australian Bureau of Statistics (2001) as a business (excluding agriculture) that employs no more than 200 people, have been a key force in many economies of the world, and they will continue to maintain their dominance in future (Arnold, et al. 1984; Mitchell and Reid, 2000). Some have labelled SMEs as 'gazelles', the reasons being their ability to grow quickly, their flexibility to adjust to 'niche opportunities', a feature of today's economy, and their ability to quickly adjust to conditions during good and bad economic times (Mitchell and Reid, 2000; 385). It is argued that only a very small percentage of SMEs may actually be gazelles and the vast majority struggle for survival and continuity in the long run (ibid). There are numerous reasons for SMEs' failure to grow and maintain long-term continuity, an important one being that many owner-managers 'have little or no conception of workings of, or problems encountered in managing a SME (Kirby and King, 1997).

Under these circumstances, training and experience in managing a SME, and the role of management accounting information, both have an important part to play with respect to monitoring and control of the activities of SMEs. We argue that like large firms, SMEs' also require adequate and also sophisticated management accounting techniques and systems to better manage scarce resources and enhance customer and owner/manager values. In spite of the economic and social importance of SMEs, provision for management accounting information and management accounting research initiatives in SMEs have both been considerably lacking (Kirby and King, 1997; Marriott and Marriott, 2000; Mitchell and Reid, 2000). Issues that problematise these include, among others, cost factors, presentation style, the expertise of accountants in public practice and lack of research opportunities in SMEs.

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Acknowledgements: An earlier version of this paper was presented at the ICAA NSW Public Practitioners' Conference (2007). The author is thankful to Susan Ciccotosto, Paul Collier and two anonymous reviewers for insightful and constructive comments.

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Indeed these drawbacks provide challenges to the researchers, educators, practitioners in (management) accounting, and the accounting profession as a whole.

Small accounting practices (SAPs)<sup>1</sup> also operate as small businesses, confronted with decisions such as management of knowledge, human resource, budgets, cash, client and so on, in the process of providing professional services to their clients who are generally SMEs (Kirby and King, 1997; Gibbins and Wright, 1999; Ciccotosto, et al. 2008). To retain their clients they have to be conscious about their fees, manage disputes and provide high quality compliance and non-compliance related services. Research shows that owner-managers of SMEs expect, apart from routine compliance services, advice on many broad and specific aspects of their business and these include among others, financial planning, management accounting and information system, forensic accounting, cost reduction, succession planning and pricing decisions (Arnold, et al. 1984; Kirby and King, 1997; Marriott and Marriott, 2000; Ciccotosto, et al. 2008; Nandan and Ciccotosto, 2007; Alam and Nandan, 2007). While accountants have the expertise and skills to provide the majority of above mentioned services, they have not been extensively involved in the provision of such services (Arnold, et al. 1984; Nandan and Ciccotosto, 2007). For example, in this information age many SMEs have embraced computerised information processing technology but have been reluctant to obtain these services from external advisors such as accountants (Arnold, et al. 1986; Ciccotosto, et al. 2008). This has serious implications for the accounting profession. It also appears that SAPs have not been forthcoming in moving beyond their traditional service areas, and the factors that may have influenced such a decision include (Kirby and King, 1997; Arnold, et al. 1984):

- Satisfaction with narrow compliance-based service,
- Accountants' exclusive rights to provide certain services and reluctance to move out from their comfort zone,

- Risk and competition in providing non-traditional services,
- Narrow bookkeeper image of accountants is not compatible with new service demands,
- Lack of resources – human, intellectual and financial.

SAPs, in the past have been accused of letting SMEs down, hence their unpopularity among the latter. SAPs are perceived to be too busy, disorganised, very fee-conscious and not trained to provide management accounting services (White, 1983; Kirby and King, 1997; Marriott and Marriott, 2000). These provide opportunities to other professionals such as solicitors, IT experts and bank personnel to provide management accounting services to SMEs.

Our research sought to explore the literature and prior research to identify the opportunities, challenges and future directions for researchers in management accounting and control systems (MACS) in relation to the management accounting needs of SMEs and how those needs may be filled by SAPs. The key motivation for this work has been that it is now a decade since a special issue of *Management Accounting Research* was launched in 2000 to understand better the problems, challenges and opportunities for SMEs and the role of professional accountants. This special issue raised several concerns in relation to SMEs' management accounting needs and potentials that exist for research in management accounting and control systems in such organisations. Unfortunately, in recent years we have not seen in print sufficient research addressing calls that were made some ten years ago. Recent research reveals that management accounting services are not provided by their public accountants, and if they are provided, then the costs for such services would be quite substantial (Marriott and Marriott, 2000; Ciccotosto, et al. 2008). The rest of the paper is structured as follows. In the next section we provide an overview of conventional and contemporary management accounting thoughts, followed by alternative theoretical frameworks to better understand theories and practice of MACS. We then examine the nature of SMEs and their need for management accounting information. This is followed by discussion on the types of management accounting information for SMEs

<sup>1</sup> CPA Australia(2004) and ICAA (2005) surveys have defined a SAP as a small business with 3.65 full time employees if there is one principal, or 3.2 full time employees per principal if there is more than one principal.

and the capacity of professional accountants to meet those needs. The paper ends with a note on future directions and challenges for SMEs, their accountants, the accounting profession and management accounting educators.

### **Conventional and Contemporary Management Accounting Thought**

The rapidly changing contemporary business environment is far more complex; product diversity has increased, cost structures have become more overhead-intensive driven by activities rather than volume, the importance of non-financial indicators have increased and the rise of the service sector is phenomenal (Scapens, et al. 2003). The above complexities and changes make management accounting a continuously evolving craft. In these circumstances traditional or conventional management accounting techniques are of little value. Conventional management accounting and control systems (MACS) such as budgets, standards, performance measurement and evaluation, overhead allocation and transfer pricing, among others, were all more or less fully developed by 1925. Beyond this period, until 1988, it is argued that the pace of newer developments in MACS largely stopped, the emphasis being on refinement of existing practices. This state of affairs led Johnson and Kaplan (1987:1) to state in very strong terms that 'today's management accounting information, driven by the procedures and cycles of the organisation's financial reporting systems, is too late, too aggregated, and too distorted to be relevant for managers' planning and control decisions'. This is commonly referred to as 'relevance lost' in the management accounting literature. There are mixed research results, some contradicting each other, on whether management accounting practices are changing in line with the changing needs of organisations operating in an increasingly complex environment (Scapens, et al. 2003). Quantitative studies such as those based on questionnaire surveys suggest a slow pace of growth in management accounting techniques, while those based on more qualitative approaches such as case and field-based studies suggest adoption of more advanced techniques intertwined with strategy such as activity-based costing, value chain analysis, balanced scorecard and other newer developments (Scapens, 2006).

The year 1988 is quite significant in terms of newer developments of thoughts in MACS. A form of costing that was unknown at the time of the 'relevance lost' debate in early 1988, came to be known as activity-based costing later in the same year (Jones and Dugdale, 2002). Since then, strategic management accounting has come to the fore, and in a very short span of time several new strategic techniques have evolved as a result of increased global and domestic competition, advancements in manufacturing sector, rise of service sector and developments in communications and information technologies. These include among others: balanced scorecard which translates strategies into key performance measures, target costing, life-cycle costing, throughput, total quality management (TQM), supply chain management, networks, just-in-time (JIT) and lean accounting, among others. These newer developments led at least some researchers and theorists in MACS to argue that relevance lost may be regained in the near future provided a whole new culture was developed in relation to broader roles of accountants and future research (Flamholtz, 1992; Johnson, 1992).

Given the current focus of management accounting, it is clear that the discipline increasingly resides beyond the boundaries of a focal organisation or a nation (Shields, 1997). In recent years, the roles of management accounting and technology in inter-organisational management have become quite significant given the importance of management of strategic dimensions such as value chain, supply chain, networks, alliances and trusts (Tomkins, 2001). This demands appropriate skills on the part of (management) accountants to provide strategic directions to owners/managers of SMEs.

The 21<sup>st</sup> century emphasis in MACS has not abandoned the concepts of traditional cost and financial and management controls. These techniques continue to be used but the focus now is more on the broader notion of resource management and the role of MACS in implementing firms' strategies with a view to creating customer and shareholder value (Langfield-Smith et al. 2006). Today management accounting information and analysis is crucial in managing large

enterprises as well as SMEs, moving from a passive role as information providers for decision making, to taking a more proactive role in strategic and day to day resource management decisions (Scapens, 2006). In the next section we provide an overview of conventional and alternative frameworks that have been used to study MACS in large organisations. Given the broad-based nature of these frameworks, our contention is similar to those of Scapens (2006) who argue that they are equally applicable to study and understand MACS issues in SMEs. In developing broader service offerings to SMEs, local professional accounting bodies are in a better position to issue guidelines in setting strategic directions, and SAPs, being members of the latter, could adopt them in providing strategy-based services. Other initiatives that could be facilitated by professional accounting bodies include: research to understand critical needs of SMEs; educational programmes for SAPs to develop competencies; development of tool kits on services that add value; and improvement in general image of SAPs (Scapens et al. 2003; Scapens, 2006).

### Theoretical Frameworks for Understanding MACS in Practice

In 1970s, as part of refinement of existing accounting practices, the academic world of accounting placed heavy emphasis on complex mathematical models drawing from neo-classical economics, with a view to providing them as prescriptions to management accounting practitioners (Scapens, 2006). Unfortunately, many of these models remained in text book chapters and did not penetrate the world of everyday practice. The 1980s recognised that there was a gap between practice, theory and research in management accounting, hence the need for an in-depth understanding of the actual practice of management accounting. It is in this period that the full potential of in-depth, longitudinal case and field studies was recognized to obtain detailed knowledge of management accounting in practice in large organisations. Scapens (1994) arguing in favour of studying management accounting practice *per se*, called upon researchers not to bother about the gap between theory and practice, as better understanding of practice will enable better theorisation of MACS. This led to proliferation of in-depth case and field-based

studies of actual functioning of management accounting in everyday settings.

The late 1980s and 1990s saw a wide variety of theories and methodological approaches adopted to explore, understand and explain the actual practice of management accounting (Scapens et al., 2003; Scapens 2006). The emphasis shifted, at least in the UK, Europe and Scandinavia from economic-based theories and models to social and organisational theories with interpretive and critical thrusts<sup>2</sup>. No doubt, there is considerable theoretical diversity that provides different lenses to view MACS in practice, drawing on contingency, institutional, labour process, structuration, governmentality, actor network and other theories (Baxter and Chua, 2003). These broad-based multi-disciplinary frameworks did provide researchers in MACS with more in-depth insights but generally failed to influence everyday practice. Their implications for everyday practice and for those practicing as management accountants are unknown and therefore, pose a challenge for academic management accountants (Scapens, 2006). It is important that the practical relevance of various theoretical constructs is known and this demands more research of everyday practices.

In 2000 and beyond the research focus has been on management accounting change, the processes of change, and resistance to change, in particular, why management accounting change has not been keeping pace with environmental and technological change (Burns and Scapens, 2000; Scapens et al., 2003). The answers could be either a single or a combination of factors relating to cost, resistance to change, and lack of perceived benefits associated with newer techniques. Clearly, there are several complex economic, social, cultural and organisational factors that are at play that determine the choice of appropriate MACS in organisations (Burns and Scapens, 2000). It is argued that these influences shape MACS in practice, and are in turn shaped by such practices. Recently, different versions of institutional theory (new

<sup>2</sup> Reflected in the prominence of studies in *Accounting Organisations and Society*, *Management Accounting Research*, *Accounting Auditing and Accountability Journal*, *Financial Accountability and Management Journal*, and *Critical Perspectives on Accounting*.

institutional economics, old institutional economics and new institutional sociology) have been utilized to understand detailed processes of evolution, reconstitution and change in MACS in practice due to internal and external influences (DiMaggio and Powell, 1983; Burns and Scapens, 2000; Lounsbury, 2008; Modell, 2009). Whereas new institutional economics and new institutional sociology examine the influences of external environment, insights from old institutional economics, combined with Giddens' notion of duality between human action and structure, appear to be popular frameworks to adequately capture the constitution, reconstitution and change processes of MACS within organisations (Scapens, 2006). Having provided an overview of various theoretical and methodological positions to understand theory and practice of management accounting, in the next section we specifically address the management accounting needs of SME owner/managers.

### **Nature of SMEs and their Management Accounting Needs**

SMEs represent a major business sector in the industrial world and are of great significance in less developed countries. In many countries they represent over 95% of all businesses, employ around 65% of the workforce and contribute about 25% to GDP (Ballantine, et al. 1998). In Australia, in 2004, small businesses represented around 97% of all private sector enterprises, employed about 50% of all private sector employees and contributed at least 40% towards the GDP (Australian Bureau of Statistics, 2001). It is important that we understand the characteristics of SMEs that make them different from large organisations. It is beyond doubt that a high failure rate is a characteristic of the SME sector. In any given year the failure rate of small businesses is around 11%, being about six times higher than large enterprises (Ballantine, et al. 1998). SMEs tend to depend on a small number of customers, produce standard products or services, and have little influence on market pricing. SMEs also tend to have independent ownership where owners/managers retain close control as the principal decision makers and provide the majority of capital required for operations.

It is generally felt that the larger the organisation, the greater the need for management accounting information (Storey, 1995). This may imply that SMEs do not need comprehensive MACS in place. On the contrary, our contention is that SMEs face similar forms of complexities, and are more prone to failures and, therefore, management accounting information is especially important to them for better resource management and allocation decisions. Given the importance of SMEs within any economy, and the considering they represent a seedbed from which new, large companies may grow, it is felt that SMEs need for timely, accurate and reliable management accounting information is well understood. It is in this regard that management accounting assumes a potentially significant role for SMEs. The management accounting needs of SMEs also seem to be dependent upon the 'contingent complexities' they encounter, at different times and under different circumstances (Birkett, et al. 2002: vi). These complexities are strategic, organisational and financial in nature depending on the different stages of growth of the organisation, from inception to maturity. It is argued that financial and cost management needs and the level of sophistication are influenced by contingent complexities at each stage of growth within SMEs.

SMEs tend to vary in size and amount of resources at their disposal, and many who are at the 'micro end of the scale' lack in-house management accounting capabilities (Mitchell and Reid, 2000: 386). To fulfil their management accounting needs, owner-managers therefore, look for external advice in this regard, and SAPs are well suited and positioned to serve as advisors (Arnold, et al. 1984). But as said earlier, while they are perceived as the best providers of management accounting services, they are not often used (Arnold, et al. 1984; Kirby and King, 1997; Marriott and Marriott, 2000) for reasons of increased cost, the narrow 'bookkeeper' image of accountants, and the lack of expertise and training of SAPs in areas beyond routine compliance work (mainly the preparation of financial statements and taxation returns, and audit).

There is a dearth of literature on the management accounting needs of SMEs and the role professional accountants. Those few

published to date mostly have the UK and the USA focus, and an Australasian perspective is virtually non-existent. But this does not mean that the UK/USA studies are not relevant to other contexts. They may very well be, hence a call for more studies in the Australasian context so as to better theorise SMEs' demands on SAPs at a global level. The findings of relevant published studies are now provided in some more detail.

Kirby and King (1997: 294) examined the relationship between SMEs and SAPs in the North East of England and found 'a mismatch in the expectations of the two groups'. SAPs perceive a well-founded relationship between themselves and their clients but this relationship is not reciprocal. Owner-managers perceive that it is not the cost but the lack of knowledge and expertise of their business on the part of the accountants. To bridge the credibility gap, the traditional relationship between SMEs and SAPs will need to change with the latter becoming more involved in business and proactive in maintaining relationship based on trust and confidence (Kirby and King, 1997).

Marriott and Marriott (2000) report results within the UK context on SMEs need for management accounting information, and the capacity of public accounting practitioners, particularly SAPs to meet those needs. All fifteen companies interviewed used computers to produce accounting reports, but advice on appropriate software and systems in half the cases came from sources other than accountants. Choice of appropriate system, software specification and acquisition is an area where SAPs' inputs add value, but surprisingly the study found lack of such inputs by SAPs. The findings further reveal that the charges for the services provided are quite high especially when all information is provided by the owner-managers to produce accounting reports suitable for tax office. The majority of the owner-managers felt that they would benefit from management accounting information but were reluctant to seek the same from SAPs as it could result in greater fees. It is this perception of the SMEs that acts as a barrier to requesting management accounting services from SAPs.

In Australia, Birkett, et al. (1992) reported the outcome of a study on the cost management

needs of small manufacturing organisations, commissioned from the Australian Centre for Management Accounting Development by the National Industry Extension Service. Their theoretical study was based on the assumption that, like other organisations, SMEs face contextual complexities in terms of strategic, financial and cost management issues. Strategic issues pertain to the range of products and services provided, financial issues deal with how funds are generated to support strategies, and cost management issues focus on how financial resources are consumed to support strategy. Cost management refers to various approaches and activities of managers in short and long-term planning and control decisions to increase value for customers and shareholders. Cost management has a broader focus and is not only restricted to cost reduction. It may involve incurrence of additional costs to enhance revenues and profits. Cost management is also intertwined with the strategy of a firm. Management accountants are often called upon to assist in the formulation and implementation of strategies of cost leadership, product differentiation or both. One strategic tool available is the Balanced Scorecard, which translates an organisation's strategy into a set of key financial and non-financial indicators (Kaplan and Norton, 1996).

Ciccotosto and Nandan (2006) studied how small convenience stores in far North Queensland, with limited resources, coped with the new requirements of the Australian Taxation Office, and the role public accountants played in assisting their clients to internalise the new accounting and tax rules. The study found mixed feelings among interviewees on switching over to accounting for the Goods and Services Tax (GST). While a few found the changeover process smooth and without difficulty, the majority stated that they had continuing data base problems, and were not happy with the software packages recommended by their public accountants.

Holmes and Nicholls (1989) based on a large scale survey highlighted the limited acquisition or preparation of detailed accounting information by owner-managers of small Australian businesses, except those sought for statutory returns. The study adopted a contingency model that examined the

influence of operating and environmental variables on preparation or acquisition of detailed accounting information. The findings further revealed that most owner-managers engaged a practicing accountant to prepare statutory accounts and limited non-statutory management accounting information were either acquired externally or generated in-house.

There have been a number of studies of control in owner-managed businesses, most of which have focused on the use of traditional management accounting systems (Amat et al, 1994; Romano and Ratnatunga, 1994; Gorton, 1999; Perren and Grant, 2000; Greenhalgh, 2000; Merchant and Van der Stede, 2003).

Sources of management accounting knowledge for owners/managers include the prior experience of the owner-manager and employees, external management accounting expertise (such as from SAPs), and accounting software packages (Perren and Grant, 2000). The owner-manager exercised a 'critical filter' over which of these discourses influenced the business (Perren and Grant, 2000). A 'thin' management accounting role may be sufficient in some owner-managed businesses (Greenhalgh, 2000) whilst in others the inadequacies of professional accounting advice, given the contextual complexity of a particular business, can lead to the development by an owner/manager of a 'relevant accounting' at the margins of traditional accounting (Collier, 2005).

Sen and MacPherson (1998) tested for regional variations in the operating characteristics of small and medium sized public accounting firms in New York State. Drawing upon Noyelle (1997), this study examined whether there was a change (between regions and over time) in the nature of services provided by small and medium sized accounting practices in the State and whether the shifts in the nature of services, if any, led to new connections in foreign markets. A number of general but unexpected conclusions were drawn from the survey results. In summary, the findings suggested that small and medium sized public accounting firms provided relatively standardised routine services (accounting, auditing and tax) to local or regional clients. There was very little evidence of internationalisation of services by

these firms, with only modest evidence of functional diversification (Sen and MacPherson, 1998). The firms in the study were generally found to be resource constrained and therefore unable to systematically explore and/or develop non-local opportunities.

Cunningham (1983) found the reasons for small business failure are numerous and one remedy was to make use of the expertise of professional accountants. Kirby and King (1997) examined the relationship between small businesses and small and medium sized accountancy practices in North East England. Their findings suggested that accounting practitioners did not accept any responsibility for the small business sector other than contractual obligations for compliance-related works, and that practicing accountants often provided advice only when it was requested (*ibid*: 295). White (1983: 74) maintained that accountants were too busy and disorganised, too fee conscious and simply not trained to provide a full range of business services. Overall, Kirby and King (1997: 302) found that small and medium accounting firms have a potentially important role to play for their small business clients requiring a change in the traditional narrow relationship between the accountant and her/his client, if possible, closing the expectancy gap between the two. Research findings further demonstrate that SMEs do not frequently change their public accountants, thus services beyond bureaucratic compliance have long term benefits for both the parties (Marriott and Marriott, 2000; Kirby and King, 1997). Moreover, management accounting information such as past and present profit performance comparisons and ratio analysis and interpretation are all by-products of statutory financial statements and their production by SAPs may not entail significant time and costs.

The financial literacy of owners/managers of SMEs will often be weak and therefore accounting and finance information may not be seen as representing value for money. Again, SAPs have a significant role in this regard and upon recognising the value of such information and the costs at which they come, SMEs may change their perceptions about the increased costs of management accounting information. Research further demonstrates that less literate owner-managers prefer

accounting information in the form of graphs, diagrams, figures, charts, tables, ratios and accompanying narratives to enable better understanding of financial performance and the state of affairs of their enterprises, with a view to improving them in future.

### **SAPs and their Capacity to meet Management Accounting Needs of SMEs**

SAPs are a dominant group within the accounting profession and play an important part in the global as well as in the Australian economy (ICAA, 2005; CPA, 2004). SAPs represented a major sector of the accounting profession. The Institute of Chartered Accountants, Australia (2005) noted that 67% of all public practicing accountants work in small to medium enterprises firms, while the remaining 33% work in tier one and two firms. The CPA's Public Practice in Australia Benchmark Survey (CPA Australia, 2004) highlighted the continuing domination of SAPs within the CPA (93% of the approximately 10,000 practices have either one or two principals). Also SAPs employ a significant proportion of persons employed in all accounting firms. Queensland had the greatest proportion of employment in small practices (67.5%) and the smallest employment in large practices (11%) (Australian Bureau of Statistics, 2004). At the national level, about 46% of all accounting practice employment was in practices with one or two working principals.

Public accounting firms (and this includes SAPs) are regarded as knowledge-intensive in nature, their key resource being their human capital (Gibbins and Wright, 1999). Heavy demands are made on the knowledge and professional expertise of those who work for them (Gibbins and Wright, 1999; Nandan and Ciccotosto, 2007) and expertise and knowledge management in these firms are part of their operational and strategic management functions (Gibbins and Wright, 1999: 27). Knowledge management has become a significant issue for SAPs operating in regional and rural settings (Ciccotosto, et al. 2008). Like SMEs, SAPs operating in rural and regional locations face several context specific issues. Several field studies have been conducted in rural and regional North Queensland on problems and issues faced by

SAPs (Ciccotosto, et al. 2008; Nandan and Ciccotosto, 2007; Alam and Nandan, 2007). Ciccotosto, et al. (2008) identified several issues and challenges faced by rural SAPs located in far North Queensland. The findings of the study generally provided support to previous research and ranked staffing, knowledge management, keeping up-to-date through professional development and stress as key areas of concern. Reasons for setting up accounting practice in rural and regional locations include being 'born and bred' there, the life style, absence of massive work pressure, autonomy in decision-making and personal touch with clients. Principals and partners of SAPs interviewed found working in large firms in urban centres very 'bureaucratic, traditional and regimented' (Ciccotosto, et al. 2008: 329). An interviewee stated that 'working for large firms meant big issues, big experiences and a lot of backstabbing ..... in a smaller community we are recognised, we can add value as we are seen as professionals, respected for technical and professional skills' (ibid: 329).

However, there are equally serious issues and concerns for rural SAPs (Ciccotosto, et al. 2008), and these include high stress levels, staff shortages and lack of regular professional development. All interviewees in Ciccotosto, et al. (2008) study reported that dealing with the Australian Taxation Office was a very stressful and painful experience mainly arising from long telephone queues, severe penalties and contradictory interpretations of tax rules. Keeping up-to-date, knowledge management, retaining qualified and trained staff and professional development of staff are adversely affected due to distance from urban centres (ibid). To address some of the above context-specific issues, SAPs have formed an informal knowledge sharing network to jointly address pertinent issues and problems faced by the member firms (Ciccotosto, et al. 2008). The Cairns Regional Accountants' Forum, an informal, knowledge sharing network has been studied separately (Nandan and Ciccotosto, 2007).

Kirby and King's (1997) UK study found that SMEs heavily depended upon external agencies (e.g. solicitors, accountants, banks, consultants and academics) for advice. While solicitors appear to be used by a greater proportion of such firms, accountants in public

practice are more frequently used, and this suggests that: 'the accountant does have a valuable entrée to the small business, capable of providing an important conduit through which advice and guidance may be channelled' (ibid: 297). However, the study found that accountants were not preferred providers of advice pertaining to broad-based management issues mainly due to lack of knowledge of client business and cost factors. For example, SAPs were rarely approached by owner-managers for assistance in dealing with specific management problems such as MIS, consistent with the findings of Arnold et al. (1984). One reason for this is the perception of owner-managers that SAPs often provide 'canned' or 'package' solution that have proved ineffective. It is important that MACS for SMEs is tailored to their context specific needs (Alam and Nandan, 2007). For this to happen, SAPs need detailed knowledge of the operations of their clients' business, and work closely with SME owner/managers (Scapens, et al. 2003). Another reason could be that more established and experienced SME management may feel that it can run the business better without support from external agencies such as public accountants and other financial advisors (Kirby and King, 1997).

Contrary to the views of owner-managers of SMEs, SAPs feel that the majority of small firms use their services for non-compliance related works through relationships built from previous routine and non-routine works undertaken (Kirby and King, 1997). There is a mismatch in the historically constituted long-term relationship between SAPs and owner-managers, the former seeing it as well-established, while the latter do not perceive it in the same way, feeling less committed to their SAPs (Kirby and King, 1997). This signifies a credibility or expectation gap between SMEs and SAPs in terms of how they see each other, an area that is ripe for future research.

## **Conclusion, Future Directions and Challenges**

Current research in management accounting has focused on understanding the nature of MACS in practice in large private and public organisations (Scapens, 2006). Management accounting research in SMEs still remains a neglected and an unfashionable area even

though the latter represent a vital force in modern economies (Mitchell and Reid, 2000). Given the importance of SMEs, this study makes a renewed call for better resource management in such organisations. There are several advantages of researching MACS in SMEs, such as lower complexity, enhanced visibility and accessibility; and therefore SMEs provide rewarding locations to investigate MACS in practical settings (Mitchell, 1998). Research studies undertaken on SMEs and SAPs to date demonstrate that SMEs derive little benefit from statutory reports prepared by their public accountants (Marriott and Marriott, 2000; Kirby and King, 1997). These reports fulfil narrow compliance formalities only. Owner-managers often find it hard to follow accounting reports prepared in accordance with the generally accepted accounting rules (Kirby and King, 1997). This calls for more user friendly approaches in form of simple narratives, ratios, graphs, tables and charts to disseminate financial and non-financial information to owner-managers (Marriott and Marriott, 2000; Kirby and King, 1997; Nandan and Ciccotosto, 2007)).

Owner-managers require management accounting information but lack skills to produce them, hence resort to external assistance to better manage their resources (Kirby and King, 1997). Public accountants, because of their skills and expertise, certainly have a role here but their image and relationship with clients make them somewhat unpopular, and as a result solicitors, consultants, banks and other support agencies have emerged as competitors (Kirby and King, 1997). SAPs are not generally consulted when it comes to advising SMEs on broad-based management issues (ibid). Now IT specialists also pose a threat to accountants, for they have the potential to become 'information specialists' of the future (Scapens, et al. 2003: 36). This can also create demand for 'unqualified' accountants who hold out as 'accountants' but not subject to the ethical rulings and other pronouncements of professional accounting bodies. They provide cheap and poor quality services and many owner-managers have no knowledge of their qualifications, professional registration and affiliations (Ciccotosto, et al. 2008). Future studies seeking the views of SAPs on SMEs' demand for management accounting information will provide a more holistic

understanding of the needs, demands and availability of such information.

SME executives' belief that SAPs only know the business in a general way, see only broad problems and offer only general solutions makes the latter somewhat unpopular (Arnold, et al. 1984). To provide value for money services, SAPs need to become aware of the nature of clients' business and be attuned to the contextual complexities within which their clients' businesses are embedded. SAPs need to become more aware of modern management accounting techniques including the balanced scorecard, activity-based costing, lifecycle costing, target costing, supply chain management, just-in-time, total quality management, and lean accounting. The applicability of techniques will vary from a thin management accounting role (Greenhalgh, 2000) to more relevant but non-traditional techniques (Collier, 2005). SAPs need to work with owner-managers to develop an appropriate critical filter (Perren and Grant, 2000) through which appropriate techniques can form part of the SMEs knowledge base. In this, economic benefits need to be balanced with the SMEs social and cultural context which may well dominate the owner-managed business (e.g. Collier, 2005).

Surveys are unlikely to provide any significant insights into management accounting practice in SMEs. Case studies provide a deeper and richer understanding of the social context and are therefore, considered important in understanding the contextually-specific management accounting needs of SMEs, and how SAPs can play a role in meeting those needs, including a cost/benefit analysis of how additional SAP services can lead to improved SME profitability (Scapens, 1990). Given the focus on in-depth explanation and theoretical generalisation, case studies can provide a better understanding of SMEs' management accounting needs and the role of SAPs in providing such services (Ciccotosto, et al. 2008; Scapens, 1990).

Previous studies (Marriott and Marriott, 2000; Ciccotosto, et al. 2008) have found that a significant number of unqualified individuals act as accountants and have been submitting inaccurate and poor quality accounts of SMEs. The accounts contained technical errors, material computational errors and lack of care

on presentation issues. Ciccotosto, et al. (2008) found this kind of unethical behaviour on the part of unqualified accountants as a real concern for the accounting profession and their members in rural Australian context. As non-members of the accounting profession, they escaped disciplinary actions, fines and penalties.

Advancements in IT have the potential to simplify a lot of routine bookkeeping functions at low costs and this puts pressure on accountants to take a more proactive role in strategic management processes such as translation of goals and strategies into key financial and non-financial performance indicators, and performance measurement and control (Kaplan and Norton, 1992). Public accountants are in a better position to show their clients the benefits of a full-fledged MACS system, in particular its ability to perform key analytic and high-powered functions (Scapens, 2006). Selecting the 'right' system is very important to avoid resistance and manage the change process (Burns, et al. 2003).

Structural changes will be needed within organisations to help SAPs become part of a more multidisciplinary SME management team (Scapens, 2006). To broaden their roles, accountants need to have a good understanding of the wider value chain, complex operating processes, activities that add value and those that do not, with a view to eradicating the latter (Shields, 1997). These broader roles and involvements of SAPs certainly provide them with opportunities to get to know the client's business well. The changes identified above call for education, training and experience of accountants beyond numbers. We argue that these inter and multidisciplinary approaches, intertwined with strategy may have positive implications on accountants' historically constituted negative images or nuances such as 'narrow beancounters' and being 'boring' (Scapens, 2006).

As said earlier, SAPs role in SMEs has not been popular among researchers, but given the economic importance of SMEs on a global scale, further research into the management accounting needs of SMEs and the role of SAPs is needed (Mitchell and Reid, 2000). Rural and regional SAPs have context-specific

issues (Ciccotosto, et al. 2008) and more in-depth studies are needed to understand better their contextual complexities, including studies that compare issues between rural and urban SAPs. Future directions in management accounting practice will continue to focus on strategic decisions and involve multi and inter-disciplinary links (Scapens, 2006).

Management accountants will continue to be part of cross functional teams and possess a broad cross section of knowledge and skills to better understand complex business processes (Scapens, et al. 2003). Hence professional accounting bodies will need to ensure that their members are well-equipped with appropriate education and training to keep pace with the changing needs of SMEs operating in complex, competitive and uncertain environment. Finally, university studies in (management) accounting can no longer afford to focus on narrow, technical calculative routines alone. The discipline is indeed very multidisciplinary and the roles of management accounting and management accountants are rapidly changing in different types of organisations, including SMEs, hence more research and research-led teaching by accounting academics.

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} Nandan, RK 2010, 'Management accounting needs of SMEs and the role of professional accountants: A renewed research agenda', Journal of Applied Management Accounting Research, vol. 8, no. 1, pp. 67 - 79. Management accounting needs of SMEs and the role of professional accountants: A renewed research agenda. / Nandan, Ruvendra Kumar. In: Journal of Applied Management Accounting Research, Vol. 8, No. 1, 2010, p. 67 - 79. Research output: Contribution to journal Article Research peer-review. Ty - jour. T1 - Management accounting needs of SMEs and the role of professional accountants... (Small and medium-sized accountancy practice): an SME accounting practice whose clients are mostly SMEs that use external sources to supplement limited in-house technical resources, and contain a limited number of professional staff. In a broad sense this represents the aptitude for endurance. Environmental sustainability needs for SMEs are changing in a context of new regulatory frameworks, legislation, public interest and competitive demands. Environmental aspects of sustainability: SMES and the role of the accountant. Executive summary. 7. 1. Introduction. First, previous research on the role of SMPs as SME advisers is presented, alongside the environmental sustainability perspective. The management accounting plays a significant potential role for SMEs (Nandan, 2010). SMEs need to obtain accurate and reliable management accounting information from their accountants (Kamyabi & Devi, 2011d). SMEs need to obtain accurate and reliable management accounting information from their accountants (Kamyabi & Devi, 2011d). This research was about the important contribution of SMEs to Indonesian economy in reality and their weak management accounting functions. This research aimed to find out the factors influencing SMEs' decision to use outsourced accounting advisory services and the effect of such use towards SMEs' performance as from Transaction Cost Economics (TCE) and Resource Based View (RBV) perspectives.

Collier, P. and Nandan, R. (2010) Management Accounting Needs of SMEs and the Role of Professional Accountants: A Renewed Research Agenda. JAMAR, 8, 65-73. has been cited by the following article: TITLE: Accounting Systems for Records Keeping Practices for Small Enterprise Development in Makueni County, Kenya. AUTHORS: Nicodemus Muteti, Mary Namusonge, David Nzomo. A Professional Teacher Work Agenda Teaching in Higher Education. Rosiane Rocha Oliveira Santos, Josenilton Nunes Vieira, Marcelo Silva Souza Ribeiro, Claudia Maria Lourenço da Silva, Vania Cristina Lasalvia, Antônio de Santana Padilha Neto. DOI: 10.4236/ce.2019.107103 303 Downloads 717 Views Citations. Scholars have long studied small- and medium-sized enterprises (SMEs) and recognize the need for SMEs to postulate strategies to compete and succeed in the global market. In the current ultra-competitive business environment, SMEs face several internal and external challenges. In this introduction to the special issue (SI), we review the theoretical models and frameworks in this stream of research and outline some research questions that could be potentially used in future research in this era of globalization. SME flexibility and the role of information systems. Small Business Economics, 11(2), 183-196. Google Scholar. Liñán, F., & Chen, Y. W. (2009). Exporting challenges of SMEs: a review and research agenda. Journal of World Business, 52(3), 327-342. Google Scholar. Key words: accounting information, cost accounting, financial accounting, managerial accounting, management process JEL classification: M40, M41, M49 INTRODUCTION There are many definitions of management accounting, but this paper will only present the one formulated by the American Accounting Association. In other words, accounting is used for providing information (both financial and non-financial) to those who will make decisions in order to make the best possible ones. The terminology used in this definition indicates that a grasp of the accounting process requires an understanding of the attributes of economic information and of the following actions: identification, measurement and communication of the information.