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# ASIA-PACIFIC MANAGEMENT ACCOUNTING JOURNAL

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# **ROLE OF STRATEGIC PLANNING, ACCOUNTING INFORMATION AND ADVISORS IN THE GROWTH OF SMALL TO MEDIUM ENTERPRISES**

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## **ABSTRACT**

This study explores the association between small to medium enterprise strategic planning, use of accounting information systems and role of accounting advisors in the growth of small to medium enterprises (SMEs). SMEs play a significant role in national economies worldwide. Research on SME growth and influence of management accounting on decision making is evolving. This study examines qualitative and quantitative data collected from 54 SMEs through a series of interviews held in conjunction with consultative programs. Contemporary SME life cycle literature, the use of accounting information and the implications of financial knowledge in the growth of small- to medium-sized businesses are considered. The study concludes with the proposition that central to the growth of SMEs is the embeddedness of knowledge into organisational motor cognition.

**Keywords:** *small to medium enterprise, management accounting system, management accounting information, strategic planning, business planning*

## INTRODUCTION

The growth and development of SMEs play a vital role in the fortunes of national economies worldwide. Small to medium enterprises (SMEs) employ approximately 70% of the Australian workforce (Davidsson, 2012) and account for 59% of the UK workforce (Elster, 2013). The World Bank Group's World Development Indicators survey of business entry density estimates that high-income countries have up to approximately 3 times more businesses per 1000 individuals than low-income countries. The success of small- to medium-sized businesses exerts a direct effect on the development of the living standards of the entire population. Given the effect of a healthy small- to medium-sized business community on the economies of nations, research on the key factors of success for small businesses can contribute to the underpinning for a resilient economy that can withstand unforeseen economic shocks. The nature of the resource-constrained SME environment, particularly the prioritisation of the SME owner's time, limits in-depth research on the growth of SMEs. Literature on the growth and success of SME start-ups has evolved from Gibrat's economic assumptions, Penrose's theory of knowledge accumulation and Greiner's (1972) phased models to Osterwalder's business model canvas. The link between growth and competence of entrepreneurs has also been explored by Ghoshal and Moran (1999). The study examined the use of management accounting information and its relationship with small business growth.

Davila and Foster (2005) examined the introduction of budgets and management control systems and its relation with the growth of small firms. Research conducted by international accounting institutes has consistently aligned the development of accounting support with the growth of SMEs. The purpose of this study is to gain comprehensive insights into the practical purpose of accounting information in the SME environment. In particular, the nature of management accounting information and how it is used in decision making to facilitate the growth and viability of an SME firm are examined. The principal finding of the study is that the viability of an SME is determined by the relationship between the tacit knowledge of the entrepreneurs and the entrepreneurs' ability to make sound business development and operational decisions on resource allocation. The rate of growth of an SME is influenced by the entrepreneur's ability to transfer tacit knowledge from individual motor cognition to organisational motor



cognition. Management accounting plays a critical role in the process of establishing organisational motor cognition, that is, to determine what critical decision making information is central to business growth and what tacit knowledge is required to act on the information in an appropriate manner. The role of an advisor is to understand the tacit knowledge within the business and complement knowledge gaps with specialised expertise to accelerate organisational motor cognition. Hence, this study aims to address two propositions. The first proposition pertains to whether organisation transferable tacit knowledge is central to growth and viability, whether informal business development and operational indicators derived from ad-hoc management accounting systems complement business tacit knowledge in SME decision making and whether financial accounting information plays a secondary role in SME decision making. Secondly, this study examines whether SME advisors complement knowledge gaps of an entrepreneur with specialised competencies.

## **LITERATURE REVIEW**

Research on the growth patterns of SMEs and the development of a life cycle framework has been increasing at a rapid pace. The advancement of a conceptual framework for SME development has the potential to affect employment, innovation and economic development. Policy makers have a keen interest in the development of SME growth literature because of its implications on economic growth. According to Elster and Phipps (2013), ‘the key role of the government is to tackle market failures, understand what these are for SMEs and determine how they work to implement effective and targeted action’. Early literature on the phenomenon of high-growth SMEs focused on linear stochastic models of firm growth, such as Gibrat’s law, developed mainly in the field of economics. Gibrat’s law posits that a proportionate relationship exists between growth rates and firm size and that the growth rate of a firm is significantly influenced by industry conditions. However, ‘in five industries out of six, Gibrat’s law fails to hold in the year immediately following start-up, whereas it holds or fails less severely when firms approach maturity’ (Santarelli, Klomp & Thurik, 2006). Penrose (1959) theorised that firm growth is an evolutionary process built from the accumulation of ‘collective knowledge in the context of a purposive firm’. According to Penrose, growth can be defined as the increase in the size of quantifiable measures and by a definable process of changes

or improvements. Ghoshal (1999) observed that ‘the value (to the firm) of a firm’s internal resources, such as its managers, increases with the level of experience in their deployment with other resources inside the firm. Given that this learning process takes time, it effectively limits the rate at which a firm can internalise resources into its organisational structure - the rate of the firm’s growth’.

Many staged-growth models have been developed to represent an organic SME growth model. Greiner (1972) developed the five phases of growth outlined in *Evolution and Revolution as an Organization Grows*. Welsh and White (1978) refined the model further into the five-stage model of existence, survival, success, take off and resource maturity. Welsh and White eliminated the grow-or-fail hypothesis implicit in Greiner’s (1972) model and the stagnation caused by management. The business model generation methodology outlined by Osterwalder and Pigneur (2010), which is also known as ‘lean start-up’, focuses on hypothesis experimentation through direct customer feedback to create a minimal viable product and on developing the ‘minimum viable product’. Elster and Phipps (2013) outlined the factors of SME growth as three key enablers grouped into clusters. The three clusters are internal capacity and capability, vision of the business owner and external environment.

The skills of business owner–managers and employees within a firm provide the absorptive capacity for businesses to overcome ‘tipping points’. The skills of business leadership exert a direct positive effect on labor productivity, innovation activity and economic growth of the business. Business performance management techniques, such as Amoeba management accounting philosophy, focus on the labor hourly efficiency system and the principle of cash basis accounting (Inamori, 1999). A genuine question to answer is what information, how often and how much is required to manage a business efficiently. Specifically, the role of accounting information in this equation should be determined. Ohno (1988) noted that

*Much of the excess information generated by computers is unnecessary for production at all. Receiving information too quickly results in early delivery of raw materials and thus causes waste. Too much information causes confusion in the production field.*



Business advisors and accountants can influence the growth of SMEs via legitimate and expert power through the understanding of compliance frameworks and technical financial knowledge. The source of influence of a consultant stems from informational and expert power (Mole, 2002). Critical to a productive and positive advisory relationship are to reconcile a shared ambition and build empathy in the client–advisor relationship; external advisers need to share ‘contextual compatibility’ for the effective development of knowledge within a firm (Mole, 2002).

The use of accounting information in SME growth can be linked to business planning cycles according to ACCA research (ACCA, 2012). Start-ups prepare financial forecasts and budgets predominately for the purpose of seeking a finance process. However, the preparation of financial statements is often a one-off exercise. ACCA (2012) research suggests that

*The effect of external financing on the use of business planning is negligible after the effects of fast growth are considered. Indeed, among very small businesses, only those with aspirations of substantial growth adopt a consistent approach to business planning.*

The first use of management accounting systems (MAS) for management reporting coincides with the recruitment and implementation of the following:

*Formal business plans and financially trained staff are therefore mostly about monitoring employees and aligning their incentives with business objectives, putting internal controls into place and, in the case of newly incorporated businesses, living up to the obligations of a company to its stakeholders. (ACCA, 2012)*

Davila and Foster (2005) investigated the timing of MAS adoption and the role of adopting operating budgets and presented statistics on the decisions of 78 start-up companies regarding the adoption decisions of various management accounting systems. Davila’s conclusion was that management accounting systems are most likely to be adopted for operation and cash flow planning in the first instance. According to Davila (2005), ‘we find a positive association between the adoption of operating

budgets and company growth for early stage companies' (Davila, 2005). In addition, Davila concluded that the presence of venture capital, the number of employees in the company and the CEO beliefs about the benefits of planning are critical factors in the speed of MAS adoption. The adoption of MAS tends to coincide with the employment of a finance manager.

Barbera and Hasso (2013) explored the relationship among use of external accountants, sales growth of family-run SMEs and use of strategic planning processes. Adopting a resourced-based view (RBV), Barbera found a positive correlation between the embeddedness of external advisors and high strategic planning process within businesses. External advisors are used mainly to fill a knowledge gap in the business. However, the presence of an external advisor does not necessarily improve the survivability of a firm nor lead to sales growth. The success of external advisors depends on the advisors' ability to obtain tacit knowledge of the business and complement the tacit knowledge with technical knowledge. The nature of advice provided by external advisors depends on the life stage of the business. Young firms require advice on matters pertinent to the survival of the firm, whereas mature firms require advice relating to the improvement of existing sales growth (Barbera, 2013).

Dyer and Ross (2007), in their explanation of the critical elements of quality owner–advisor relationships, highlighted the importance of culture, informal communication and experiential learning preferences in successful advisor–owner relationships. While the advisor needs to adapt to the preferences of the business owner, the advisor's role in the business hinges on communication and transfer of content expertise and mastery. Content mastery is the defining characteristic of a professional advisor. The advisor–owner relationship pivots on a meeting of minds that requires advisor sensitivity and openness and acceptance on the part of the owner (Dyer, 2007). In adapting to the preferences of the business owner, the advisor–owner relationship can be regarded as analogous to the coach–player relationship in the sporting field. According to Parkin and Bourke (2009), 'the qualities of a successful coach in business include being a good listener, having good self-awareness, having business acumen, being disciplined, being flexible and being able to diagnose issues and find solutions'. Reviews on research in the United Kingdom, Canada, Mexico and Australia resulted in the consistent conclusion that SMEs benefit from



the adoption of MAS and financial control advice. Bruhn, Karlan and Schoar (2013) in their experiment on the effect of consulting services on Mexican SMEs concluded that financial control and marketing advice are significant. The consultants filled key gaps in the business owner's managerial skills and knowledge that would otherwise impose a significant constraint on the firm's growth.

## **RESEARCH METHOD**

This research presents quantitative and qualitative data gathered through a multiple-method, multi-case field research design. Accounting information on SMEs for decision making is not readily available from public sources. Thus, studying the relationship between SMEs and accounting information requires developing tailored research instruments to develop a database. The data presented in this research include structured questionnaires, semi-structured interviews and information gathered from consulting projects. Eighty percent of the businesses included in the research came from a structured consulting program. Five programs were delivered between 2012 and 2014 with 46 participants. However, only 43 participants provided appropriate information for the research purposes. The program involved a predetermined series of workshops and one-on-one consulting. The program was a combination of 15 hours of group workshops and 8 hours of one-on-one consulting. The consultation series began with pre-program questionnaires and meetings. Standard interview questions were asked during the one-on-one consulting session. The consulting sessions were semi-structured in nature because of the different requirements of the participants. The aim of the interview questions was to ascertain the sophistication of management practices, highlight the business owner's priorities and explore potential strategic actions. The program was developed to reinforce key business concepts and ensure a focus on laying the business foundations to grow the business. The program was delivered with six modules of 2.5 hour workshops grouped into three workshop sections.

1. Defining the business purpose, direction and measures of success	Workshop 1 and 2 – Reviewing the mission and vision and key performance indicators
2. Maximising staff performance through culture, motivation and organisational structure	Workshops 3 and 4 – Alignment of organisational structure and implementation of a review process incorporating the accountability of organisational culture
3. Understanding financial information and planning with cash flow forecasting	Workshops 5 and 6 – Understanding financial statements, considering cash flow drivers and forecasting cash flow for business planning

The workshops were complemented by a one-on-one consultation series. The initial pre-programme meeting established the current focus of the business owner and highlighted the areas of concern. Each of the three workshop sessions were followed by a two-hour one-on-one meeting. The one-on-one meetings applied the key business concepts to the business owner's specific circumstances. The outcome of the programme was a high-level business plan that addresses the specific elements to improve profitability highlighted in the workshops and discussed in the one-on-one consultation that followed. A high-level business plan was presented in the final one-on-one consulting session that completed the eight hours of consultation. The additional 11 observations included in the research data were derived from consulting clients who engaged in business strategic reviews involving a comparable process to understand key business facts.

## Description of the Sample

A total of 54 SMEs were observed. An SME was defined according to the criteria prescribed by the Australian Bureau of Statistics.

1. Micro businesses are small businesses with 0–4 employees.
2. Small business as an actively trading business with 5–19 employees.
3. Medium business as an actively trading business with 20–199 employees.

The data presented in this study provide a statistical insight into the use of accounting information and planning practices of SMEs at a point in time in the development of the organisation. Fifty-seven percent of the sample included service businesses. The service sample was divided further and included 7% software, 17% industrial commercial, 2% health and 31% consumer services, including hotels, education and professional services, as shown in Table 1. Twenty-one percent of the sample was involved in retailing or supply of the retail industry. Nine percent of the sample competed in the provision of consumer media. Nine percent sold industrial capital goods, and the remaining 4% operated in financial services. The industry classifications reflect Standard and Poor's Global Industry Classification Standards, the methodology used by the investor community to classify asset classes on stock exchanges globally. Table 2 shows the educational and professional attainment of the business owners. Educational attainment varied and ranged from high school to master/doctorate.

**Table 1: Industry Sample**

Industry (Standard and Poor's Classification)		No.	%
Consumer Discretionary		30	56%
	Consumer Discretionary – Automobiles – Components	1	2%
	Consumer Discretionary – Consumer Services	3	6%
	Consumer Discretionary – Consumer Services - Specialised	8	15%
	Consumer Discretionary – Consumer Services – Education	2	4%
	Consumer Discretionary – Consumer Services – Hotels, Restaurants and Leisure	4	7%
	Consumer Discretionary – Media	5	9%
	Consumer Discretionary – Retailing	7	13%

Industry (Standard and Poor's Classification)	No.	%
Consumer Staples – Food, Beverage and Tobacco	3	6%
Financial – Real Estate Management	2	4%
Healthcare – Providers Services	1	2%
Industrial – Capital Goods – Machinery	5	9%
Industrial – Commercial and Professional Services	9	17%
Information Technology – Software Services	4	7%
<b>Total</b>	<b>54</b>	<b>100%</b>

**Table 2: Educational and Professional Attainment of Business Owners**

Turnover			Years in Business			No. of Staff			Business Owner Educational Attainment		
<\$250k	15	28%	1<3	20	37%	1<3	16	30%	High School	5	9%
\$250k< >\$1m	13	24%	4< >10	20	37%	4< >10	22	41%	Diploma/ Trade Certificate	20	37%
\$1m< >\$3m	16	30%	10< >20	6	11%	10< >20	10	19%	University Degree	26	48%
\$3m< >\$10m	6	11%	20>	8	15%	20>	6	11%	Masters and Doctorate	3	6%
<b>\$10m&gt;</b>	<b>4</b>	<b>7%</b>	<b>Total</b>	<b>54</b>	<b>100%</b>	<b>Total</b>	<b>54</b>	<b>100%</b>	<b>Total</b>	<b>54</b>	<b>100%</b>

### Analysis of Research Data: Years in Business and Annual Turnover

The sample of SMEs was represented by new, established and mature businesses. All businesses in the sample have been operating for a minimum of 12 months and were all financially viable. Thirty-seven percent of the surveyed businesses has been operating for 1 to 3 years, as shown in Table 3. Sixty percent of the new businesses operate in the consumer discretionary industry. Information technology software service, which accounts for 15% of the sample data, is the next largest industry.

Established businesses operating between their 4th and 10th year accounted for an additional 37% of the total sample. The largest sample segment in the 4 to 10 years of operating history category serviced the consumer discretionary industries (65%). The remaining 26% of the businesses surveyed are mature organisations with over 10 years of operating history. Fifty percent of the mature businesses with over 10 years of operational history serviced the industrial commercial or capital goods market.

**Table 3: Years in Business and Annual Turnover**

<b>Years in Business</b>	<b>&lt;\$250k</b>	<b>\$250k&lt;=&gt;\$1m</b>	<b>\$1m&lt;=&gt;\$3m</b>	<b>\$10m&gt;</b>	<b>Total</b>	<b>%</b>
1<3	11	5	4	0	20	37%
4<=10	4	7	9	0	20	37%
10<=20	0	1	2	3	6	11%
20>	0	0	1	3	8	15%
	<b>15</b>	<b>13</b>	<b>16</b>	<b>6</b>	<b>54</b>	
	<b>28%</b>	<b>24%</b>	<b>30%</b>	<b>11%</b>		

## Annual Planning and Annual Turnover

A standard research question is involved the analysis of existing SME planning processes. For the purposes of this research, 'structured annual planning process' refers to the systematic process of determining a desired future and translating resource and commitment decisions into broadly defined goals or objectives in a sequence of steps to achieve them. Seventy-two percent of the sample businesses does not have a structured strategic planning process. Among the 28% of businesses that engage in a structured planning process, 93% of those that prepare an annual plan employ administrative staff. Only 1 of the 54 sampled businesses prepares an annual plan and does not employ administrative staff.

The qualitative data revealed a relationship between the annual turnover of organisations and engagement in a structured annual planning process. As a business obtains an increased level of financial transactions, it is likely to engage in a structured planning process. None of the businesses that generate less than \$250k of revenue per annum engage in an annual

planning process. Thirty-one percent of the sample with incomes between \$250k and \$1m, 38% of businesses with revenues between \$1m and \$3m and 67% of businesses with incomes between \$3 and \$10 m engage in annual planning. Exhibiting a reverse trend for structured annual planning are businesses with over \$10m turnover. Only 25% of the SMEs surveyed engage in an annual planning process. Notably, the sample size in the category is small with only four businesses surveyed. Nevertheless, three of the four mature and profitable businesses can operate successfully without a structured annual planning process. Table 4 summarises the annual planning and annual turnover.

**Table 4: Annual Planning and Annual Turnover**

<b>Prepare Annual Plan</b>	<b>&lt;\$250k</b>	<b>\$250k&lt; &gt;\$1m</b>	<b>\$1m&lt; &gt;\$3m</b>	<b>\$3m&lt; &gt;\$10m</b>	<b>\$10m&gt;</b>	<b>Total</b>	<b>%</b>
Yes – W Administration	0	3	6	4	1	<b>14</b>	<b>26%</b>
Yes – No Administration	0	1	0	0	0	<b>1</b>	<b>2%</b>
No – W Administration	4	6	10	2	3	<b>25</b>	<b>46%</b>
No – No Administration	11	3	0	0	0	<b>14</b>	<b>26%</b>
	<b>15</b>	<b>13</b>	<b>16</b>	<b>6</b>	<b>4</b>	<b>54</b>	
	<b>28%</b>	<b>24%</b>	<b>30%</b>	<b>11%</b>	<b>7%</b>		

## Maintenance of Financial Statements

Table 5 presents the maintenance of financial statements. Thirty-nine percent of the surveyed sample updates their financial accounting information on a monthly basis. Nineteen percent update their financial accountants on a quarterly basis, and 43% update their financial accounts on an annual basis. The key factor that drives the maintenance of financial accounting information is not for management decision making but for statutory tax compliance obligations. In particular, the requirement to report goods and services tax receipts, payroll and company tax obligations drove the investment in resources to maintain accurate records of bank transactions. The trend of the data highlights the gradual transition to



monthly maintenance of financial accounting as the level of income increases and the obligations to meet statutory tax reporting requirements increase. Notably, 57% of the businesses that prepare their financial accounts on an annual basis are micro businesses with an annual income of less than \$250k.

**Table 5: Maintenance of Financial Statements**

<b>Financial Accounting</b>	<b>&lt;\$250k</b>	<b>\$250k&lt; &gt;\$1m</b>	<b>\$1m&lt; &gt;\$3m</b>	<b>\$3m&lt; &gt;\$10m</b>	<b>\$10m&gt;</b>	<b>Total</b>	<b>%</b>
Monthly	0	1	10	6	4	21	39%
3 monthly	2	5	3	0	0	10	19%
Annual	13	7	3	0	0	23	42%
<b>Total</b>	<b>15</b>	<b>13</b>	<b>16</b>	<b>6</b>	<b>4</b>	<b>54</b>	
	<b>28%</b>	<b>24%</b>	<b>30%</b>	<b>11%</b>	<b>7%</b>		

## Understanding of Gross Margin and Breakeven Position

The sample data revealed a relationship between maintenance of financial accounting records and understanding of business gross margins (Table 6). Sixty-three percent of the sample businesses do not have a clear idea of the gross margin or breakeven position of their business even though 39% have their financial accounting records updated monthly. However, a significant relationship exists between presence of administrative staff and clarity of gross margin reporting. Eighty-nine percent of the businesses that report their gross margin position also employ administrative staff. However, the presence of administrative staff does not guarantee clarity of the cost volume profit equation. Forty-one percent of the total sample businesses that employ administrative staff cannot produce accurate reports on the gross margin. Included in the 41% of businesses that employ administrative staff but do not have clarity on the gross margin are 3 out of the 4 businesses in the sample with over \$10m annual income. Conversely, 4% of businesses are able to produce gross margin reporting in the absence of administrative staff.

**Table 6: Understanding of Gross Margin and Breakeven Position**

<b>Gross Margin</b>	<b>&lt;\$250k</b>	<b>\$250k&lt; &gt;\$1m</b>	<b>\$1m&lt; &gt;\$3m</b>	<b>\$3m&lt; &gt;\$10m</b>	<b>\$10m&gt;</b>	<b>Total</b>	<b>%</b>
Yes – W Administration	1	4	6	5	1	17	31%
Yes – No Administration	1	1	0	0	0	2	4%
No – W Administration	3	5	10	1	3	22	41%
No – No Administration	10	3	0	0	0	13	24%
<b>Total</b>	<b>15</b>	<b>13</b>	<b>16</b>	<b>6</b>	<b>4</b>	<b>54</b>	
	<b>28%</b>	<b>24%</b>	<b>30%</b>	<b>11%</b>	<b>7%</b>		

## Use of Accounting Systems

All businesses with annual turnover of \$1m or more and 72% of the sampled businesses use accounting software (Table 7). Approximately 66% of the businesses that do not use accounting software have an annual turnover of \$250k or less. Businesses that do not use accounting software prepare their financial accounts on an annual basis. The tax compliance requirements of the businesses that do not use accounting software are prepared on spreadsheets or through other manual calculation methods.

**Table 7: Use of Accounting Systems**

<b>Accounting</b>	<b>&lt;\$250k</b>	<b>\$250k&lt; &gt;\$1m</b>	<b>\$1m&lt; &gt;\$3m</b>	<b>\$3m&lt; &gt;\$10m</b>	<b>\$10m&gt;</b>	<b>Total</b>	<b>%</b>
Yes	5	8	16	6	4	39	72%
No	10	5	0	0	0	15	28%
<b>Total</b>	<b>15</b>	<b>13</b>	<b>16</b>	<b>16</b>	<b>4</b>	<b>54</b>	
	<b>28%</b>	<b>24%</b>	<b>30%</b>	<b>11%</b>	<b>7%</b>		

## **RESEARCH LIMITATIONS**

Several limitations should be highlighted when interpreting the results of this study. The research examined the position of SMEs at a moment in time in their development process. The study did not evaluate the progress of an entity from the point in time at which the organisation was surveyed. The study observed the planning processes and systems in place but did not make comparisons of the complexity of the product portfolio or service offering of each organisation and the level of difficulty in obtaining meaningful management information. The study also did not assess the work preference styles or management skills and techniques of the entrepreneurs interviewed. The data presented were collected over a three-year period with changing macro–micro economic conditions and changing cost of software available to SMEs. All the businesses sampled are geographically located in Melbourne, Victoria, Australia. Differences in the regulatory environment in particular state regulations, taxes and legislations may affect the results in comparative geographical locations.

## **CONCLUSION AND DISCUSSION**

The data obtained from the survey of established SMEs suggest that businesses are likely to incorporate an annual strategic planning process when they have reached a scale that enables the employment of administrative staff. However, the existence of a structured annual planning process is not a determinant of business longevity or viability, given that only 28% of the established SMEs surveyed utilise a strategic planning process. Regular updating of financial accounting processes is driven by the need to comply with statutory tax collection requirements in the first instance. Although 39% of the SMEs sampled updated their financial accounting systems on a monthly basis, the financial accounting systems are not configured to present fundamental management accounting information, such as the gross margin, or to provide cost–volume–profit and breakeven calculations. Approximately a quarter (24%) of the SMEs sampled have both monthly financial accounting information and a clear understanding of their gross profit position. Eleven percent of the sampled SMEs calculate gross margin and breakeven positions without the use of financial accounting systems. The use of accounting software in the sampled SMEs is high (72%), but

the main reason accounting systems are used is to satisfy tax compliance record-keeping requirements rather than to present management information for decision making.

### **Proposition 1**

The results from the 54 established SMEs surveyed support proposition 1. The organisation of transferable tacit knowledge in a business enterprise is central to growth and viability. Informal business development and operational indicators derived from ad-hoc management accounting systems complement business tacit knowledge in SME decision making. Financial accounting information plays a secondary role in SME decision making. That is, the organisation and transferability of tacit knowledge play a critical role in the growth, establishment and decision making of SMEs. Formal planning and the use of financial accounting reports in management decision making are absent in the majority of SME environments surveyed. Decision making in the established SMEs surveyed is based on ad-hoc management accounting information combined with intimate understanding of customer needs and operational processes. The embeddedness of tacit business knowledge held in an SME can be described as *organisational motor cognition*, that is, the embeddedness of mental and social actions within an organization required to fulfil market needs and deliver customer satisfaction. The use of ad-hoc management accounting information acts as a steering mechanism that refines the actions fulfilled by the embedded *organisational motor cognition*.

### **Proposition 2**

The results showed that the role of SME advisors is to complement knowledge gaps of an entrepreneur with specialised competencies. The businesses surveyed are all established and financially viable SMEs. Accounting advisors should step beyond the preparation of financial accounts for the purpose of tax compliance. The information prepared for the purpose of tax compliance requirements are not necessarily used in management decision making. The data also revealed the absence of fundamental management accounting information, such as gross margin

and breakeven position, even though 57% of the surveyed businesses have their financial accounts updated quarterly or even more frequently. The SME management accounting advisor should provide operational insights that complement the entrepreneur's tacit knowledge and enhance the efficiencies of operational motor cognition held in business processes. The specialised competency that the management accounting professional provides to an entrepreneur is the capability to align operational statistics and key performance indicators with staff accountabilities to facilitate the execution of strategic goals in an efficient manner.

## **FURTHER RESEARCH**

First, the data obtained in this study are static and provide a window into the SMEs surveyed at a point in time. Further research on several fronts would complement this study. Although this study suggests that strategic planning is not a common practice in the SME environment, planning in some form takes place for the businesses to maintain their competitive position. The natural question that arises is how do entrepreneurs plan for the allocation of scarce resources? In addition, how often do they plan and what are the planning techniques employed? Secondly, research on how SMEs evolve over a number of years and the influence of management accounting information over that period of time must also be examined. Additional research on the decision-making information employed can highlight the nature of operational information used. Thirdly, data on the techniques of various accounting advisors in the provision of management reporting and business improvement advice and their relative success can provide insights into the most effective approach to leverage accounting systems for decision making.

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# APPENDIX 1

## Sample of Comparative Data

Industry	Turnover	# Staff & Subcontractors	Years in Business	Prepare Annual Plan	Administration Staff	Maintenance of Financial Statements	Product/Service Gross Margin	Systems		
								Accounting	ERP	CRM
1 Consumer Discretionary - Automobiles	\$1m<=\$3m	4<=10	1<3	No	Yes	Annual	No	Yes	No	Yes
2 Consumer Discretionary - Consumer Services	<\$250K	1<3	4<=10	No	Yes	3 monthly	Yes	Yes	No	No
3 Consumer Discretionary - Consumer Services	<\$250K	1<3	1<3	No	No	Annual	No	No	No	No
4 Consumer Discretionary - Consumer Services	<\$250K	1<3	1<3	No	No	3 monthly	Yes	Yes	No	No
5 Consumer Discretionary - Consumer Services	\$1m<=\$3m	4<=10	1<3	No	Yes	Annual	No	Yes	No	No
6 Consumer Discretionary - Consumer Services	\$1m<=\$3m	4<=10	20>	Yes	Yes	Monthly	No	Yes	No	No
7 Consumer Discretionary - Consumer Services	\$1m<=\$3m	4<=10	4<=10	No	Yes	Monthly	No	Yes	Yes	No
8 Consumer Discretionary - Consumer Services	\$1m<=\$3m	10<=20	4<=10	Yes	Yes	Monthly	No	Yes	No	No
9 Consumer Discretionary - Consumer Services	\$250k<=\$1m	1<3	4<=10	Yes	No	3 monthly	Yes	Yes	No	No
10 Consumer Discretionary - Consumer Services	\$250k<=\$1m	4<=10	1<3	No	No	Annual	No	Yes	No	No
11 Consumer Discretionary - Consumer Services	\$250k<=\$1m	4<=10	1<3	No	Yes	Annual	No	No	No	No
12 Consumer Discretionary - Consumer Services	<\$250K	1<3	1<3	No	No	Annual	No	No	No	No
13 Consumer Discretionary - Consumer Services	\$250k<=\$1m	4<=10	4<=10	No	Yes	Annual	No	Yes	No	No
14 Consumer Discretionary - Consumer Services	<\$250K	4<=10	4<=10	No	Yes	Annual	No	Yes	No	No
15 Consumer Discretionary - Consumer Services	\$1m<=\$3m	10<=20	4<=10	Yes	Yes	Monthly	Yes	Yes	Yes	Yes
16 Consumer Discretionary - Consumer Services	\$1m<=\$3m	10<=20	1<3	No	Yes	Monthly	Yes	Yes	No	No
17 Consumer Discretionary - Consumer Services	\$1m<=\$3m	10<=20	4<=10	Yes	Yes	Monthly	Yes	Yes	Yes	Yes
18 Consumer Discretionary - Consumer Services	\$250k<=\$1m	4<=10	4<=10	No	No	3 monthly	No	No	No	No
19 Consumer Discretionary - Media	\$250k<=\$1m	1<3	4<=10	No	No	Annual	No	No	No	No
20 Consumer Discretionary - Media	\$3m<=\$10m	10<=20	20>	Yes	Yes	Monthly	Yes	Yes	No	Yes
21 Consumer Discretionary - Media	<\$250K	1<3	1<3	No	No	Annual	No	No	No	No
22 Consumer Discretionary - Media	<\$250K	4<=10	4<=10	No	No	Annual	No	No	No	No
23 Consumer Discretionary - Media	<\$250K	1<3	1<3	No	No	Annual	No	No	No	No
24 Consumer Discretionary - Retailing	\$10m>	20>	20>	No	Yes	Monthly	No	Yes	No	Yes
25 Consumer Discretionary - Retailing	\$1m<=\$3m	4<=10	4<=10	Yes	Yes	Monthly	Yes	Yes	Yes	Yes
26 Consumer Discretionary - Retailing	\$250k<=\$1m	4<=10	1<3	No	Yes	Annual	Yes	Yes	No	Yes
27 Consumer Discretionary - Retailing	\$250k<=\$1m	1<3	10<=20	Yes	Yes	3 monthly	No	Yes	No	No
28 Consumer Discretionary - Retailing	\$3m<=\$10m	10<=20	10<=20	No	Yes	Monthly	Yes	Yes	Yes	Yes
29 Consumer Discretionary - Retailing	<\$250K	1<3	1<3	No	No	Annual	Yes	Yes	No	No
30 Consumer Discretionary - Retailing	<\$250K	1<3	4<=10	No	Yes	Annual	No	No	No	No
31 Consumer Staples - Food, Beverage and Tobacco	\$1m<=\$3m	10<=20	4<=10	No	Yes	Annual	No	Yes	No	No
32 Consumer Staples - Food, Beverage and Tobacco	\$3m<=\$10m	20>	20>	No	Yes	Monthly	Yes	Yes	No	No
33 Consumer Staples - Food, Beverage and Tobacco	<\$250K	4<=10	1<3	No	No	Annual	No	No	No	No
34 Financials - Real Estate Management	\$250k<=\$1m	4<=10	1<3	No	Yes	Annual	Yes	Yes	No	No
35 Financials - Real Estate Management	\$3m<=\$10m	20>	10<=20	Yes	Yes	Monthly	Yes	Yes	No	No
36 Health Care - Providers Services	\$250k<=\$1m	4<=10	4<=10	Yes	Yes	3 monthly	Yes	Yes	No	No
37 Industrial - Capital Goods - Machinery	\$10m>	10<=20	20>	No	Yes	Monthly	No	Yes	Yes	No
38 Industrial - Capital Goods - Machinery	\$10m>	20>	20>	No	Yes	Monthly	No	Yes	Yes	No
39 Industrial - Capital Goods - Machinery	\$250k<=\$1m	1<3	4<=10	No	Yes	3 monthly	No	No	No	No
40 Industrial - Capital Goods - Machinery	\$3m<=\$10m	10<=20	20>	Yes	Yes	Monthly	Yes	Yes	No	Yes
41 Industrial - Capital Goods - Machinery	<\$250K	1<3	1<3	No	Yes	Annual	No	Yes	No	No
42 Industrial - Commercial and Professional Services	\$10m>	20>	20>	Yes	Yes	Monthly	Yes	Yes	Yes	Yes
43 Industrial - Commercial and Professional Services	\$1m<=\$3m	4<=10	4<=10	No	Yes	3 monthly	No	Yes	No	No
44 Industrial - Commercial and Professional Services	\$1m<=\$3m	4<=10	4<=10	No	Yes	Monthly	No	Yes	No	No
45 Industrial - Commercial and Professional Services	\$1m<=\$3m	4<=10	1<3	Yes	Yes	Monthly	No	Yes	Yes	No
46 Industrial - Commercial and Professional Services	\$1m<=\$3m	4<=10	10<=20	No	Yes	Monthly	Yes	Yes	No	No
47 Industrial - Commercial and Professional Services	\$1m<=\$3m	4<=10	4<=10	No	Yes	3 monthly	No	Yes	No	No
48 Industrial - Commercial and Professional Services	\$1m<=\$3m	10<=20	10<=20	No	Yes	3 monthly	No	Yes	No	No
49 Industrial - Commercial and Professional Services	\$3m<=\$10m	20>	10<=20	Yes	Yes	Monthly	No	Yes	No	No
50 Industrial - Commercial and Professional Services	<\$250K	1<3	1<3	No	No	Annual	No	No	No	No
51 Information Technology - Software Services	\$250k<=\$1m	4<=10	4<=10	No	Yes	Annual	Yes	No	No	Yes
52 Information Technology - Software Services	\$250k<=\$1m	4<=10	1<3	Yes	Yes	Monthly	No	Yes	No	Yes
53 Information Technology - Software Services	<\$250K	1<3	1<3	No	No	Annual	No	No	No	No
54 Information Technology - Software Services	<\$250K	1<3	1<3	No	No	Annual	No	No	No	No