UNIVERSITY OF SOUTHAMPTON

FACULTY OF BUSINESS AND LAW

School of Management

Management accounting and sensemaking - A grounded theory study of Maltese manufacturing SMEs

by

Francis Debono

Thesis for the degree of Doctor of Philosophy

October 2014

UNIVERSITY OF SOUTHAMPTON

ABSTRACT

FACULTY OF BUSINESS AND LAW

School of Management

Doctor of Philosophy

MANAGEMENT ACCOUNTING AND SENSEMAKING - A GROUNDED THEORY STUDY OF MALTESE MANUFACTURING SMES

by Francis Debono

This research investigates the role of management accounting within Maltese manufacturing Small and Medium Sized Enterprises (SMEs). In particular it focuses on the interaction between users and providers of accounting information. SMEs make a substantial contribution towards value-added and employment in many of the major economies and particularly so in a small country like Malta. In spite of their importance, studies of management accounting practices and processes in this sector have been rather limited. Taking an Interpretive approach, this research uses Corbin and Strauss's (2008) Grounded Theory methodology to develop a substantive theory of how management accounting information becomes significant to SME owners.

The research reveals that in a scenario where Maltese SMEs are facing increased uncertainty, management accounting information performs an enabling function as it provides a fundamental input to organisational sensemaking. This process is labelled 'enabling sensemaking through accounting information'. In order for this to take place, a number of intervening conditions need to be satisfied. First and foremost a trust threshold needs to be overcome before accountants are allowed to provide the required information. Then accountants have to make sure that they gain in-depth knowledge not only of the business functions but also the owners' vision for the business. Owners on their part need to enable the accountants so that they may effectively perform their roles.

This research contributes to Interpretive accounting research by extending the knowledge of the phenomenon of sensemaking in a previously unexplored setting. It demonstrates how management accounting and sensemaking are interwoven within a sophisticated framework that requires users and providers of accounting information to develop a strong personal relationship within SMEs. It also extends the knowledge of the way in which trust plays a fundamental role in this type of relationship. The study also serves to extend the applicability of Grounded Theory methodology and shows how it provides an ideal platform to explore the management accounting phenomenon as a complex behavioural construct.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDICES

ACADEMIC THESIS: <u>DECLARATION OF AUTHORSHIP</u>

I, Francis Debono

declare that this thesis and the work presented in it are my own and has been generated by me as the result of my own original research.

Management accounting and sensemaking - A grounded theory study of Maltese manufacturing SMEs

I confirm that:

1. This work was done wholly or mainly while in candidature for a research degree at this University;

2. Where any part of this thesis has previously been submitted for a degree or any other qualification at this University or any other institution, this has been clearly stated;

3. Where I have consulted the published work of others, this is always clearly attributed;

4. Where I have quoted from the work of others, the source is always given. With the exception of such quotations, this thesis is entirely my own work;

5. I have acknowledged all main sources of help;

6. Where the thesis is based on work done by myself jointly with others, I have made clear exactly what was done by others and what I have contributed myself;

7. Either none of this work has been published before submission, or parts of this work have been published as: [please list references below]:

Signed: ……………………………

Date: 04 October 2014

ACKNOWLEDGEMENTS

I would like to express my gratitude to my doctoral research supervisors, Professor Andrew Goddard and Professor Dean Patton for their guidance, insights and encouragement. I would also like to thank the business owners, accountants, managers and advisors who managed to find the time in their busy schedules to allow me to interview them.

CHAPTER 1 - INTRODUCTION

1.1 Research background

This research aims to investigate the role of management accounting within Maltese manufacturing Small and Medium Sized Enterprises (SMEs). In particular this thesis will look at the interaction between users and providers of accounting information. SMEs have the potential to make a vital contribution towards economic prosperity whilst management accounting information can provide the necessary support that may render SME decision-making more efficient and effective. Accountants, as the principal providers of accounting information, are thus in a unique position to make valuable contributions which will improve business performance directly and national performance indirectly.

In spite of this potential, in-depth studies of management accounting practices and process in SMEs have been limited. This research will try to address this lacuna and contribute to the academic body of knowledge on this subject area. The specific aim is to develop a theory which can explain the processes underlying the use of management accounting information in the context of Maltese manufacturing SMEs.

The research does not aim to explore any specific management accounting techniques as such. Rather, by looking at the management accounting phenomenon across several businesses this thesis will propose a grounded substantive theory of how accounting information becomes significant to users irrespective of the management accounting tools used. The focus will therefore be on the social processes that render management accounting information relevant.

1.2 Significance of the research

The aim of this research is to contribute to existent academic knowledge of management accounting processes in practice. By engaging with the empirical world of management accounting practice it will not only provide theoretical insights valuable for academic researchers but also provide a concrete platform which can be used by researchers to establish a fruitful dialogue with accounting and management practitioners.

Within the European Union (EU), SMEs account for 99% of all businesses. Between them they employ approximately two-thirds of all private sector employees and generate over half of value-added contributed by all businesses (European Commission, online.). They can thus be considered to be the "true back-bone of the European economy, being primarily responsible for wealth and economic growth, next to their key role in innovation and R&D" (European Commission, online.). Therefore the more that is known about how they use accounting information, the more can be done to provide them with the kind of accounting information they need.

The challenges being faced by businesses can have a significant impact on the use of management accounting information. This will in turn have an impact on the interaction between those who provide and those who use that information. This makes this research particularly significant given the economic environment being faced at the time of this study (2010-2014).

1.3 The underlying theoretical foundation of the research

This research focuses on the social processes and interactions relating to management accounting that take place in an organisational setting. It is thus firmly rooted within the Interpretive approach to accounting research. This sees accounting as a social phenomenon that is created and interpreted by the actors involved. The meaning and mode of utilisation of accounting information is not absolute but relative to the individual, organisational and environmental influences. It is by exploring these influences that researchers can achieve a deeper understanding of how accounting information becomes meaningful.

The research strategy follows the principles of Grounded Theory (Glaser and Strauss, 1967, Strauss and Corbin, 1998, Corbin and Strauss, 2008). This approach allows for issues that are relevant to the research participants to emerge from the participants themselves. It therefore ensures that their interpretation of the phenomenon is captured. Grounded Theory supports the Interpretive stance discussed in the previous paragraph and facilitates the generation of theories that are transferable between different audiences.

1.4 The Maltese scenario

1.4.1 SMEs in Malta

SMEs are defined by the European Commission (2003) as companies that satisfy the following thresholds with regards to number of employees and turnover or balance sheet total:

Company category	**Employees**	**Turnover**	or	**Balance sheet total**
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Table 1: Thresholds for SME classification (European Commission, 2003)

In terms of business size, the economic structure of Malta is similar to that found in the EU indicated in section 1.2. However, the reliance of the Maltese economy on the contribution of the SME sector is even more pronounced than for the rest of the EU (European Commission, 2013). In Malta, SMEs generate 80% of employment, compared to the EU average of 66.5% and 71.4% of value-added compared to the EU average of 57.6%. This gap is expected to widen further in the coming years (European Commission, 2013). The SMEs have had a crucial role in enabling Malta to weather the economic crisis reasonably well with employment within this sector increasing by 2.5% in the period 2008-12 (European Commission, 2013). During the same period, manufacturing SMEs in particular outperformed large businesses both in terms of employment levels (an increase of 2% against a reduction of 6%) and value added (an increase of 3% versus a reduction of 13%). Together with wholesale and retail trade, manufacturing contributes to more than 46% of both employment and value-added within the SME sector (European Commission, 2013). Table 2 below provides a summary of this data:

	Number of enterprises			Number of employees			Value Added		
	Malta		*EU27*	Malta		*EU27*	Malta		*EU27*
	Number	Share	*Share*	Number	Share	*Share*	Billion €	Share	*Share*
Micro	24,837	94.1%	*92.1%*	41,660	36.0%	*28.7%*	1	29.1%	*21.1%*
Small	1,244	4.7%	*6.6%*	25,100	21.7%	*20.4%*	1	21.6%	*18.3%*
Medium-sized	265	1.0%	*1.1%*	25,942	22.4%	*17.3%*	1	20.6%	*18.3%*
SMEs	**26,346**	**99.8%**	***99.8%***	**92,702**	**80.0%**	***66.5%***	**2**	**71.4%**	***57.6%***
Large	45	0.2%	*0.2%*	23,126	20.0%	*33.5%*	1	28.6%	*42.4%*
Total	**26,391**	**100.0%**	***100.0%***	**115,828**	**100.0%**	***100.0%***	**3**	**100.0%**	***100.0%***

Table 2: SMEs in Malta - basic figures (European Commission, 2103, p.2)

Maltese manufacturing companies that produce mainly for the local market have had a long history of government protection. Import restrictions, import duties and quota systems ensured that these companies had a ready market for their product with limited external competition. Moreover further controls on the operation of the market within Malta meant that competition between rival firms producing for local consumption was also rather mild. When Malta joined the EU in 2004 this protective/regulatory regime was gradually removed over a period of several years. This had a major impact on most of these businesses and the Maltese government had to spend considerable effort in assisting these businesses to face the new reality. The dismantling of protective measures has driven the SMEs towards higher levels of capital investment as they seek to become leaner and increase the value-added content of their output. Moreover they are moving towards a more specialised human resource requirement which in turn triggers further investment in staff training and development (Ernst & Young, 2013).

The small size of the Maltese market presents a number of special challenges for Maltese SMEs. The deregulated domestic market is very small meaning that it tends to be dominated by a few firms which compete very intensively amongst themselves. New entrants will find it very difficult to break into this market (Ernst & Young, 2013). The small size also allows limited opportunities to take advantage of economies of scale. Manufacturing firms in particular will find that even minimum orders from suppliers exceed their requirements and end up carrying very high level of stocks which puts a substantial strain on their financing requirements (Ernst & Young, 2013).

Financing options are also limited as the small size of the economy means that the capital market is likewise constrained. There are no venture capital structures and investment banks consider the local economy too small to provide a local service (Ernst & Young, 2013). Thus SMEs have to rely almost exclusively on loan financing through the main local banks. However since these are essentially commercial banks they impose a substantial collateral burden and charge higher interest rates (Ernst & Young, 2013).

The geographic isolation of Malta, a group of islands in the middle of the Mediterranean Sea without permanent land connections, creates a number of unique challenges for manufacturing businesses. Transport costs are necessarily higher and this inflates the production costs, which in turn lead to higher prices for consumers (Ernst & Young, 2013). The main transport link is via marine transport. This means that re-supply is subject to delays and unreliable delivery schedules caused by natural phenomena (Ernst & Young, 2013).

1.4.2 The accounting profession in Malta

Malta has a very well established accounting profession. With almost 2,000 fully qualified accountants (Accountancy Board, 2014) it represents a sizable portion of the approximately 165,000 (National Statistics Office, 2014) gainfully occupied persons in Malta. Several routes are available for Maltese citizens to qualify as accountants, the main two being the five-year course at the University of Malta and the UK qualification provided by the Association of Chartered and Certified Accountants (ACCA). At any one time there are approximately 1,000 individuals pursuing professional accountancy studies. All first tier and many mid-tier international accounting firms have a Maltese presence, managed almost exclusively by Maltese partners.

In spite of these relatively large numbers given the size of the Maltese economy, the market for accountants is very competitive. The very rapid expansion in the financial services and online gaming sectors has created a shortage of qualified accountants with the big four accounting firms having to resort to recruiting accountants from other countries. All accountancy students at University are given employment contracts by the time they reach the fourth year of their studies. As a consequence the accountants' salaries have been pushed up whilst supply is restricted. Both of these factors have an impact on the SMEs who find themselves having to pay very high salaries in order to attract and retain their accountants.

1.5 Thesis layout

This thesis consists of nine chapters, including this introduction. A first literature review is provided in Chapter 2. As is customary in a study that uses a Grounded Theory approach such as this one, this will be rather generic and explore the nature of management accounting and its possible applications within SMEs. The aim of this chapter is to sensitise the researcher to possible issues and broad research questions will be presented at the end of the chapter.

Chapter 3 will present an in-depth analysis of the various research paradigms, their implications and the assumptions that researchers will have to make when deciding to adhere with any of the paradigms. This discussion will focus mainly on the paradigmatic framework proposed by Burrell and Morgan (1979). This framework is analysed with particular reference to its applicability for accounting research. Alternative frameworks are also discussed and evaluated. The chapter will then focus on the Interpretive paradigm which is the paradigm that informs this research. It will provide a discussion of how Interpretive research can contribute to the development of academic accounting knowledge in such a way that it captures the richness and complexity of the situations where accounting processes are carried out.

Then the arguments supporting the use of the Interpretive paradigm for this research are presented.

Chapter 4 will describe the specific methodology used in this study. It will first provide a justification for applying Grounded Theory. It will then explain in detail the Grounded Theory research process. Finally it will explain the actual methods for data collection and analysis used by the researcher.

Chapters 5 through to 7 present the findings from the fieldwork carried out for this study. Mirroring the three levels of analysis suggested by Strauss and Corbin (2008), each chapter will describe in detail each successive level. Chapter 5 will present the first phase of analysis, namely open coding. The process of open coding is explained and twenty-five open categories are described in detail. At this stage no attempt is made to establish linkages between the categories. This begins to happen in the next stage of analysis, i.e. axial coding which is presented in chapter 6. The chapter describes the process by which open categories are grouped into eight axial categories which are then explained in detail. Chapter 7 presents the final stage of analysis namely selective coding. In this chapter the manner in which a core category emerges is explained in detail. The core category connects all the underlying axial categories into a unified grounded theory. This was achieved following Strauss and Corbin's (2008) paradigm model. The components of the model are explained in detail and then applied to the research findings. This leads to the presentation of the core category "enabling sensemaking through accounting information" which represents the social process underlying the actions and interactions of the respondents.

Once the core category has emerged, a second literature review is carried out. This is presented in Chapter 8. This second literature review will be very narrow in focus as it will be aiming to locate the emerging theory within related pre-existent literature. This serves to identify how the present research can help refine and extend current knowledge.

Finally chapter 9 will bring this thesis to a close by drawing conclusions and identifying the contributions of the research. These will include theoretical contributions to the fields of management accounting and sensemaking, methodological contributions to grounded theory methodology and empirical contributions relevant to management accounting practice. Suggestions for further research will conclude the thesis.

CHAPTER 2 - MANAGEMENT ACCOUNTING IN AN SME SETTING

2.1. Introduction

This chapter provides an overview of the literature that informs the research area specific to this study i.e. the role of management accounting within SMEs. The aim of this literature review, in line with the grounded theory approach adopted in this study (see section 4.9.1), is to sensitise the researcher to possible issues that may be relevant to the research participants. To this end the chapter is divided into two main sections.

The first section will deal with issues regarding the meaning of the term management accounting. It starts with a discussion of the nature of management accounting, exploring possible definitions and interpretations of what constitutes management accounting. This will be followed by an analysis of how management accounting information can contribute to decision-making and how it can maintain its relevance within businesses. Next, a discussion of the role of the management accountant within businesses will show how this has been changing and evolving. The discussion will then turn to the relationship between management accountants and the users of management accounting information.

The second section will focus on the SME perspective. It starts with an overview of management accounting research within the SME sector. Then the issues surrounding the introduction and development of management accounting systems in SMEs will be addressed. This will be followed by an analysis of the potential contribution of management accounting information towards SME decision-making focussing on aspects of performance management and measurement. This section will then explore the role of accountants and other advisors within SMEs.

The literature will serve to identify areas that merit further exploration. This chapter will therefore conclude with the development of basic research questions which will provide the starting point for the collection of qualitative data.

2.2 The nature of management accounting

2.2.1 Defining management accounting

The term 'management accounting' can mean different things to different people. There are some forms of information and techniques which by general consensus are considered to be 'management accounting'. A brief look at the contents of the main management accounting textbooks used in accountancy courses (e.g. Drury 2012, Horngren *et al*, 2012) will reveal a very homogenous list of topics. These texts are also homogenous in what they don't include as 'management accounting'. Thus for example the final accounts of a business, prepared according to financial reporting rules, are never mentioned as a potential 'management accounting' tool. Yet what if decision-takers use those very same reports as a source of accounting information on which to base their decision? Does that make 'financial accounting' reports 'management accounting'? In order to appreciate better what constitutes management accounting it is worth considering the formal definitions of management accounting provided by two of the leading management accountancy bodies.

In the United Kingdom, The Chartered Institute of Management Accountants (CIMA) (2005) defines management accounting as:

> *'...the application of the principles of accounting and financial management to create, protect, preserve and increase value for the stakeholders of for-profit and not-for-profit enterprises in the public and private sectors. Management accounting is an integral part of management.'*
>
> (CIMA, 2005 p.18)

This definition emphasises the fact that management accounting is part of management and not merely a provider of information to management as the previous definition (CIMA, 2000) seemed to imply. This points towards an evolution of the role of the management accountant. The responsibility of management accountants is now directly towards stakeholders thereby increasing their organisational profile. What exactly constitutes management accounting information is still unclear and CIMA (2005, p.18) felt the need to include with the definition a list of what areas management accounting information may address:

> *'It requires the identification, generation, presentation, interpretation and use of relevant information to:*
>
> - *Inform strategic decisions and formulate business strategy*
> - *Plan long, medium and short-run operations*
> - *Determine capital structure and fund that structure*
> - *Design reward strategies for executives and shareholders*
> - *Inform operational decisions*
> - *Control operations and ensure the efficient use of resources*
> - *Measure and report financial and nonfinancial performance to management and other stakeholders*
> - *Safeguard tangible and intangible assets*
> - *Implement corporate governance procedures, risk management and internal controls.'*
>
> (CIMA, 2005 p.18)

The list is rather comprehensive and covers practically every aspect of organisational performance. What is perhaps most important is that the 'presentation' and 'interpretation' of information are highlighted as part of the process by which information is provided. Both require the judgement of the management accountant as choices will have to be made in their regard which go beyond the mere application of management accounting techniques. Thus management accountants become creators of 'relevant' information. The definition however does not specify what 'relevant' information is. Relevance, as shall be discussed later, is a central concern when providing management accounting information.

The American Institute of Management Accountants' (IMA) (2008) definition similarly highlights the role the management accountant as a 'partner' in decision-making:

'Management accounting is a profession that involves partnering in management decision-making, devising planning and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization's strategy.' (IMA, 2008, p.1)

However in this case the strategic contribution of management accountants is brought to the fore and included within the main definition. Here as well, the 'strategic' element was added when the definition was revised in order to reflect the evolution of the role of management accountants over the last two decades (IMA, 2008, p.1). The management accountants' contribution has moved from the lower end of the organisational information value chain to the very highest levels (IMA, 2008, p.1-2). The information value chain can be depicted as follows:

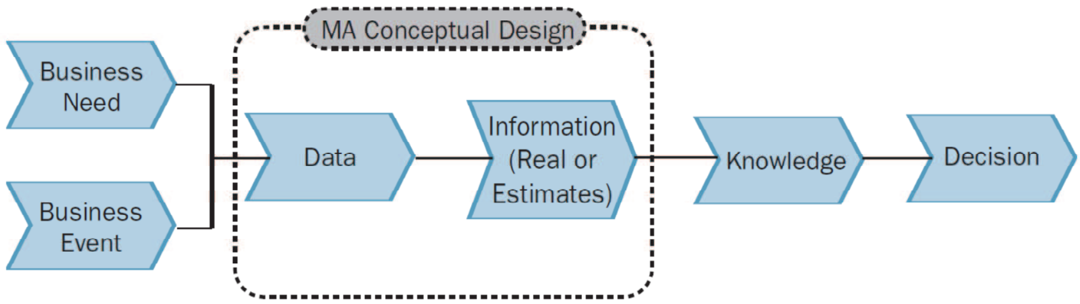

Figure 1: The Information Value Chain (IMA, 2008, p.2)

The management accountant has the professional obligation to provide a conceptual framework by which raw data can become valuable information and 'fulfil the role of enabler and strategic partner along the entire information value chain' (IMA, 2008, p.2)

Both of these definitions are rather broad. As long as the strategy of the stakeholders is enabled, any information, even that of a non-accounting or non-financial nature could be defined as management accounting. If entities had clearly defined objectives, and these objectives were clearly reflected in the actions of managers, then management accounting could be narrowed down to a set of techniques that can assist in achieving these objectives. Within profit making organisations, if that objective was profit-maximization then the debate would be resolved as management accounting would become any technique which allows organizations to maximize their profitability.

This functionalist approach was taken by many researchers in management accounting (Ahrens and Chapman, 2007)**.** However interpretive research has shown that organizational objectives tend to be vague and may be defined after the accounting information has been provided (March, 1987). Moreover there may be an interdependency between organizational objectives and accounting information whereby one can influence the other (Swieringa and Weick, 1987).

(Boland and Pondy, 1983) distinguish between rational organizational models where managers are faced with objectively quantifiable and verifiable decision situations; and natural organizational models where managers are not simply presented with a decision situation but actually are part of its construction. Thus they see accounting as both a rational device that helps to filter those aspects of the organization that can be measured objectively and also as a natural device that gives structure to the potentially confusing environment that may be created by the various personal interpretations of the decision situations.

It can therefore be seen that each individual user's objectives and interpretations may create different perceptions of the information needed and of the way in which it can be generated and presented. Thus different forms of information may be classified as management accounting by different persons. Trying to limit management accounting to a specific list of techniques would only serve to restrict the potential contribution that management accounting information can make to decision situations. This is particularly relevant in an SME setting where, as shall be seen later, there may not be a formal awareness or appreciation of the more sophisticated management accounting approaches.

2.2.2 Management accounting and decision-making

The same management accounting information can play different roles depending on the decision environment being faced. Burchell *et al* (1980) analyse the decision environment in terms of the types and levels of uncertainty faced. The following figure summarizes their conclusions:

		Uncertainty of objectives	
		Low	*High*
Uncertainty of	*Low*	Answer Machines	Ammunition Machines
cause and effect	*High*	Learning Machines	Rationalisation Machines

Figure 2: Uncertainty, decision-making and the roles of accounting practice (adapted from Burchell et al 1980 p. 14)

Where both the objectives for the action required and the consequence of the action are clear and predetermined, the situation approximates the functionalist view of management accounting. Here the application of rules and techniques can provide the answer needed. If objectives are clear but the outcomes of actions is uncertain, then rather than providing answers, accounting information will provide insights into the possible outcomes. This will allow decision-makers to learn more about the decision situation they are facing. Faced with uncertain objectives but with clear cause and effect relationships there may be conflict amongst decision-makers as to what action should be taken. Here accounting information will be used to provide the ammunition needed to support each individual's point of view. Finally where both the objectives and the effects of decisions are uncertain decisions will often be taken by inspiration. Thus accounting information will be needed after the decision to provide a rational basis for what has already been decided (Burchell *et al* 1980).

Of course it cannot be said that management accounting – in whatever form it takes – is the only decision-making tool available to management. In many cases management accounting information is part of a set of resources that may be used by management (Boland, 1993) and only one of the voices in a problem-solving dialogue (Boland and Pondy, 1983). When properly combined together these will provide a comprehensive decision-support information base (Perez de Lema and Durandez, 2006).

In fact, in some instances management accounting information is not used at all. Wouters and Verdaasdonk, (2002) state that in these cases other considerations for example production needs or time horizons become more important than financial considerations even though the decisions will eventually have a financial impact on the organization. In certain cases intuition and experience alone are sufficient to inform the decision-maker.

It has been suggested that decision-makers do not rely on accounting information because it may be seen as an abstract and incomplete analysis of the decision situation (Chapman, 1997). Summarizing complex decision scenarios into a few numbers cannot capture the richness of the situation and therefore does not allow decision-makers to really learn anything about the problems faced.

Yet the ability to translate the various options available into a few results expressed in a single financial form is also the great strength of accounting information. This facilitates the comparison and evaluation of the various different options (Chapman 1997). Wouters and Verdaasdonk (2002) identify three decision situations where this type of information becomes most useful namely: where decision-makers have to make new or rare decisions; where they have to take new considerations into account; and when the knowledge required to take the decision is spread across several individuals or functions. In the first two instances the lack of experience in the trade-offs involved and the resulting consequences make accounting information a useful tool for presenting decision information in a comparable format. In the third instance accounting information helps the exchange and agglomeration of information from different sources.

Vancil (1979) also tried to determine the characteristics that render management accounting systems a useful tool in the decision-making process. First of all every business will have some kind of accounting system which measures performance. Secondly these systems will bring together all the various activities. Thirdly, this serves to obtain new insights into how the business is operating. And finally, in spite of all the jokes about accountants cooking up the books, there is a strong belief by managers in the integrity of accounting reports. All managers appreciate the fact that the accounts, in the end, must always balance. Swieringa and Weick (1987) add another important characteristic to Vancil's list. This is that management accounting information can initiate and sustain action. Management accounting information is therefore actionable information. What is most interesting about Swieringa and Weick's (1987) addition is that the ability to initiate and sustain action is not necessarily a result of very precise and sophisticated management accounting information. In fact, seeking to obtain the best information may result in hesitant decision-making. On the other hand, approximate, subjective accounting measures may result in more forceful action as decision-makers try to validate their decisions.

2.2.3 The Relevance of Management Accounting

The research discussed so far does not question the underlying assumption that the field of management accounting had important contributions to make to business decision-making.

This was challenged by Johnson and Kaplan (1987) who saw management accounting systems as a hindrance rather than a support to effective decision-making. They based their critique of management accounting on four main concepts. The first is the inability of management accounting techniques to develop in response to the change in production techniques which management accounting was supposed to provide information about. Secondly, they claim that the development of management accounting has been stifled by its subservience to financial accounting requirements. Thirdly, academic research in management accounting was totally detached from the reality of management accounting practice. Lastly they point out that the loss in relevance is a recent phenomenon as the early development of management accounting practice arose directly out of the need to solve practical problems.

The reactions generated by this critique led to the development of new techniques which sought to put management accounting closer to the realities that businesses were facing. These can be divided into two groups (Roslender, 1996). One group developed more sophisticated and detailed ‘hard’ quantitative accounting information. Examples of these are:

Activity-Based Costing (ABC)

ABC (Cooper and Kaplan, 1988, 1999) proposes a different way of allocating overheads and support costs. Thus rather than relying on the traditional approach which charges overhead costs to products on the basis of arbitrary allocations, ABC requires businesses to analyse their business processes so that they can identify the activities that are actually causing the costs being incurred.

Throughput accounting

Throughput accounting (Galloway and Waldron 1988a, 1988b) quantifies the effect of bottleneck situations and provides relevant decision-making information in those circumstances.

Quality costing

Quality costing requires business to identify, quantify and analyse the various quality-related costs being incurred by a business. This will allow managers to strategically evaluate their efforts to maintain quality levels over different time periods (Shank and Govindarajan, 1993, pp.23-24).

A second group of techniques tried to extend the potential and relevance of management accounting information by providing less quantitatively precise, ‘soft’ information which was however just as useful to decision-makers (Roslender, 1996). Examples of these are:

Life-cycle costing

Life-cycle costing highlights the importance of costs that are incurred before production commences and after production is terminated. Dunk (2004) defines life-cycle costs as 'all costs attributable to a product from conception to those customers incur throughout the life of the product, including costs of installation, operation, support, maintenance and disposal'.

Customer accounting

Customer accounting moves away from the conventional product-based costing approach to one where the customer becomes the cost subject. A number of approaches such Customer Profitability Analysis and Lifetime Customer Profitability (Guilding *et al*, 2002) allow businesses to analyse the impact that customer behaviour is having on profitability.

The Balanced Scorecard

The Balanced Scorecard (Kaplan and Norton, 1992, 1993, 1996) goes beyond the conventional emphasis on analysing performance from a financial perspective. It identifies three other perspectives which may be used to analyse business performance namely the customer, internal business process and learning and growth perspectives. These non-financial perspectives are seen as drivers of future financial performance. By putting business strategy at the core of business performance analysis, the Balanced Scorecard ensures that management accounting information becomes an integral part of a strategic management system.

The implication underlying these new developments is that in order to regain and maintain relevance, management accountants must change their focus from one of retrospective introspection to one which looks outwards and forwards (Wilson, 1995). These new approaches therefore should change the attitude of management accountants. In fact some authors (e.g. Bromwich, 1990; Roslender, 1996; Guilding *et al* 2000) see the emergence of a new form of management accounting namely Strategic Management Accounting. This is defined as 'a form of management accounting in which emphasis is placed on information which relates to factors external to the entity, as well as non-financial information and internally generated information' (CIMA 2005, p.54). Management accountants must now reach out into the market, look at competitors (present and future) as well as fully understand what the product that the business is selling is really providing to consumers. To become relevant, management accounting information must provide a 360 degree view of the decision situation. These are the developments that eventually led to the revision of the definitions of management accounting discussed in section 2.2.1.

Relevance however is not only determined by the approach taken when preparing management accounting information. The perceived relevance of management accounting will also depend on the validity of the information provided. Whilst the accountant may be certain of the technical validity of the systems suggested, for a user organisational validity will only be achieved when the systems works for them on a personal level (Schultz and Slevin, 1975). As Jönsson (1998, p.412) points out, ‘the relevance of accounting information will depend on its ability to relate to the work managers do’. Management will want information that will help sustain a gut feeling or evaluate different alternatives. They will want to use this management accounting information in their conversations with others as they seek to solve problems and take decisions. Accountants must be able to understand these conversations and the ways that the information provided may be used by the parties involved. This will allow accounting to truly become the language of business.

If accounting information is provided in a language that is comprehensible to users then the relevance of the information provided will be enhanced. As with any language, accounting will reflect the way we see the world in which we live. Language is more than just a tool for communication. It also allows us to become familiar with the world in which we live and how it affects us (Lavoie, 1987). For there to be a successful interface between providers and users of management accounting information accountants need to make sure that they see the world in the same way. Management accounting information will involve the measurement of various variables in a decision situation. Lavoie (1987) observes that measurements only make sense when placed within a conceptual framework that allows an interpretation of those measurements. This framework will often make use of 'metaphors and analogies' (Lavoie, 1987, p.584) whose meaning will be clear to those operating within the framework. It is therefore crucial that all parties using management accounting information share the same conceptual framework. If not there is the risk that the same information may be given different, possibly conflicting meanings.

2.2.4 The role of the management accountant

Misunderstandings may arise between users and designers of accounting systems due to differences in the perceived role of the accountant in an organisation. Hopper (1980) showed that most of the accountants in practice saw themselves as 'service-providers' rather than 'book-keepers'. This split-personality was further evidenced by Mouritsen (1996) who identified five different aspects all of which may be part of the accountants' work in an organisation. These were book-keeping, banking, administrating, controlling and consulting. 'Book-keeping' and 'administration' can be carried out almost in isolation from the rest of the business, whilst the other three, particularly 'consulting', require the accounting function to be integrated with the activities of the organization in general.

Thus we can see the evolution of a 'hybrid' role which combines the technical accounting knowledge with a wider business awareness (Burns *et al,* 1999, p.29). However it is possible that in practice accountants are not asked to contribute in situations where they could provide valid decision-support information because users still perceive them to be book-keepers (Brignall *et al*, 1999). Eliminating the book-keeper image may take several generations and will require the accountants to keep abreast with the rapidly changing business environment (Friedman and Lyne, 1997).

Burns *et al* (2004) observe that many of the management accountants' traditional tasks can now be automated thereby requiring less time on part of the accountants. These tasks are principally those that Mouritsen (1996) described as 'book-keeping', banking and 'administration. At the same time managers are demanding new services from the management accountants. These coincide with Mouritsen's (1996) 'controlling' and 'consulting' roles. This has led to a number of changes in the role of management accountants. Drawing on UK research, Burns *et al* (2004) highlight a number changes the most important of which are:

- The greater use of modern technologies that provide faster information and broader measures of performance;
- The decentralisation of accounting knowledge, meaning that management accounting information can be generated and used by managers independently of the accounting function;
- The expectation of accountants to actively participate within management teams and provide holistic advice for non-routine strategic decisions;
- The need for cross-functional collaboration of accounting and other functional departments.

Granlund and Lukka (1998) conclude that the various roles are so different that it may be difficult for one person to perform them all. However, the technical advancements in management accounting information systems mean that it is now much easier to have systems in place that satisfy the requirements of the various roles as well as the financial reporting requirements of businesses (Scapens *et al,* 1996). After the initial phase of accounting information systems development which simply reproduced the manual systems in existence (Mia, 1993), developments in software such as enterprise resource planning (ERP) systems go well beyond the book-keeping function (Mauldin and Rachala, 1999). Thus it is now becoming much easier to provide the kind of broad scope information that is required by managers facing environmental uncertainty (Burchell *et al*, 1980). This should help improve and maintain the perceived relevance of the management accounting function within an organisation.

2.2.5 The relationship between accountants and users of accounting information

The perceived relevance of accounting information may also be determined by the relative characteristics of managers and accountants. Sathe (1983) distinguishes between ‘strong’ and ‘weak’ accountants or controllers. Strong controllers achieve a positive balance between the independence required to achieve the control and compliance function and the involvement required to fulfil the service role. Weak controllers tend to fulfil their procedural role without contributing to the service function. The same analysis can be applied to managers. Strong managers have a clear idea of the information they need and make sure they get it. Weak managers tend to resign themselves to not getting the information they need, blaming this on their inability to understand accounting reports or the accounting system's inability to provide the information needed. By combining these two types of controllers and managers Pierce and O'Dea (2003) develop the following 'perception gap' map:

		Manager	
		Strong	*Weak*
Management	*Strong*	Likelihood of perception gap minimised	Likelihood of perception gap reduced
accountant	*Weak*	Likelihood of perception gap reduced	Likelihood of perception gap increased

Figure 3: Manager/management accountant combination and the likelihood of a perception gap (adapted from Pierce and O'Dea, 2003, p.284)

Thus when both user and preparer show signs of weakness the likelihood is that there will be the widest possible perception gap regarding management accounting information relevance and effectiveness. On the other hand, when both show strong characteristics it is most likely that management accounting information will be seen as effective and relevant. Most importantly this analysis shows that where at least one of the parties shows strong characteristics then the perception gap will be reduced.

Mouritsen (1996, p.285) observes that the work done by accountants in an organization is 'relational'. This refers to the position accountants occupy in an organization which is not determined by the accountants themselves. Rather it depends on the interrelationship between top-management and line-management and the way these respond to the output of the accounting function. These have a greater influence on the work done by accountants than the business environment or production processes. The accountant's work is thus 'constituted in interaction' (Mouritsen, 1996, p.295). For example, top-management might need to use the services of the accountant as an advisor for decision-making support whilst the line manager would want to avoid the scrutiny of the accountant (Mouritsen, 1996). This adds a further facet to the multiple roles of accountants as they are both controllers (of line-managers) and controlled (by top-managers).

Management accountants often play a role of ‘linchpins’ or ‘facilitators’ where they have to provide information to a wide range of users and in a wide range of organisational settings (Brignall *et. al* 1999, p.31). In order to be able to do this they need to be equipped with three different sets of knowledge and skills (Pierce and O’Dea, 2003). First of all they need an in-depth technical accounting knowledge which will allow them to design systems that fit the specific needs of the environment they are involved with. This must then be supported by a thorough knowledge of the various functional departments within the business. Lastly they need to have the behavioural skills that will allow them to communicate with all the parties involved.

2.3 Management accounting within SMEs

2.3.1 Management accounting research in an SME setting

Research that focuses on management accounting issues specific to the SME sector has been rather limited (Mitchell and Reid, 2000; Nandan 2010). This seems to be a contradiction as SMEs are increasingly being recognised as a principal force for driving economic growth (European Commission, 2013). This would suggest that understanding the management accounting issues within this sector can lead to a positive contribution to management accounting knowledge. In turn, this can lead to the provision of better quality management accounting information to the SMEs and therefore boost their already important economic contribution.

Two reasons may be suggested for this lack of interest (Mitchell and Reid, 2000). Firstly, especially at the smaller end of the SME scale, it is quite probable that firms would not be able to afford employing the services of either a full time or part-time accountant to deal with internal accounting information needs (Nayak and Greenfield, 1994). This means that there will not be a formal management accounting structure in place that can be studied. This limits the amount of research that can be carried out, especially functionalist research. However this still leaves room for research into how the SMEs cope with this lack of formal structure. The identification and dissemination of best practice can generate substantial benefits for the SMEs and for the economy in general (Mitchell and Reid, 2000).

Secondly, although the term 'SME' is used to group firms together, the resulting group is far from homogenous and therefore generalizations become difficult. The sheer variety in size, activity and financial knowledge that can be found in the SME population make it difficult to determine what form management accounting should take in this setting (Mitchell and Reid, 2000). When presenting their findings many researchers tend not make the distinction between the smaller, possibly one-man shows at the smaller end of the SME scale and the larger entities at the other end of the scale who might even have cross-border operations (Sian and Roberts, 2009). This however could be seen as a justification for carrying out more research to develop a wide knowledge base which can be used to generate management accounting guidance to the various types of SMEs (Mitchell and Reid, 2000). Howorth and Westhead (2003) urge policy makers to recognise the diversity within the SME community so that they can provide assistance that is targeted to suit the needs of different types of SMEs.

Perren *et al* (1999) observe that the SME management accounting research that has been carried out seems to lead to contradictory conclusions. Some research leads to the conclusion that the cost control and decision-making processes are not supported by management accounting information whilst other hand research finds evidence of a sophisticated approach to decision-making based on relevant, if informal, financial information. This contradiction seems to stem from the paradigmatic approach adopted by the researchers (Perren and Grant, 2000).

Research which was based on a functionalist view tended to look for established management accounting practices and formal, orthodox systems (Perren and Grant, 2000). Nayak and Greenfield (1994) provide one example of this type of study. They conducted a large-scale survey aimed at determining the level of use of management accounting approaches for credit control, investment appraisal, performance measurement, pricing, budgeting, etc. amongst SMEs. Their findings showed that many owners took decisions without resorting to proper financial analysis. However they were still aware of what was going on in the business around them. When financial information was used this tended to be a mental exercise and was not formally written down. Formal, explicit, management accounting information was used when the decision at hand required the input of more than one person namely in situations where businesses were run by co-owners or where a management team was in place

Research that took an interpretive view tried to establish how management accounting practices are formed in response to the needs of the businesses. In these studies the focus becomes the 'micro-world' (Perren and Grant, 2000, p.394) of the owner-manager rather than the objectified management accounting system itself. This type of research can capture the idiosyncrasies of the management accounting information that is generated to fit within this world (Perren and Grant, 2000).

The resulting SME management accounting research can be broadly classified as focusing on three main themes. The first theme relates to the introduction and development of management accounting systems. The second theme explores the use of the management accounting information available as a decision-support system. The third theme deals with the role of management accounting information in SME performance measurement and management. These three themes will now be discussed in turn.

2.3.2 The introduction and development of management accounting systems in SMEs

Many SMEs do not have a management accounting system at the outset. Reid and Smith (2000) conclude that formal, conventional systems are only introduced when the business is facing cash-flow or funding problems, or when innovations are introduced in the business. Reid and Smith (2002) also reveal that only a minority of

SMEs prepare budgets and, in most cases, owner-managers tend to produce any financial information they need themselves. Lohr (2012) observes that SMEs are reluctant to introduce management accounting systems when business performance is strong. In this situation the SMEs find it hard to justify the additional expenditure for what they deem is unnecessary additional information.

Perren *et al* (1999) conclude that the owner-manager, the business and the management information processes develop concurrently. At different points in time one of these may hinder or support the development of the others. It was found that SME managers, whilst not using conventional terminology, had a clear grasp of the management accounting concepts underlying business decisions. Hence the authors emphasized the need for researchers and advisors to use a language that can be understood in an SME setting. Developing the same research further, Perren and Grant (2000) take a social construction perspective on the evolution of management accounting routines in small businesses. In this case the main finding was that owner-managers create a micro-world over which they have total control. In this setting, the fear of failure triggers management accounting actions which then become routine procedures. These will eventually be viewed as management accounting facts in that particular micro-world setting.

Over time, changes will be introduced to the management accounting system in order to refine it and make it more relevant. Williams and Seaman (2002) show that changes to management accounting systems contribute towards more value-added information. However this does not guarantee improved performance. Such improvements were only evident in situations where management faced a high level of task-uncertainty. This indicates that SMEs need to be cautious before investing in more evolved management accounting systems as they might not provide the improvements in performance which would justify the expenditure.

Holmes and Nicholls (1988) established that business size, business age and owner education are all positively correlated to level of management accounting information used. Thus larger, older SMEs where the owners have a higher level of education will tend to have more sophisticated management accounting systems. Research by Berry (1998) indicates that the development of management accounting systems may take different directions within similar companies as a result of the experiences and skills of the management team. SMEs where owners and managers have a high level of business skills, apart from purely technical know-how, tend to have a more sophisticated decision support system in place then those which rely on technical expertise alone. This has important implications with regards to the development of management accounting systems. It is quite possible that where owners and managers are given some kind of formal training in management accounting they will find it easier to demand, use and understand management accounting information. This is in line with Shields' (1995) conclusion that the skills and resources available to dominant individuals within the firm can spell the success or failure of any accounting innovation.

The environment within which SMEs operate may determine the nature of management accounting system in use. Amat *et al* (1994) analyse the effect of environmental change on management accounting systems in SMEs. They conclude that the rapidly changing nature of the Spanish society and economy led to the rapid adoption of new management control systems. Environmental uncertainty may also have a direct impact. A rather extreme situation is explored by Kattan *et al* (2007) who consider the rather volatile Palestinian environment. They found that management accounting systems there are more mechanistic during stable periods and become more organic as uncertainty increases.

Berry *et al* (2002) suggest that innovation by SMEs in the use of new management accounting practices are often the result of some external stimulus. These may be shocks such as product failures or budget crises; demands by supply chain partners especially larger businesses with which the SME would have to comply in order not to lose business; or prompted by external advisors who want to promote new ideas either for private business or for governmental policy reasons (Berry *et al,* 2002). The change will then become a permanent feature of the business’s information system if the accounting personnel develop a close working relationship with the other business functions so that the innovation is adapted so that it exactly suits the needs of users, in particular the owner-manager.

This is crucial in an SME world that is totally within the control of the owner-managers (Perren and Grant, 2000). Collier (2005) observes that rather than just making sense of the situation, social controls enable the owner-manager to create sense. This becomes the reality of the organisation and gives meaning to the activities of those within the organisation. Thus accounting innovations have to reflect this reality.

2.3.3 Management accounting information and SME decision-making

Owner-managers in SMEs readily make the distinction between accounting reports prepared for statutory reporting purposes and those produced for decision support (Collis and Jarvis, 2002) and are very much aware of the limitations that financial reporting information has for decision-making purposes. A number of studies have looked at management accounting information for different types of decisions.

Curran *et al.*'s (1997) investigation of the pricing decision in SMEs abandons the rational economic model that assumes a sole profit-maximization objective. Thus they broaden the notion of rationality to allow for the fact that owner-managers may have several personal goals which may influence their decisions. In an SME setting, the business often becomes an extension of the owner-manager's personality. This renders the pricing decision more complex rather than simpler in this environment and functionalist models fail to capture this complexity.

In another study analyzing the pricing decision, Carson *et al* (1998) showed that many SMEs tended to use simple cost-plus pricing approach. However in many cases that is only the starting point rather than the conclusion of the pricing decision-making process. What owner-managers do next is to make allowances for marketing considerations, competitive action and most importantly, industry practice. The result is a 'well-honed' (Carson *et al*, 1998, p.83) if informal approach which works in the particular environment within which the SME operates.

When researching the investment decision-making process Ekanem (2005) determined that none of the case-study firms employed conventional investment appraisal methods. Even the payback method which is considered the most popular of methods even within SMEs was ignored. However investment decisions were not taken blindly. Owner managers took a structured approach which was based on their previous experiences and knowledge. Many also relied on the knowledge and experience of close associates. This generally led them to satisficing solutions which made sense within the bounded rationality of their specific context.

As SMEs grow so does their complexity. Faced with this increasing complexity, Greenhalgh (2000) observed that the management accountant in an SME may develop a coping strategy which relied on the use of simpler management accounting processes rather than the more advanced ones which are usually expected in such a situation. A possible reason for this is that the traditional techniques are better understood and are therefore seen as reliable sources of information in a complex environment.

Lybaert (1998) concludes that owner-managers that use more information achieve better results and are more optimistic about the future than those who don't. Moreover owner-managers who have greater strategic awareness and are growth oriented but have less experience tend to use more information. Decision-makers who need to make fast decisions tend to use more, not less information (Eisenhardt, 1989a). They use real-time information from various sources – both financial and non-financial with the emphasis being placed on local measures such as cash flows and stock levels rather than broader measures like profit. They also tend to generate more alternative solutions. Decision time is shortened by considering several alternatives concurrently rather than by reducing the number of sequentially-evaluated alternatives. Conflicts tend to be resolved rapidly with the final decision-maker taking the decision were was no consensus between parties. They also make more use of experienced counsellors i.e. people employed by the firm itself who had particular expertise with regards to the decision scenario.

Where formal, written management accounting information is limited, this may be supplemented by informal, oral information. Alattar *et al* (2009) observe that in Palestinian micro enterprises, verbal discussions can serve to evaluate decisions such as pricing, stock control and production planning. In these cases, owner-managers relied on their memory to retain the information discussed and take decisions accordingly.

The Balanced Scorecard may also find applications in an SME setting as a decision-support tool for implementing quality measures. McAdam (2000) concluded that in this case the Balance Scorecard may create some difficulties. Specifically, it introduced a degree of mechanization and inflexibility which reduced the SME's ability to respond rapidly to market changes.

External users may also require management accounting information from SMEs for their decisions. Exploring the lending decision-making process of bank managers, Berry *et al* (1993) conclude that SME accounting information is often out of date and therefore a number of surrogates are used by bankers as a basis for their lending decision. Nevertheless they highlighted the importance of financial information as a common language that can be used by both the bankers and the small business owners.

2.3.4 Management Accounting and SME performance management and measurement

A survey UK SMEs by Collis and Jarvis (2002) reveals that, with respect financial management, the businesses adopt somewhat sophisticated practices. These include formal methods for the planning and control of the operations. A study by ACCA (2012) also shows that having a strong finance function is a principal driver of SME growth rather than its outcome. Several reasons may be suggested for this relationship. Gul (1991), established that in situations of high perceived environmental uncertainty a sophisticated management accounting system helped managers in SMEs by providing rapid, broad-scope information which was necessary to cope with the unpredictable environment. This resulted in improved performance.

On the other hand, in situations of low uncertainty a sophisticated management accounting system may actually be dysfunctional and hinder performance. Romano and Ratnatunga (1994) show that formal planning and control systems are an important element in the evolution of SMEs. Firms which did not develop their planning and control systems showed slower rates of growth than companies that did. This finding was confirmed by King *et al* (2010) who found a positive correlation between firm performance and the use of formal, written budgets. This however is dependent on the degree of 'fit' (King *et al*, 2010 p.41) i.e. choosing the right approach to budgeting that is in line with the needs of the business. This also provided support to the concept of fit developed by Ismail and King (2005) who determined the level of alignment between the accounting information system requirements (e.g. frequency of reporting, speed of reporting, reporting of non-financials etc.) and accounting information system capabilities within Malaysian SMEs. They found that where there is a good alignment between the two i.e. accounting information systems could deliver what was actually needed, the SMEs performed better than where the alignment was low.

The' new wave' of management accounting information (see sec 2.2.3) has emphasised the importance of critical success factors (CSFs) or key performance indicators (KPIs) beyond the traditional emphasis on profit. This aspect of management accounting reporting is particularly relevant to SME owner-managers where profit maximisation may not be, and often is not, the fundamental objective of the owner (Jarvis *et al* 1996). Thus the bank balance and other cash-related measures become central to the owner-managers' assessment of business performance. Other non-financial measures such number of customer queries and quality of materials are combined to provide a comprehensive view of the level of performance (Jarvis *et al* 2000). The management accounting system needs to be able to capture and report these measures.

The ‘control’ function of management accounting can lower its perceived relevance in an SME setting. Control can be understood as that which restrains action rather than enables it (Collier, 2005). Thus the ‘control’ aspect of accounting information may also be a source of conflict in an SME environment which promotes an entrepreneurial spirit that requires freedom to innovate and take risks. Only when management accounting systems truly become forward and outward looking (Wilson, 1995) will they become more than devices of ‘constraint and monitoring’ (Simons, 1990). Their relevance would not be limited to the post-event evaluation stage, but they will become part of the strategic decision-making process through which a business will aim to obtain a competitive advantage. Drucker (1995) states that information is needed by managers not just to control costs but also, and perhaps more importantly, to create results. Like all managers, managers in SMEs need actionable information (Garg *et al* 2003).

2.3.5 The role of accountants in SMEs

Professional accountants are in unique position to offer management accounting services to SMEs. Kirby and King (1997), see substantial potential for accountants to help SMEs improve their performance. The problem is that in order to be able to do so they have to involve themselves in the business operations and build a relationship of trust with the business owners. The accountant will therefore become a combined consultant and counsellor. For this to happen however accountants may need specific training and develop excellent communication skills. The problem of course is that a higher level of commitment towards the owners will prompt requests for higher fees (for external accountants) and salaries (for internal accountants). Marriott and Marriott (2000) discover that SME owners are not willing to pay extra for additional information. Due to a low level financial awareness they do not consider this information to be good value for money. Thus it is up to accountants to develop their clients’ financial knowledge so that they can be better equipped to take their decisions – as well as become more lucrative clients/employers.

Where accountants form part of the management team in an SME, Richardson *et al* (1996) reveal that they do not have sufficient power to control decision-making through the internal management accounting control system alone. To do this they need the support of external stakeholders such as bank managers to achieve sufficient influence within the SME.

It is however possible that conflict may arise between accountants and other organisational members with regards to their importance within the firm. In this case the management accounting system becomes a battleground for supremacy. Lowe and Koh (2007) show how production people undermined the potential accuracy of accounting information by refusing to accept the imposition of a standard costing system. This eventually led to accountants being forced to the periphery and their systems had to accept the production team's view of what accounting records to keep.

ACCA (2013) emphasises the fact that accountants can play many varied roles within SMEs. The 'numbers' aspect (ACCA, 2013, p.17) is only one of them. They have important contributions to give as 'regulated people' since through their professional training they are familiar with the regulatory environment; they can be 'jargon-busters' as through their technical knowledge they can help entrepreneurs communicate with third parties that use specialist language; and they are 'networked' through their professional bodies giving business owners access to a wide range of other professionals. In spite of this, a study by Lucas *et al* (2013, p.5) shows that owner-manager still tend to view accountants as 'bean counters' and are still not aware of the potential contribution accountants can make as 'business partners'.

2.3.6 The role of advisors within SMEs

Advisors can play an important role in the SME decision-making process. Decision-makers can seek advice from various sources. Internal advisors are those people already employed by the firm such as accountants and other members of staff with specific experience or expertise. External advisors who are not directly employed by the firm may include accountants/auditors, bankers, lawyers, consultants and other entrepreneurs. Research shows that the vast majority of SMEs make use of advisors at some point in time (Bennet and Smith, 2004). In fact, Carraher and Van Auken (2013) show that SME owners are more likely to use financial statements to support their decisions when these are prepared externally.

Berry *et al* (2006) show that there is a positive correlation between the use of advisors and business growth. Owner-managers who make use of several sources of advice seem to be taking better decisions. However the positive impact of advisors does not necessarily always happen. A number of environmental influences may have an impact on the interaction between the decision-maker and the advisor. Day *et al* (2006) identify four such influences:

(1) the interaction may be voluntary or involuntary;
Sometimes decision-makers may be forced to seek out advice against their wish such as when providers of finance require funding applications to be vetted by an auditor.

(2) there may or may not be a desire for mutuality of outcome;
There is always a risk that the decision-maker and the advisor may have different ideas about what direction the business should be taking.

(3) the type of outcome sought;
The decision-maker may be looking for advice that either narrows down or opens up the number of options available

(4) whether the contact is formal or informal.
Contact tends to be more informal the closer the decision-maker is to the person providing the advice.

It is important that both decision-makers and advisors take the above factors into account as this will allow them to determine what each should be contributing to ensure that the outcome of the advisory interaction is successful. Moreover Day *et al* (2006) also suggest that decision-makers and advisors should be aligned in terms of their entrepreneurial abilities. Combining the two will ensure the perfect match between decision-makers and advisors.

Bennett and Robson (1999), Berry *et al* (2006), Blackburn and Jarvis (2010) and Blackburn *et* al (2010) show that accountants are by far the most sought after source of advice. Several types of advice may be given by accountants such as financial management, dealing with emergencies, general business advice (Berry *et al* 2006) and also human resource and employment advice (Jarvis and Rigby 2012). The advice provided is considered to be of high quality and is appreciated by decision-makers. In fact advice by accountants also has the highest impact on decision-makers when compared to other sources of advice (Bennett and Robson, 1999).

Business advice requires the decision-maker and the advisor to share information such that there is a transfer of knowledge between the two. This exposes the relationship to the risk of information asymmetry whereby the advisors may have better knowledge of the decision situation than the decision-makers themselves (Bennet and Smith 2004). Schizas *et al* (2012) show that the greater the perceived expertise of the advisor, the greater the asymmetry. This may lead SME owners to find it more difficult to develop a relationship of trust with their advisors.

2.4 The case for further research in management accounting in SMEs

The problems and contradictions revealed by prior research in SMEs should not obscure the opportunities for management accounting research that can be offered by SMEs. Mitchell and Reid (2000) point out that an SME setting allows a fundamental type of research which can trace the birth and development of management accounting practices in a way that cannot be achieved in larger businesses. Research is not hindered by the complexities of organisational structure and the steps in the development of the management accounting systems tend to be clear and well defined.

Miller and O'Leary (1990) make a call for research that explores the processes that underlie the development of management accounting in practice. They argue that this development will require a language, a vocabulary and a set of techniques that will reflect the various political, social and moral influences which contribute to the creation of a specific scenario. When these are shared and aligned, linkages can be established between various independent groups of interested parties which are meaningful and practical.

Drury and Tayles (1997) make a call for research that looks beyond the formal management accounting systems in place and tries to understand how managers and accountants in practice overcome any perceived weaknesses by making informal adjustments to reported information. They also call for an analysis of how managers and users form their perceptions of the information that is needed.

Rather than limiting research to the 'everyday accountant' (Tomkins and Groves, 1983), Jönsson (1998) believes that managers must be researched as they will determine what is relevant in their everyday context. This will allow researchers to identify how management accounting becomes embedded in a social structure. By aligning management accounting research with managers' needs the focus is shifted to communication (Jönsson, 1998). Rather than assuming that it is plugged into an objective decision-making model, management accounting information is seen as something that is used in different subjective communicative contexts. This will help answer fundamental questions as to how management accounting information is used to direct attention and solve problems.

Bjornenak and Olson (1999) argue that most management accounting textbooks focus on the scope of management accounting i.e. what items to account for and for what period of time. On the other hand the systems dimension i.e. the interaction between users of an MAS and how the MAS itself is designed tends to be ignored. Collis and Jarvis (2002) call for further qualitative research that involves both owner-managers and their accountants so as to learn, how, when and what information is used. Pierce and O'Dea (2003) call for research that considers the opinions of both users and preparers of management accounting information with the aim of explaining the reasons for any differences. Focusing on the control aspect of management accounting, Collier (2005) calls for research that analyses the interaction between the various forms of control namely formal and social controls. This is only possible in small businesses where the interaction can be observed at a level of detail which is not possible in larger businesses.

In order to address some of these issues this research will explore the role of management accounting within SMEs from the various points of view of the people involved. Thus it will help develop a theory of how management accounting is used in practice. It will answer fundamental questions with regards to what management accounting is and the contribution it makes to the decision-making process in business. The research will also focus on the underlying themes that may determine the final outcome of the user/preparer interface. These may be a combination of technical, social and personal processes. By learning about how the interface works it will be possible to derive a theory of how management accounting information may be prepared and communicated to ensure its relevance for decision-makers. The following are the research questions that will serve as a guide to the data collection process:

- How does management accounting become an effective tool to support decision-makers within the SMEs?
- What role does the management accountant play in the SME decision-making process?
- What impact does the interaction between the accountants (preparers) and owners/managers (users) within SMEs have on the generation and use of management accounting information?

As with any grounded theory study these questions will be refined and focused as themes start emerging from the fieldwork itself.

2.5 Conclusion

This chapter has provided a broad overview with regards to the nature of management accounting and its role within SMEs. It has served to highlight the various interpretations of what constitutes management accounting and of its potential contribution in an SME setting. The literature reveals that there are still a number of unresolved issues which can be addressed by carrying out research within the SME setting. A number of research questions where thus generated. The next chapter will discuss the various methodological choices which present themselves when carrying out research in social sciences in general and accounting in particular.

CHAPTER 3 - PARADIGMATIC CHOICES FOR ACCOUNTING RESEARCH

3.1 Introduction

When attempting to research social phenomena, researchers are presented with a range of different and often conflicting methodological approaches. Accounting research is no exception and a clear methodological choice has to be made at the outset of any research exercise. The choice involves the recognition and justification of a number of underlying assumptions which combined together will define a research paradigm.

A research paradigm can be defined as a 'belief system or worldview that guides the investigator, not only in choices of method, but in ontologically and epistemologically fundamental ways' (Guba and Lincoln, 1994, p.105). Thus any paradigmatic debate will have to address the belief systems, methodology, ontology and epistemology that will drive the research exercise.

This chapter will discuss the paradigmatic choices made for this research. It will start by outlining Burrell and Morgan's (1979) framework as a foundation model on which to base this choice. Alternative, if less commonly used, frameworks will then be discussed. The Interpretive framework which is being adopted in this research will then be discussed in greater detail outlining the main reasons for this choice.

3.2 Burrell and Morgan's (1979) paradigmatic framework

Burrell and Morgan's (1979) seminal work starts from the premise that every individual social researcher's personal beliefs will influence the research. Thus they state that 'all social scientists approach their subject via explicit and implicit assumptions about the nature of the social world and the way in which it may be investigated' (Burrell and Morgan, 1979, p.1). These beliefs need to be recognised and stated so that their potential impact on the research can be assessed.

To this end they devised a framework which can assist researchers in determining their paradigmatic position. The framework can then also be used to classify research studies according to the paradigmatic choices made. The approach taken by Burrell and Morgan (1979) is based on the notion that the alternative ways of analyzing organizational structures are supported by two underlying sets of assumptions. The first set of assumptions deals with the philosophy of social science whilst the second set deals with the theory of society. These sets of assumptions will now in turn be examined in detail.

3.2.1 The philosophy of social science

The philosophy of social science that researchers may adopt when researching social phenomena may be analysed in terms of four different categories of assumptions. In each of these categories a distinction becomes apparent. At the extremes, the different positions that may be held reveal a view of social science that emphasizes either the subjectivity or the objectivity of social reality. Researchers need to analyse these assumptions and determine what position they hold along the subjective/objective continuum. Although the four categories may be interrelated, a separate evaluation allows for a deeper and clearer analysis of the positions that may be held by social researchers.

The first category deals with questions of an ontological nature. Ontology refers to the nature of the phenomenon being investigated. The main concern here is whether social reality exists independently of the person experiencing it. Burrell and Morgan (1979, p.1) are asking researchers to determine whether "reality is of an 'objective' nature, or the product of individual cognition". The two alternative approaches with regards to the ontological choice are nominalism and realism. A nominalist ontological approach would assume that the social world is created by individuals who attach subjective labels to experiences so that they may describe and explain them. Thus the social world is created by every individual's unique experiences. On the other hand, a realist ontological approach assumes that the social world exists independently of individual perception. Thus the social world has an objective existence that is just as real that as the physical world.

The second category deals with epistemological assumptions. Epistemology refers to the nature of knowledge itself, 'about how one might begin to understand the world and communicate this as knowledge to fellow human beings' (Burrell and Morgan, 1979, p.1). Here the choice is between anti-positivism and positivism. An anti-positivist epistemology assumes that knowledge can only be experienced. Objective proof of 'truth' is thus impossible to achieve and knowledge is of a 'softer, more subjective, spiritual or even transcendental kind' (Burrell and Morgan, 1979, p.1). A positivist epistemology, on the other hand, sees knowledge as something that can be acquired and transmitted from one individual to another. Drawing on the approaches typical of natural sciences, this is the epistemology of hard facts which can be verified or falsified (Burrell and Morgan, 1979, p.1).

Human nature is the subject of the third category of assumptions. These assumptions deal with the relationship between human beings and the environment they operate in and they can be analysed into voluntarist and determinist views. The voluntarist stance sees humans as free agents who choose how, if and when to respond to environmental stimuli. The human person is the 'creator of his environment, the controller as opposed to the controlled, the master rather than the marionette' (Burrell and Morgan, 1979, p.2). This contrasts with the determinist view that sees human beings as the product of their environment. Human beings have little or no choice in behaving the way they do when faced with a set of environmental circumstances.

The final category of assumptions about the philosophy of social science deals with the methodology that is to be applied when investigating social phenomena. Inevitably, these assumptions are influenced by the positions held in the above three categories. The range of assumptions here varies from the ideographic to the nomothetic. Towards the more subjective end methodologies would tend to be ideographic. This means that the emphasis in research will be on getting to know the research subjects intimately such that their true nature and characteristics are uncovered during the research process (Burrell and Morgan, 1979, p.2). Objectivist researchers would tend towards nomothetic approaches. Here the emphasis will be on methods that derive from natural sciences. Thus rigorous scientific testing of hypotheses is the main methodology used and 'systematic protocol and technique' become a key factor in the research process (Burrell and Morgan, 1979, p.6).

The alternative positions within each category are summarized in Figure 4. Although a range of positions may be held within each continuum, grouping the extreme positions leads to the two main traditions in social research. Thus German idealism represents the subjective end by the grouping of a nominalist ontology, an anti-positivist epistemology, a voluntarist stance and an ideographic methodology. This is in sharp contrast with sociological positivism which, at the objective end, combines a realist ontology with a positivist epistemology, a determinist stance and nomothetic methodologies (Burrell and Morgan, 1979, p.7).

The subjectivist approach to social science		*The objectivist approach to social science*
Nominalism	← ontology →	Realism
Anti-positivism	← epistemology →	Positivism
Voluntarism	← human nature →	Determinism
Ideographic	← methodology →	Nomothetic

Figure 4: A scheme for analyzing assumptions about the nature of social science (Burrell and Morgan, 1979, p.3)

As can be seen from the above diagram the various choices made will create a subjective/objective dimension (Burrell and Morgan, 1979, p.3) which will form the first element of Burrell and Morgan's (1979) framework. The other element dealing with nature of society will be addressed in the next section.

3.2.2 The nature of society

Here again Burrell and Morgan (1979) present us with two opposing dimensions. These two dimensions are based on the distinctions outlined by the 'order-conflict debate' (Burrell and Morgan, 1979, p.10). On the one hand society is seen as a stable environment where different parts are integrated. Individuals perform functions which are coordinated and there is a consensus of values among members. These assumptions are at the basis of the sociology of regulation which tries to analyse the need for regulations to sustain society. Research that takes this view will try to 'understand why society is maintained as an entity...why society holds together rather than falls apart' (Burrell and Morgan, 1979, p.17).

On the other hand, society can be seen as a constantly changing environment where different parts are continually in struggle amongst themselves. Different members of society contribute to disintegration and change and some of them are coerced into some form of behaviour by other members. These assumptions are at the basis of the sociology of radical change. The main concern here is 'man's emancipation from the structures that limit and stunt his potential for development' (Burrell and Morgan, 1979, p.17).

Thus whereas the sociology of regulation tries to explain the current situation of society in terms of the underlying unity and cohesiveness, the sociology of radical change seeks to find explanations for the conflicts that characterize modern society and the new possible directions into which society can move. These alternative views regarding the nature of society will be combined with the alternative views regarding the philosophy of social sciences to create four paradigms as shall be discussed in the next section.

3.2.3 The Four Paradigms

By combining these two sets of assumptions Burrell and Morgan (1979) develop four paradigms which can be used to classify most research taking place in the social sciences. Figure 5 shows how the four paradigms arise as a result of the various combinations possible.

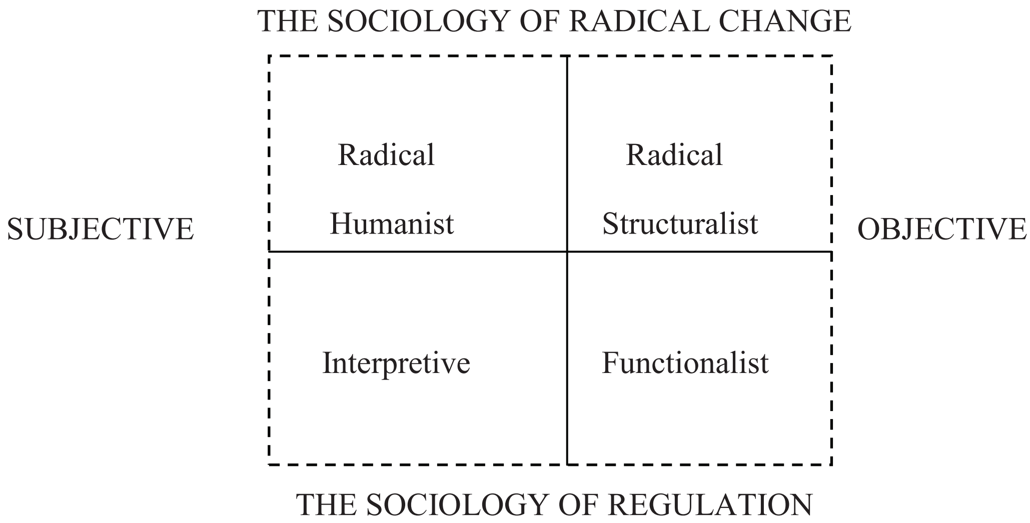

Figure 5: Four paradigms for the analysis of social theory (Burrell and Morgan, 1979, p.22)

Burrell and Morgan (1979, p.23) see a paradigm as ‘a commonality of perspective that binds the work of a group of theorists'. The four paradigms thus become a convenient way of locating a personal frame of reference. They compare them to a map which tells you where you are, where you have been and where you might want to go in the future.

The Functionalist paradigm combines an objectivist viewpoint with the sociology of regulation. This has been the dominant framework in sociological research. Functionalist research tries to provide rational explanations for the current state of social affairs. Thus concrete situations are identified and examined through the application of methods derived from natural sciences. The focus of such research tends to be the identification of practical solutions for practical problems (Burrell and Morgan 1979, p.26).

The Interpretive paradigm combines a subjectivist viewpoint with the sociology of regulation. Human actions are influenced by the social environmental and in turn influence the environment. The environment is however regulated by a structure of rules that individuals adhere to (Smith 2011, p.4). Thus researchers who adhere to this paradigm try to understand society as it is through a more subjective analysis.

The researcher becomes a participant rather than an observer and seeks 'to understand the very basis and source of social reality' (Burrell and Morgan, 1979, p.31).

The Radical Humanist paradigm is characterized by a commitment towards social change but from a subjectivist viewpoint. The social *status quo* is seen as a barrier which holds individuals from achieving personal fulfilment. Research which adheres to this approach tries to free individuals from the social norms which become a form of alienation that inhibit the realization of human potential (Burrell and Morgan, 1979, p.32).

The final paradigm in Burrell and Morgan's model is the Radical Structuralist paradigm. In this case, whilst maintaining a focus on social change, research tends to take an objective stance. Thus rather than focusing on the individual, researchers focus on the structural relationships within society (Burrell and Morgan 1979, p.34). Conflicts and power struggles between societal structures are seen as the way towards achieving change in society that leads to human emancipation.

Burrell and Morgan (1979, p.25) emphasize that these paradigms are mutually exclusive. Thus, at any one time, a researcher cannot operate within more than one paradigm because the assumptions in one contradict some or all of the assumptions of the other. However they do allow for the possibility that researchers may shift allegiance from one paradigm to another over time.

3.3 The Paradigms in Accounting Research

Burrell and Morgan developed their paradigmatic framework for social sciences in general. Other researchers have used the framework to classify research in accounting in general (Chua 1986, Ryan *et. al* 2002) and management accounting in particular (Hopper and Powell, 1985). The alternative paradigms will now be discussed in turn starting with functionalism.

3.3.1 Functionalist Research

Functionalist research has dominated accounting research (Chua, 1986) and can be subdivided into three major groups – Objectivism, Social Systems Theory and Pluralism (Hopper and Powell, 1985 p.433). This subdivision reflects the fact that Burrell and Morgan's (1979) dimensions allow for different positions along the subjective/objective continuum rather than just one extreme as can be depicted in the following diagram representing the functionalist quadrant:

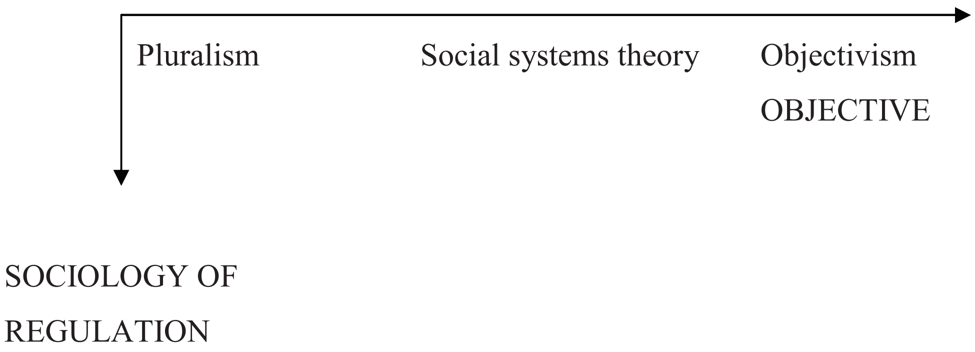

Figure 6: Schools of functionalist accounting research (adapted from Hopper and Powell, 1985 p.432)

3.3.1.1 Objectivism

Objectivism is best represented by Classical Management Theories which Burrell and Morgan (1979, p.123) place at the most objective end of the Functionalist paradigm. Underlying these theories is the assumption that employee behaviour can be controlled by manipulating the work environment. This cause-and-effect relationship implies that organizations possess the same behavioural characteristics as physical objects. In accounting terms this means that the only information that is relevant to decision-making is the mathematical identification of the profit-maximizing option. Human beings, it is assumed, will always prefer that rational option (Hopper and Powell, 1985, p.434).

3.3.1.2 Social Systems Theory

Occupying a slightly less objective position within the Functionalist paradigm, Social Systems Theory allows for the complex interactions that take place between humans and their environment. Thus researchers started incorporating aspects of motivation and organizational design in their studies (Hopper and Powell, 1985 p.434). This led to several strands of research.

Accounting dysfunctions studies allow for the fact that the goals of individual members of an organization may be different from the formal goals set for the organization as a whole. This limits the effectiveness of any set of bureaucratic controls (Hopper and Powell, 1985 p.435). *Psychological theories* highlight the fact that human beings can interpret the same information in different ways. This will lead to different decisions being taken based on the same management accounting information. Thus researchers tried to identify the factors which determine the way individuals process information (Hopper and Powell, 1985 p.435). *Social psychological theories* take a similar approach but emphasize the effect of motivation. These studies thus try to relate individual budget variables e.g. the perceived difficulty of standards, with social psychological factors such as the relationships between managers and subordinates (Hopper and Powell, 1985 p.436). *Structural theories* focus on the way in which organizational structure, such as the level of divisionalisation, effects the phenomena being studied (Hopper and Powell, 1985 p.435).

All the above approaches concentrate on variables that are internal to the organization. *Open systems theory* sees organization as structures that both respond to and contribute stimuli to the general social environment in which they operate. Thus political, social and technological factors play an important role in understanding how management accounting develops within organizations (Hopper and Powell, 1985 p.438). *Contingency theory* brings together all these different strands by allowing for the fact that different management accounting approaches may be required in different organizations or in different parts of the same organization. These approaches should reflect the different external and internal environmental, social and financial conditions (Hopper and Powell, 1985 p.439).

3.3.1.3 Pluralism

Pluralism views organizations as a collection of different interest groups who may have several different and possibly conflicting objectives. As each group tries to achieve its own objectives, the bargaining process that ensues creates the need for accounting information. Pluralist studies thus have focused on management accountants' role as 'gate keepers' of information and on how management accounting systems may support different perspectives on the same situation (Hopper and Powell, 1985 p.433-434).

3.3.2 Interpretive Research

The main aim of Interpretive social research is to examine the ways in which social realities are created and negotiated. Interpretive research does not accept that reality is independent of people's perceptions. Rather it is a subjective creation of each and every individual. Social reality in particular is created through the interaction with different members of society. Thus the only way to learn about reality is by trying to understand the point of view of the research subject (Hopper and Powell, 1985 p.446).

By learning about how accounting is given meaning through a social process, Interpretive research should lead to a better understanding of accounting. Moreover research questions are allowed to emerge from the research process rather than being decided at the outset. This should result in queries that are more relevant and related to the needs of the research subjects (Hopper and Powell, 1985 p.447). Moreover such research is necessary to make sure that the meaning and role of accounting information is understood as clearly as the way in which it should be prepared (Burchell *et al*, 1980). Chua (1988) identifies two main theoretical approaches within the interpretive paradigm that are particularly relevant to management accounting research namely Symbolic Interactionism and Ethnomethodology. More recently, Structuration Theory and Latourian approaches have also gained prominence (Ryan, *et al* 2002, p.42).

3.3.2.1 Symbolic interactionism

According to Blumer (1969, p.2) symbolic interaction is based on three fundamental premises:

1. *'Human beings act toward things on the basis of the meaning that the things have for them'.*
2. *'The meaning of such things is derived from, or arises out of, the social interaction that one has with one's fellows.'*
3. *'These meanings are handled in and modified through an interpretative process used by the person in dealing with the things he encounters.'*

Research that subscribes to this view will therefore be focused on the interpretive process by which subjects give symbolic meanings to their social interactions (Silverman, 2005, p.98). This kind of research will ask 'why' rather than 'how' (Chua, 1988). It will not try to generate generisable hypotheses but rather determine the peculiarities of the specific social interactions being researched. The concepts used to describe the social interactions should be based on the actors' own definitions and meanings. Researchers will need to immerse themselves in the world of the actors if they are to achieve these objectives. As Chua (1988) points out, social stability is assumed as actors are seen to comply with shared norms.

3.3.2.2 Ethnomethodology

When taking an ethnomethodological approach, researchers will examine in detail the way in which individuals produce orderly social interaction as they go about their daily lives (Silverman, 2005, p.98). The concern here will also be to answer the 'how' rather than the 'why'. However in contrast with symbolic interactionism, ethnomethodology relaxes the assumptions regarding the actors' compliance with societal norms. Rather, actors create an impression of an ordered society through procedures which render their interactions recognisable and acceptable to others around them. The researcher will aim to describe these procedures, in particular the use of symbols and their meanings (Chua, 1988).

3.3.2.3 Structuration theory

Giddens (1979) describes structuration as a social process that revolves around a reciprocal relationship between humans and organisations via their structural properties. Structuration therefore tries to conceptualise the connections between individuals who are free to make choices, and the reproduction of societal structures (Baxter and Chua, 2003). Giddens (1984, p.24) refers to this as a 'duality of structure' where actors can both be influenced by pre-existing societal structures as well influence the structures as they take decisions as independent agents. This concept has important implications for accounting research as accounting systems can be seen as structures that can regularise the functioning of organisation across different time periods and in different locations (Roberts and Scapens, 1985). Accountants and other actors can both influence and be influenced by these structures.

3.3.2.4 Latourian approaches

Latourian approaches, most notably Actor Network Theory (ANT) (Latour, 2005), introduce the idea that the non-human (such as technological components) part of a network of relationships needs to be given as much importance in research as the human. Thus Latour (1987) creates the term actant to describe both human actors and non-human elements where all actants are able to act in the network. Society is thus seen as a network of relations between the actants. Latour (1987) also introduces the concept of translation whereby individuals who want to bring about change will convert their personal interests into facts. Both of these concepts have interesting implications for accounting research where accounting systems, the reports they generate and the technologies used to create those reports are elevated to the same level of importance as the individuals who generate or use those reports. Moreover accounting can play an important part in the creation of fact to suit the needs of particular actors.

3.3.3 Radical Research

Hopper and Powell (1985, p.451) combine Burrell and Morgan’s (1979) Radical Humanist and Radical Structuralist paradigms into one general Radical approach since they reflect dialectical aspects of the same social reality. Thus Radical research in accounting includes both the subjective and the objective ends of the radical research spectrum. Radical research emphasizes the contradictions and conflicts that exist in society. But as opposed to Functionalist and Interpretive research, which accept these conflicts in a non-judgmental manner, critical research tries to challenge the dominant ideologies (Hopper and Powell 1985, p.450). Accounting can be seen as the language of capitalism (Roberts and Scapens, 1985). Radical researchers claim that accounting is used by the socially dominant group – the owners of capital in a capitalist society – to subordinate and alienate the workforce (Hopper and Powell 1985, p.454). Chua (1986) called this type of research 'critical' accounting research and this label seems to have become more popular (Ryan *et al*, 2002). Accounting researchers have based their work mainly on the ideas of Marx and more recently Foucault (Ryan *et al*, 2002).

3.3.3.1 The Marxist perspective

Marxist research tends to highlight how accounting contributes to the creation of an unequal society and to the perpetuation of that inequality. The inequality stems from the uneven distribution of resources. The result of this is that societal stability is undermined. Moreover these inequalities are internalised and reproduced by individuals and organisations. Marxist researchers therefore aim to provide a theoretical structure for critiquing, changing and possibly improving organisations and society in general (Baxter and Chua, 2003).

3.3.3.2 The Foucauldian perspective

The Foucauldian differs from Marxist perspective in that it is very much concerned with the historical perspective when analysing social phenomena. It also avoids the political commitment typical of Marxist research whilst remaining politically incisive (Roslender, 1990). Foucault's approach has led to the development of new interpretations of the historical development of accounting. Thus new developments in accounting theory or practice are intricately wound with the historical phase in the organisations or society where they develop (Baxter and Chua, 2003).

3.3.4 The paradigms in perspective

This type of classification is useful for a number of reasons (Hopper and Powell, 1985, p.429). Accounting research has often been based on theories borrowed from other social sciences prompting some authors to describe accounting researchers as ‘parasites’ (Smith, 2011, p.1). However little attention is given to the philosophies underlying these theories. This classification addresses this problem. Once the underlying assumptions are exposed then this classification will ensure that there is consistency between the points of view of the researcher, the theoretical model used and the research method applied. By using the Burrell and Morgan framework as a map, researchers can not only find their way around the existing research but, more interestingly, seek new areas to explore (Hopper and Powell, 1985 p.430).

This does not mean that Burrell and Morgan’s (1979) framework does not have its critics. Chua (1986) lists three major drawbacks. Firstly, the mutually exclusive dichotomies used by Burrell and Morgan do not allow for approaches which try to do away with a 'strict either/or' approach. Secondly, Burrell and Morgan take a relativist stance with regards to scientific truth and reason. Thus the framework is open to the philosophical criticism that since relativism claims that truth is relative then relativism may in itself be true or false. Lastly, the separation of the Radical approaches into two is not thoroughly supported. As noted above, this has led Hopper and Powell (1985) to combine them together.

3.4. Alternatives to Burrell and Morgan

Whereas Burrel and Morgan's (1979) framework was aimed at social sciences in general, Chua (1986) and Laughlin (1995) have tried to develop alternative frameworks specifically aimed at accounting research.

3.4.1 Chua's (1986) framework

Chua (1986) looks at three different sets of assumptions which may underlie research and can be used to distinguish between different types of accounting studies. The first set of assumptions is of an epistemological and methodological nature. These assumptions are related as they both address the 'notion of knowledge' in terms of what may be considered as truth (epistemology) and what research method is considered acceptable when gathering data to establish that truth (Chua, 1986, p.604). The second set of assumptions deal with the ontology (whether social reality exists independently of the observer), human intention and rationality (whether means-end rationality drives intention) and the nature of society (whether stability or conflict are prevalent) (Chua, 1986, pp.604-605). Whilst the first two sets of assumptions are broadly similar to those outlined by Burrell and Morgan (1979), Chua (1986, p.605) adds a third set of assumptions dealing with the relationship between theory and practice. Thus the researcher needs to question the purpose of the research, which can range from the provision technical solutions to the emancipation of individuals.

Using her framework, Chua (1986) identifies three main approaches towards accounting research. 'Mainstream' accounting research (Chua, 1986, pp.606-613) assumes that reality is independent of the observer and relies on quantitative methods to generalise conclusions. Humans are seen as rational beings with utility-maximising objectives. Accounting is seen as a means to an end and no attempt is made to challenge institutional structures. This type of approach has tended to dominate accounting research and in essence is similar to Burrel and Morgan's (1979) Functionalist paradigm. Chua (1986, pp.613-618) labels the second approach as 'Interpretive' research. Here the emphasis is on human intention as individuals create their own reality. Research methods tend to focus on qualitative approaches that observe actors in their day-to-day activities. The aim is to understand and explain the processes by which social order is maintained. As the name itself implies, this is very similar to Burrel and Morgan's (1979) Interpretive paradigm. The third and final approach is termed the 'Critical Alternative' (Chua , 1986, pp.618-626). In this case knowledge depends on the social and temporal contexts. Research will therefore tend to use historical and ethnographical approaches. Individuals are seen as alienated by societal mechanisms and therefore the aim of the research is to identify and remove these barriers to the fulfillment of human potential. Thus is can be seen that this approach is similar to Burrell and Morgan's (1979) radical paradigms.

Chua's (1986) most important contribution is the fact that, within her framework, she removes the condition imposed by Burrell and Morgan (1979) that the positions taken within these sets of assumptions are mutually exclusive. In this way different positions can be combined and related within any research. This should serve to open up possibilities that will 'extend our knowledge of accounting in action within organizational and societal contexts' (Chua, 1986, p.626).

3.4.2 Laughlin's (1995) framework

Laughlin (1995) believes that Burrell and Morgan's two-by two matrix, whilst valid, is too simplistic. Thus he proposes his own more complex three-by-three matrix. The three sets of assumptions now become 'theory', 'methodology' and 'change' (Laughlin, 1995, pp.66-68) Within each, like with Burrell and Morgan's (1979) model, there is a range of positions which Laughlin (1995) identifies as ''high', 'low' or 'medium'. The assumptions and the various positions held can be combined to create a more complex analysis of the various research approaches.

'Theory' refers to the level of prior theorizing in terms of the researcher's view of the nature of the world and of knowledge (thus encompassing Burrell and Morgan's ontology and epistemology). High levels of prior theorizing indicate that the reality exists independently of the observer and thus research serves to add to the body of knowledge of generisable empirical findings. Low levels of prior theorizing on the other hand assume that the world around us is the creation of each individual's mental projections. This makes generisability impossible as each individual will project a different subjective reality. In this case therefore the focus of research will be the detail and uniqueness of the situation being studied (Laughlin, 1995, pp.66-67).

'Methodology' deals with the role of the researcher and the type of research methods used (thus encompassing Burrell and Morgan's methodology and human nature). The question here is whether researchers, when conducting the research, should rely on predetermined theoretical definitions which guide their vision, or whether they should rely on their own powers of perception. A high level of theoretical definition makes the researcher irrelevant to the research process: there is no subjective bias or influence on the outcome of the research. A low level of theoretical definition sees researchers as an integral part of the research process and they are encouraged, as free-thinking individuals, to use their individual perceptual skills (Laughlin, 1995, p.76).

'Change' refers to whether the research is trying to create changes in the very phenomenon that is being investigated (thus dealing with Burrell and Morgan's 'nature of society' assumptions). Holding a high change position would mean that the researcher views everything that is being observed as unacceptable and should be changed. A low change position would see the researcher quite happy to leave things as they are. A middle position would keep the options open. These three assumptions and the levels held within each are combined in the figure 7 below:

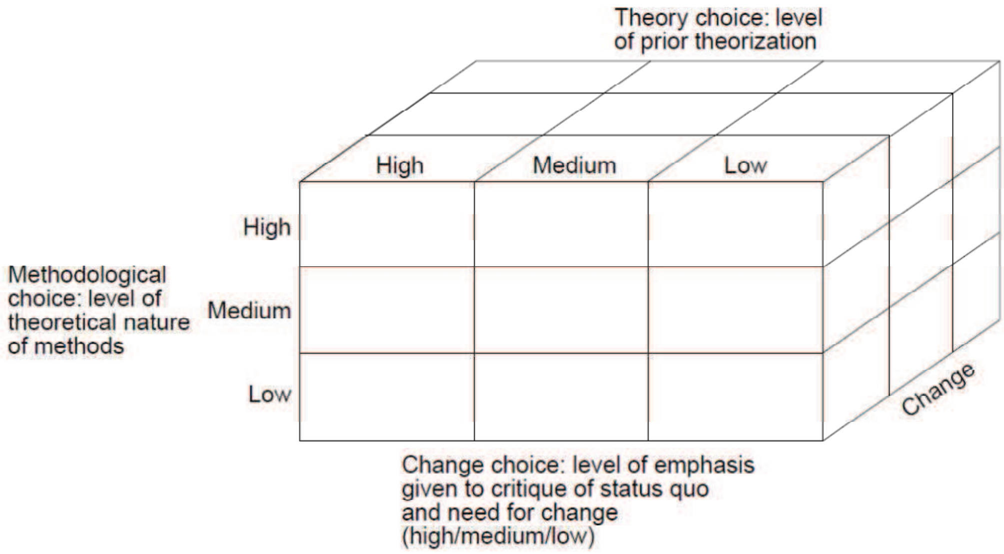

Figure 7: Dimensions on the choice process for empirical research (Laughlin, 1995, p.68)

Laughlin (1995, p.77) makes an important contribution with regards to his proposition of 'middle-range' thinking i.e. a combination of the mid-points of the theory, methodology and change continuums. Thus rather than positioning themselves at the extremes, researchers can make allowances for the fact that accounting, as a social phenomenon, can never have the absolute consistency and generisability of physical sciences, nor is there the need to 'rediscover the wheel' with every new accounting study (Laughlin, 1995, p.83). Keeping an open mind will avoid the weaknesses of the extremes whilst preserving their strengths.

Chua's (1986) and Laughlin's (1995) frameworks, whilst providing a valid alternative, have not managed to attain the same level of popularity as Burrell and Morgan's (1979). The next section will therefore explain the research stance adopted in the research with reference to the latter.

3.5 The case for Interpretive accounting research

This section will present arguments in favour of adopting an Interpretive stance in this study. The advantages of Interpretive research will be outlined as well as how these help overcome the limitations associated with functionalist research.

3.5.1 The emergence of Interpretive research in accounting

Accounting, with its traditional emphasis on the objective representation of financial 'facts' seems, on a first analysis, to be ideally suited for a Functionalist research approach. It would only seem natural for accountants to resort to essentially 'numerical' forms of analysis since numbers are the way in which accountants represent business realities. These 'numbers' are seen as an objective and value free way of representing reality. However every numerical representation involves an interpretation. In carrying out their everyday activities accountants constantly choose what to measure and how to measure it (Morgan, 1988).

Burchell *et al* (1980) make one of the earliest calls for the study of accounting as a social and organizational phenomenon. Their argument stems from the fact that researchers have assumed that the functional attributes of accounting are the only raison d'être for the accounting craft. However, accounting can also be seen as a social phenomenon that is used for a variety of reasons by different social actors having different objectives. The role of accounting is intertwined with the social context in which it operates. Any accounting representation can have a number of meanings attached to it which can be conflicting and can be used for purposes which are different from the ones stated formally (Burchell *et al* 1980).

Interpretation in accounting takes place at two stages (Boland, 1993). First, when preparing accounting reports, accountants make personal, subjective interpretations of the business situation on which they are reporting. Secondly, the same reports are then used by decision-makers and interpreted as they attempt to make sense of the situation they are facing. Accounting thus becomes an interpretive art and the objectivity attributed to accounting information becomes a myth (Morgan, 1988).

Now the accountant can be seen not as a detached observer but as an active contributor to the construction of social reality. Accounting becomes another multi-dimensional and paradoxical social process. Therefore it requires an epistemology that can analyse, interpret and understand these multiple dimensions and paradoxes (Morgan, 1988). An Interpretive approach satisfies this requirement.

Researchers must also be aware of their roles in the research process. Researchers will view reality through their individual 'lens' i.e. the way in which they organize and give meaning to their experiences. This inevitably introduces some element of bias and absolute objectivity in research is therefore impossible to achieve (Ansari and McDonough, 1980). This contrasts directly with Functionalist research which requires a separation between the researcher, the phenomenon being studied and the methodology used. In a social reality this is not possible. Interpretive research accepts these as 'intimately intertwined' (Covaleski and Dirsmith, 1990). The detachment of researchers from the field of enquiry forced by a Functionalist approach may have been responsible for the perceived lack of relevance of accounting research to accounting practice (Tomkins and Grove, 1983).

By adopting methods derived from natural sciences, social scientists also unconsciously adopted the underlying paradigmatic assumptions. However these had been developed for a physical, inanimate world not human behaviour. Humans create reality as they experience it (Colville, 1981). Social reality is not an object in itself.

Rather it is made up of several interconnected events which change in meaning according to individual perceptions (Roberts and Scapens, 1985). The social world can be seen as a text whose significance can only emerge through interpretation (Boland, 1989). Accounting is one of the contributors to this social text. Thus accounting research, like other social research should focus on the interpretations given by social actors as they interact with others in their social environment (Covaleski and Dirsmith, 1990, Boland, 1989).

Morgan (1983) points out that accounting researchers are really social scientists in disguise. Therefore in selecting their research methods they must choose those that are most valid to carry out social research. In the field of social sciences 'naturalistic' methods have been recognized as inappropriate (Morgan, 1983). Thus the scientific approach is misguided for accounting research since accounting deals with social phenomena which do not have fixed behaviour patterns as may be found in chemistry (Tricker, 1979).

The main difficulty with applying Functionalist research is that the nature of social science is such that it is difficult to have, a priori, a perfectly structured problem to analyse. Rather, the data required and the techniques used to analyse this data will develop as part of the research process as the researcher learns more about the problem being tackled (Tomkins and Grove, 1983). Moreover, the complexities created by the multiple interpretations possible, may tempt researchers to focus in isolation on variables which are easily measured. But the variables are not the organization. It is the relationships between the individuals that make part of the organization that are the organization (Colville, 1981). There is a risk that researchers adopting a Functionalist approach, with its emphasis on statistical rigor, may end up emphasizing the methodology used rather than the knowledge gained and the value of the results obtained (Tricker, 1979).

Interpretive research does present some problems. As Covaleski and Dirsmith (1990) point out, Interpretive research tends to be very time consuming. The methodologies used leave the possibility of multiple interpretations by different researchers.

Researchers who have to trawl through huge volumes of qualitative data may end up with an underdeveloped analysis and interpretation. There may also some resistance to Interpretive research by a part of the research community on grounds of reliability, validity and researcher detachment.

However in spite of these problems Interpretive research in accounting makes four important contributions (Chua, 1986, pp.617-618). The first contribution is the recognition of the fact that in practice accounting information can be given different meanings. These meanings in turn reflect changing environmental contexts. Secondly, an Interpretive stance recognizes that the meanings given to accounting information help create an 'objectified social reality'. Accounting numbers give the impression of scientific rationality where this does not exist. Thirdly, interpretive research challenges the assumption that accounting information is used as a means to achieve pre-determined goals. Often the information is generated after the event to justify the decisions already taken. Fourthly, an interpretive outlook does not assume that all conflict is inevitably 'dysfunctional'. Since goals are created through human interaction there is no priority of pre-set goals and therefore 'dysfunction' does not necessarily arise.

Scapens (2008, pp.915-916) summarises the achievements of Interpretive accounting research over the past three decades as follows:

> "*We now have rich understandings of accounting practice and can explain why organisations have the accounting systems they have. These explanations are highly theorised, and draw on a wide range of research methods and disciplines; with theories from organisation theory, sociology, social theory, politics, social anthropology and economics to help us understand the form and nature of accounting systems*."

Interpretive research has thus managed to address the many different elements that surround accounting practice and influence its development and application as envisaged much earlier by Burchell *et al* (1980).

3.5.2 The validity of the Interpretive approach to this study

The aim of this thesis is to explore the role of management accounting within SMEs with particular reference to the interaction between users and providers of management accounting information. This is an 'interface' zone where individuals have the difficult task of interpreting and adapting management accounting knowledge in a way that can be useful in the SME ‘micro-world’ (Perren and Grant, 2000). Thus an Interpretive approach is required when researching this area.

The decision-making process may make use of accounting information from a number of sources. This information will be used by the decision-makers to form and inform their decision. However accounting information rarely gives definite answers. Thus decision-makers will go through a process of interpretation. The accounting information available will be viewed through a lens created by their own personal knowledge and experience. In SMEs in particular, social norms can also have a profound impact on the decisions reached (Curran *et al*, 1997). Management accounting information becomes for the decision-makers an ‘interpretive scheme’ in itself (Mackintosh and Scapens, 1990). It is therefore quite possible for different decision-makers to take different decisions when presented with the same accounting information for the same decision scenario. Each possible decision reached will however be rational in terms of the decision-maker’s perception, knowledge and experience (Ekanem, 2005).

The multiplicity of possible interpretations is not limited to the decision-makers. Preparers of accounting information are also faced with a number of choices when deciding what information is to be fed into the decision-making process (Morgan, 1988). This will be determined by their interpretation of the decision-making situation, their interpretation of the request for information (or lack of it), and their interpretation of the use that will be made of this information. Thus in spite of the aura of objectivity surrounding accounting information, this may be the outcome of a number of subjective choices. When dealing with management accounting information the absence of regulation and the specific purpose for which the information is required render subjective interpretation necessary rather than just unavoidable. The information provided is thus dependent on what the preparers chooses to measure and is actually able to measure (Morgan, 1988).

These two stages of interpretation were described by Boland (1993) as follows:

> *'Accountants make interpretive readings of an organizational situation as a basis for writing records and reports. Accounting reports, in turn, are read by managers and others as they try to make an understanding of organizational situations'*
> (Boland, 1993, p.125)

Thus any research which tries to uncover the processes that make management accounting information relevant must first and foremost understand the subjective processes that the decision-makers and information-preparers themselves go through. Gibb (1997) argues that objective approaches to researching such processes will fail to answer the basic questions relating to the process itself. In SMEs in particular, positivistic approaches are also of limited applicability since it can be very difficult to determine what the dependent and independent variables are. In these cases, the various factors that may influence a decision are interrelated and influence each other (Perren *et al* 1999).

3.6 Conclusion

This chapter has discussed the various paradigmatic options available to social science researchers in general and to accounting research researchers in particular. The main discussion has centred on Burrell and Morgan's (1979) model which has proved to be a successful and popular tool for the classification of accounting research. Some of the more popular approaches within this model were also discussed. Alternative models, based on Chua (1986) and Laughlin (1995) was also presented. This chapter has also shown how Interpretive research can make important contributions to management accounting research and highlighted the reasons behind the adoption of an Interpretive approach for this study. The next chapter will discuss in detail the specific research methodology that was applied in carrying out this research, namely Grounded Theory.

CHAPTER 4 - RESEARCH METHODOLOGY

4.1 Introduction

The previous chapter has described the various research paradigms available to accounting researchers and made the case for adopting an interpretive stance in this study. This chapter will first discuss the choice of the specific methodology adopted within the interpretive paradigm namely Grounded Theory. The tenets and processes of Grounded Theory will then be examined in detail. Reference will be made to previous studies that have used this methodology. Finally a detailed analysis of the process of research design and execution used by this study will be provided.

4.2 The choice of a Grounded Theory methodology

Various arguments can be put forward in favour of using a Grounded Theory methodology. First and foremost is the concept at the heart of the methodology i.e. that the theory is grounded in the data itself. This means that the theories derived are more likely to be an accurate representation of reality (Strauss and Corbin, 1998, p.12). The iterative process which is at the basis of Grounded Theory data analysis allows the research to identify and focus on key issues arising directly out of the way things are (Elharidy *et al*, 2008).This in contrast to an approach which generates theory from the abstract generalisations of the researcher about how things ought to be.

Another advantage of using this approach is that the analysis carried out goes beyond description and actually develops a framework that explains the phenomena observed (Parker and Roffey, 1997, p.218). Theories will thus be 'dense' i.e. will have identified all the most important properties (i.e. characteristics) and dimensions (i.e. the extent to which a property is present) of the phenomena (Strauss and Corbin, 1998, p.158). As a result, these theories will reflect the complexity and richness of the situations in which the activity under observation is being carried out (Parker and Roffey, 1997, p.212). Actors are studied in their everyday world and various sources of evidence can be brought together (Elharidy *et al*, 2008).

Grounded Theory methodology emphasises that fact that the research subjects' own insights are allowed to emerge without the researchers imposing or suggesting their personal views (Parker and Roffey, 1997, p.219). The researcher should be listening to the data not just to identify concepts but also to lead the research direction itself. However the researcher is encouraged to draw upon personal experiences in order to be able to understand the participants' experiences (Corbin and Strauss, 2008, p.80). Researchers cannot undo their previous knowledge and experiences. Thus they should be acknowledged and used as a tool to improve the analytical ability.

Finally, the grounding of theory in data gathered from an actual field of practice means that the theories derived from Grounded Theory studies will make it easier to transfer knowledge from people in the field (Glaser, 1978 p.13). The resulting theory will reflect ideas and modes of expression which are present in practical situations. Thus another person working in the same field is more likely to understand and use the theory. This is essential if the findings are to contribute to the development of any field of practice.

The above arguments indicated that Grounded Theory is particularly suited for this study. The research needs to reflect the realities of SMEs which are not small versions of large business but a reality of their own. The problems, processes and interpersonal dynamics are substantially different from those present in larger organisations. The practical application of management accounting techniques may also take a particular path which reflects that reality. By grounding the research in the data generated this study will provide a new theoretical development which will be both methodologically sound and practically useful.

4.3 The Development of Grounded Theory

Grounded Theory was initially developed by Barney Glaser and Anselm Strauss as a method of comparative analysis that allows researchers to discover theory from data (Glaser and Strauss 1967, p.1). The authors intended their work to be for the use of sociologists who were generating sociological theory (Glaser and Strauss 1967, p.6). Since then Grounded Theory has been adopted and used in many spheres of social research including Management Accounting. Glaser and Strauss eventually developed Grounded Theory in different directions. The Glaserian and the Straussian approach differ in a number of areas.

The first issue is the definition of the research problem itself. Glaser (1992, p.25) argues that ‘there is no preconception of being too broad or global’ when entering a field of study. Thus he suggests that the researcher should not have prior focus: the focus of the research will then be suggested by the findings themselves. On the other hand, Corbin and Strauss (2008, p.25) allow the researcher to develop research questions that are broad, but ‘not so broad as to give rise to unlimited possibilities’. The focus of the research is thus identified and defined in advance.

Another difference between the two approaches is the role that is to be played by existing literature on the subject area. Glaser (1992, p.31) insists that ‘there is a need not to review any of the literature in the substantive area under study’. This should reduce the researcher’s preconceptions when interpreting data. Corbin and Strauss (2008, p.35-38) contend that reviewing at least some of the literature prior to entering the field can help improve the research process itself. Thus it can help when making comparisons, when generating initial questions and improve sensitivity in the analysis.

The two schools of thought also differ in their approach to data analysis. Glaser (1992) suggests a general approach to analysis which through constant comparison of pieces of data allows theories to ‘emerge’. He argues that applying a set of rules to the analytical process will ‘force’ theories to emerge and this is against the very nature of Grounded Theory (Glaser, 1992 p.3). On the other hand Corbin and Strauss (2008, p.89) suggest a paradigm which researchers can follow as an aid to their analysis and can be adapted to the needs of every individual study.

A final difference is the issue of verification. Glaser (1992, p.29) states that 'Grounded Theory is not verificational'. Thus the main thrust is directed towards theory generation. Quantitative verification should be left to researchers who are interested in that aspect specifically. This view is strongly contested by Strauss and Corbin (1994, p.274) who argue that their approach contains an 'explicit mandate' that tries to verify theories as they are being created. This happens throughout the research process as a result of the interrelation between the collection of the data and its theoretical analysis.

4.3.1 Approach adopted in this study

In spite of the differences in method both approaches provide a valid methodology for interpretive research. For this study a Straussian approach will be adopted. There are two main reasons for this. The first is the definition of the research problem. It would not have been possible for the researcher to embark on this doctoral study without a clear idea of the area the research would focus upon. Secondly, this being the researcher's first venture into the research arena, the Straussian approach provides some guidance which should assist the research process.

4.4 A Description of Grounded Theory Procedures

4.4.1 Data collection

The process of Grounded Theory proper starts with the first phase of data collection. Once the first data is collected the process of analysis can start, which will in turn guide further data collection. Eventually this will lead to the emergence of the fundamental concepts which will form the basis of the Grounded Theory that will be generated at the end of the process.

In a Grounded Theory approach data collection and analysis go hand in hand. That is, as new data is gathered it must be analysed and this analysis will inform the next data that is to be gathered. In this way the data that is gathered is focused around themes that emerge from the data itself (Charmaz, 1995, p.31). The research process is thus iterative. Starting with an initial inductive approach which underlies the initial research questions, the researcher then carries out a deductive analysis of data which helps to form theories which are then verified against new data that is collected (Strauss, 1987, p.12). This is done over and over again until a final theory emerges.

Glaser and Strauss (1967, p.102) referred to this approach as ‘the constant comparative method’.

Since data collection is guided by the analysis of previous data, Grounded Theory makes use of Theoretical Sampling (Corbin and Strauss 2008, p.143). Thus data is collected which can help develop the understanding of a concept rather than by reference to quantitative formulae. The collection of data goes on until saturation is reached i.e. that point at which additional data will not help develop concepts any further (Glaser and Strauss, 1967, p.61).

4.4.2 Data analysis - Coding

The analysis is carried out through a coding process. Coding is the process by which concepts emerging from the data are identified, named and categorised. In the first phase of coding, Open Coding is carried out by reading through data and identifying the smallest meaningful unit of analysis, typically phrases and expressions (Bartlett and Payne, 1997). In the early stages of analysis this will usually involve a line-by-line analysis of the available data. This will serve to ensure that researchers avoid missing out on important categories as well as enabling them to verify and saturate the categories in the process (Holton, 2007). Charmaz (2006, p.50) emphasises the importance for researchers to stay open to what the data is suggesting by keeping codes 'short, simple, active and analytic'. This will ensure that the codes fit the data rather than the other round.

Once the initial codes emerge these are then connected and grouped into a more abstract set of categories in the next coding phase, namely Axial Coding. This will serve to bring related open codes together around a central axis (Charmaz 2006, p.60). The researcher will now have a smaller number of more elaborate codes to work with. At this stage the first indications of an underlying theory may begin to emerge. Although initially suggested as two distinct and separate phases, Corbin and Strauss (2008, p.198) now suggest that Open and Axial coding can be done concurrently since the researcher will be making connections automatically.

The final coding level is the integration of the various categories around one central core code (Corbin and Strauss 2008, p.263). This process is known as Selective Coding. In this phase the axial codes will be integrated around a central theme (Tan, 2010). This category should be able to explain the pattern of social behaviour that has emerged as the focus of the study (Glaser, 2002). The process of moving from small pieces of raw data to one final category will ensure that the core category is firmly grounded in the data and will provide a theory that is dense and saturated (Holton, 2007). Diagrams may provide a useful tool to establish relationships between codes and categories (Corbin and Strauss, 2008, p.125).

4.4.3 Memo-writing

Throughout the coding process memos are used to record the researcher's reflections about the concepts and codes generated. They serve to begin building connections between codes and will thus provide the basis for the development of the core code (Parker and Roffey, 1997, p.229). Charmaz (2006, p.73) describes memo-writing as:

> *'the pivotal intermediate step between data collecting and writing drafts of papers...memo-writing constitutes a crucial method in grounded theory because it prompts you to analyse your data and codes early in the process'*

It is important that when collecting and analysing data researchers maintain an adequate level of sensitivity (Corbin and Strauss, 2008, p.32). Sensitivity refers to the ability of researchers to be in tune with the contributions of participants and thus be able to understand what is really going on. The researchers will let their analysis be informed by their personal knowledge and experience without however forcing their ideas on the data (Corbin and Strauss, 2008, p.33). They must be able to 'wave the red flag' when they feel that personal bias – their own or their respondents – is being introduced in the analysis (Corbin and Strauss, 2008, p.81).

4.5 The emergent theory

The theory that should result at the end of the Grounded Theory process should have the properties of fitness, understanding, generality and control (Glaser and Strauss, 1967, p.237). Fitness refers to the fact that the theory must correspond closely to the underlying data. Here researchers must be careful not to force their ideas onto the data and force deduced conclusion rather than allow induced concepts to emerge. Understanding means the resultant theory can be easily understood by people working in the research area. This will make the theory more attractive to persons who might want to use it in practice. The theory will have generality when the concepts described are flexible enough to be applied in a wide range of situations. Anyone who is using the theory should be able to modify it to reflect the particular realities of the situation to which it is being applied. Finally, the theory must allow the user sufficient control over the variables when it is being applied in a day-to-day setting. Thus as situations change the user will be able to adjust the approach used and predict the outcome of that approach.

Grounded Theory will generate theories that may be substantive or formal:

> *By substantive theory, we mean that developed for a substantive, or empirical, area of sociological inquiry, such as patient care, race relations, professional education, delinquency, or research organizations. By formal theory, we mean that developed for a formal, or conceptual, area of sociological inquiry, such as stigma, deviant behaviour, formal organization, socialization, status congruency, authority and power, reward systems, or social mobility* (Glaser and Strauss, 1967, p.32, emphasis added))

Thus although both types of theories are firmly grounded in the data, a distinction can be made based on the level of generality (Glaser and Strauss, 1967, p.33). Whereas substantive theory will be applicable in a specific area, a formal theory will have a higher level of abstraction and may be applied across several substantive areas. Formal theory will therefore require the inputs from studies within several substantive areas such that the process of comparison shifts from comparing cases within the substantive area to comparing the theories emerging from several substantive areas (Glaser and Strauss, 1967, p.79).

Glaser (2007, p.99) gives an interesting example to clarify the distinction between the two types of theory. Thus a theory which describes how dentists deal with the risk of HIV exposure via a process of 'cautionary control' is a substantive theory. If other substantive studies extend the same concept to other areas with exposure risk, such as disease control or terrorist control then a formal theory of 'cautionary control' may be developed which applies to all spheres of life.

4.6 Verifiability and validity

The Grounded Theory process directly addresses issues of validity and reliability. As the process of data analysis proceeds, the emerging themes are constantly verified against new data that is collected (Glaser and Strauss, 1967, p.102). Thus, themes are not immediately accepted but have to be verified by new data until saturation is reached (Glaser and Strauss, 1967, p.61) thereby ensuring the reliability of the analysis. Validation of the theory is achieved by sharing the analysis with the participants themselves (Corbin and Strauss, 2008, p.273). This is done near the end of the research process once the core category has emerged. If the participants recognize the 'story' told by the grounded theory then the researcher gains reassurance that the analysis carried out has been carried out correctly.

4.7 Potential pitfalls

The Grounded Theory process is not without its dangers. Three issues need particular attention namely premature saturation, using coding as a recipe book and an ineffective use of the literature (Elharidy *et al*. 2008). Premature saturation may occur if the researcher is in a rush to finish off the study. This leads to weak conclusions and superficial theories. The theoretical sampling must therefore go on until all gaps are filled in (Corbin and Strauss, 2008, p.272). The richness of description is one of the stronger points of grounded research. Researchers may also believe that by strictly adhering to a set of coding steps, good theory will eventually follow. This is certainly not the case. It is important for researchers to be flexible and react to the emerging codes during the research process (Elharidy *et al*., 2008). An undue emphasis on literature may lead researchers, especially novice researchers, to look for confirmations of existing theory rather than discover new ones (Heath and Cowley, 2003). This defeats the whole purpose of Grounded Theory.

If properly applied, Grounded Theory provides built-in corrective mechanisms that can stop research from deteriorating into theoretical esoterism. Thus it can help reduce potentially misleading constructions which may arise out of the interviewing process. In particular Grounded Theory can help focus on the process rather than just the outcome of accounting activity (Parker and Roffey, 1997, pp.240-241).

4.8 Grounded theory in accounting research

Grounded Theory can be a very useful methodological approach for accounting researchers when they are trying to understand accounting as a social construct (Lye *et al*, 2005). The earliest applications of Grounded Theory methodology can be traced to Covaleski and Dirsmith (1983, 1986, 1988). However the major impetus towards the use of Grounded Theory by accounting researchers was given by Parker and Roffey (1997, p.244) who identified it as an 'underutilised and potentially valuable addition to future accounting theory development'. Their arguments in favour of using the methodology have been clearly stated in the previous sections of this chapter. Since then the methodology has grown in popularity such that Smith (2011) and Hoque (2006) have dedicated a whole section to it in their books dealing with accounting research methods.

An overview of the Grounded Theory literature over the last decade reveals the versatility of the methodology. Goddard (2004, 2005) explored the relationship between accounting, governance and accountability in local government in the UK. Another study focusing on the public sector was Lye *et al*'s (2005) analysis of how the New Zealand government moved to accruals-based accounting from cash-based accounting. Holland (2005) and Solomon and Solomon (2006) dealt with the choices made by large UK companies with regards to corporate disclosures. The accounting processes and reporting practices within non-governmental organisations in Tanzania were examined by Goddard and Assad (2006). Efferin and Hopper (2007) looked at how different cultures, ethnic backgrounds, national politics and business considerations determined the structure of the management control system in a Chinese-Indonesian company. Tillmann and Goddard (2008) looked at the application of strategic management accounting within a large German multinational company. The generation and use of management accounting information by owner-managers in Palestinian micro-firms was explored by Alattar *et al* (2009). Strategic management accounting was again the subject of studies by Broad *et al* (2007) and Hutaibat *et al* (2011) who used their research to explore the concept in the UK higher education sector. It is worth noting that the latter was the only study adopting a Glaserian approach.

4.9 Research Design

4.9.1 Literature Review

In line with the Straussian approach to Grounded Theory a preliminary literature review was carried out prior to starting the fieldwork. This literature review was intentionally generic since the aim was not the identification of testable hypotheses but rather to make the researcher more sensitive towards any issue that may emerge from the data once the data collection and analysis begins. As discussed in Chapter 2, the preliminary literature review dealt with the general nature of management accounting and the use of management accounting information by organisations and, in particular, the SME community. A second literature review was then carried out after the core category emerged. This will be presented in Chapter 8. This literature review is much narrower in focus since it aims to integrate the emerging grounded theory with prior literature.

4.9.2 Data collection

The fundamental aspect of this research is the exploration of the interaction between users and providers of management accounting information. To achieve this aim it was considered crucial to listen to the stories of both parties. The research design achieved this by carrying out interviews with owners, managers, accountants and advisors who operate on both sides of the interaction. The process of collecting data regarding the same phenomenon from multiple sources is known as data triangulation (Ryan *et al*, 2002, p.156). Triangulation not only ensures that the various actors are given the opportunities to express their view. By comparing different sources, the validity of the findings is improved as subjective respondent category bias is reduced (Ryan *et al*, 2002, p.156).

The EU SME definition (see section 1.4.1) allows for a rather wide range of parameters within which businesses may be classified as SMEs. This may create difficulties in the comparability of data obtained from companies within any SME research population. As shall be explained in the following paragraphs, in order to mitigate this potential limitation, a number of measures were taken to ensure a reasonable level of homogeneity within the companies selected for this research.

The SMEs were selected from a list of manufacturing companies provided by a Maltese governmental agency. It was decided to select companies who employed between 50 and 250 employees. At the smaller end of the SME scale it is unlikely that the firms would employ a full-time accountant. For the purposes of this research it was important for there to be a full-time accountant on site to ensure that the potential for interaction between users and providers was maximised. The list revealed a total of 55 firms. The number of employees employed by each firm is not being revealed in order to protect the identity of the respondent companies. A preliminary internet search revealed that of these, 30 were actually Maltese subsidiaries of larger foreign parent companies. An analysis of the latest financial statements filed by these companies confirmed that they met either the sales revenue or balance sheet thresholds to qualify for the EU SME definition.

As the firms were gradually contacted two indicated that they were only willing to give access as long as other competitor firms were not contacted. This meant that the net total of potential research sites was 23. All of these were contacted with 17 agreeing to give access. The remaining 6 firms either indicated that they did not wish participate in research studies due to confidentiality issues or due to time pressures. Initial access was negotiated with the managing directors within each firm who then provided contact details of their full-time accountants, and where applicable, senior managers and advisors. In two instances the managing director allowed access to the accountant but did not wish to participate in the research himself due to time constraints whilst in another case the accountant was not available for the same reason. In one case, access to the accountant was not granted as he had only been recently employed. With the exception of this last case, all the accountants had been employed by their respective firms for at least five years. All advisors except for one were senior managers within various accountancy/management consultancy firms who had a long-term, recurring relationship with the companies and were involved in all major decisions taken by the firms and attended management meetings on a regular basis. The other advisor was an IT consultant who had helped the firm develop its information systems over a number of years.

All the firms were directly managed by the majority shareholder and in all cases the majority of the shares were held by members of the same family. During the interviews background information about the companies was collected. This revealed that all the firms had been established for at least twenty years. Thus the population consisted of mature, family-owned, owner managed businesses. A number of industrial sectors were represented. In order to protect the confidentiality of some of the respondents their industrial sector is not being disclosed. A further three interviews were conducted with advisors who have not been linked with a specific business, as they were mentioned as advisors by several respondents. These advisors were senior managers within Big 4 accountancy firms and advised the firms on an ad hoc basis. All respondents except for two agreed to have the interview recorded. Interviews lasted between forty-five minutes and two hours. A total of forty-two interviews were conducted, analysed as follows:

Company	Business sector	Director	Accountant	Manager	Advisor
1	Other	✓			
2	Other	✓	✓		
3	Food and beverage	✓	✓		
4	Food and beverage	✓	✓	✓	
5	Food and beverage		✓		
6	Food and beverage	✓✓	✓		✓
7	Printing	✓	✓	✓	
8	Food and beverage	✓	✓		
9	Other	✓	✓		✓✓
10	Printing	✓	✓		
11	Food and beverage		✓		
12	Food and beverage	✓✓	✓		✓
13	Printing	✓	✓		
14	Food and beverage	✓			
15	Other	✓	✓		
16	Metalworks	✓	✓	✓	
17	Metalworks	✓	✓		
	Independent advisors				✓✓✓

Table 3: Breakdown of interviews

4.9.3 Interviewing approach

In order to encourage the respondents to reveal issues that were important to them the interview schedule was a very open one. An interview schedule comprising of a set of areas to be addressed was kept for reference by the researcher but the flow of questioning varied from interviewee to interviewee depending on the direction which the interview would take. The following were the areas which were included in the basic interviewing schedule:

The use of accounting information in the day to day running of the business.
The use of accounting information in special decision-making situations.
The role of the accountant in the business.
The flow of information.
The role of advisors.
The overall value of accounting information.

Table 4: Basic interviewing schedule

In line with the principles of theoretical sampling recommended by Corbin and Strauss (2008, p.146), as the interviews started being analysed and themes began to emerge, questions were asked during the interviews which allowed the researcher to delve deeper into those themes. This was a very sensitive phase as the researcher had to find a balance between gathering more data about the emerging themes without precluding others from emerging. There was also the risk of forcing themes on the respondents. Both could lead to premature saturation. To minimise the risk of this happening, probing questions were generally asked when the interviewees themselves touched upon the subject or towards the end of the interview.

4.9.4 Data analysis

The first eight interviews were transcribed word for word in their entirety. Thereafter only the parts which were relevant to the research area were transcribed. This was necessary as due to the relatively open stance adopted during the early stages of each interview the discussions ranged widely and included topics such as personal connections, current issues and even football! This served to help respondents relax into the interview and be more forthcoming when more direct questions were asked but also generated a substantial amount of interview data which was not relevant to this study. Detailed time records of the parts transcribed were kept. The interviews were transcribed in the original language which in most cases was Maltese though there were some respondents who reverted to English for some of their responses as is typical in many conversations between Maltese individuals, especially when debating business and accounting related issues. The parts which are quoted in the presentation of the research were translated (where necessary) at the end of the process of analysis so that none of the language nuances were lost during that process.

Line-by-line analysis of the interview data helped to identify the emerging themes or codes. The coding process was supported by extensive memo writing. Two types of memos were used. 'Initial' memos served to record the researcher's first reactions to, and analysis of, the individual pieces of information. When several themes appeared to be somehow related 'summary' memos were used to combine and connect the themes.

4.9.5 Validity and reliability of findings

As discussed in section 4.6 the central Grounded Theory process of constantly comparing new data to previous data helps the researcher ensure the reliability of the analysis. The triangulation of data from different sources also helps improve the reliability of the findings. Carrying out interviews with individuals on both sides of the information exchange (accountants and advisors as providers and owners and managers as users) ensured that the findings reflect a complete and balanced view of the processes and interactions observed.

The findings were validated by discussing the emerging themes with the interview subjects themselves. This, first of all, served to identify any researcher bias (Slagmulder, 1997). But perhaps more importantly it helped ensure that the findings had what Strauss and Corbin (2008, p.301) consider to be the main factor that determines the quality of Grounded Theory research i.e. credibility. Thus the findings are believable not only to the researcher but also to participants and finally the readers of the research. A final interview was carried out with an accountant with more than thirty years' experience of working within and advising SMEs where the core category was discussed in detail. He found the grounded theory and its components to be essentially 'trustworthy' and 'plausible' (Strauss and Corbin, 2008, p.301).

4.10 Summary

This chapter has presented the case for the specific methodology adopted in this study. Grounded Theory was shown to be a valid Interpretive methodology which can generate relevant contributions to the field of study. The specific research design used in the research was then described in detail as well as the process of data analysis. The next chapters will describe the findings that emerge from the research process starting with the open categories.

CHAPTER 5 - OPEN CATEGORIES

5.1 Introduction

In a grounded theory study, the first stage of data analysis is the open coding. In this phase themes, or ‘codes’ are allowed to emerge from the data through a detailed analysis of the data collected. This is where concepts begin to emerge which will later be condensed into a comprehensive theory. Open coding is the first but fundamental step that ensures that ultimately the theory is indeed ‘grounded’ in the data.

In this chapter the open categories will not be discussed in any specific order. The aim at this stage is to introduce the emerging themes that characterise the research setting and delineate concepts that will form the data blocks (Corbin and Strauss, 2008, p.195) that will be used to build analytical structures in later stages of analysis. Reference will be made to the specific responses that generate the codes. Thus this chapter is mainly descriptive with a low level of abstraction and no attempt will be made to establish interrelationships. The process of abstraction and interrelating of codes will be carried out in the next phase of grounded theory analysis which is axial coding, discussed in the next chapter. Although for ease of presentation open and axial coding are presented as two separate processes, in practice there is substantial overlap as relationships between categories become apparent whilst they are being generated.

The process of analysing the interviews, especially the initial line-by-line analysis generates a large number of open concepts (see Appendix 1) which represent basic themes contained in the data. Related themes are then grouped into the open categories. The open categories are then developed according to their properties i.e. the characteristics that define them and their dimensions i.e. the possible variations within the properties. These variations can be represented as positions along a continuum of alternative perspectives for each dimension (Corbin and Strauss, 2008, p.159). Each open category is being accompanied by a diagram displaying the properties and dimensions. Within these diagrams the position along the continuum is not an exact quantification but helps the reader understand the conditions that were revealed by the detailed analysis of the data. The properties and dimensions for each open category are indicated at the start of each section discussing the said categories. This process generated 25 open categories which will now be discussed in turn.

5.2 Trusting the accountant

Properties	Dimensions		
Development process	slow	↔	fast
Scope	broad	↔	narrow
Access to information	open	↔	restricted

Figure 8: Properties and dimensions - Trusting the accountant

Trust appears to be the cornerstone of the interaction between the users and providers of accounting information. It is trust that enables the providers to have access to the sensitive data which they need to provide useful meaningful information. It is trust which ensures that users can then rely on the reports provided. In fact trust can be more important than competence such that a business owner would rather have a *'perfectly honest man'* than a *'perfect financial controller'* (Director, Company 2).

It should not be assumed however that trust 'happens' by virtue of the job description itself. In fact:

"... there are many who try not to give any information to the Financial Controller, but I never had a problem discussing certain issues with him. That's how he becomes one of us." (Director, Company 1)

This is to be expected since the provider of information is holding a fiduciary role and is handling sensitive business, and sometimes personal, information. The development of trust is a long-term process. In many instances the relationship between users and providers has lasted for more than a decade and in some cases since the business's inception. Inevitably such a long-term relationship will have its ups and downs but once trust has been established, business owners will be very reluctant to replace their accountant.

This attitude is quite understandable as it can be very difficult for an owner to realise that an accountant is committing fraud or other financial irregularities. The accountant has extensive access to information and can exert substantial control over its access to others, including the owners themselves. This means that it could take a *'very long time'* (Director, Company 3) for any irregularities to be detected. Accountants are in a position of power, even over the owners themselves, whether they like it or not.

Awareness of the power of the accountant may explain why some owners will not give full access to information to their accountants. In turn, accountants are willing to accept that their employer may have *'several reasons'* (Accountant, Company 2) for withholding some information. The attitude then is to very prudently refrain from probing further where it is clear that the information will not be forthcoming. 'Information gathering' can easily be construed as 'prying' and that would undermine the trust.

However once the trust is earned it will be complete and the accountant takes on roles that reach way beyond the provision of financial information. Now the interaction is intense and complex. The accountant becomes a trusted partner, the principal collaborator in fact. The intensity of the relationship is such that the accountant can be:

"like having a wife. In the sense that he's the life of the f...(stops before saying family)... of the business. You have to have absolute trust in him." (Director, Company 3)

A trusted accountant provides the reassurance needed by the owners to 'get out there' and carry on with their strategic tasks whilst the accountant is 'back home' making sure everything is running smoothly. At the same time the accountant is the first person who will get to know of all the new developments and who will give their trusted opinion as to whether they make financial sense.

5.3 Presenting the information

Properties	Dimensions		
Target audience	specific	←●——————→	generic
Need for understandability	high	←●——————→	low

Figure 9: Properties and dimensions - Presenting the information

A fundamental aspect of the user/provider interface is the manner in which accounting information is provided. It is not simply a matter of printing out a report. Accountants are sensitive to the different needs of the various groups of users and also to the particular requirements of specific users which may change over time.

"So, I don't know, if I'm preparing a set of accounts for the auditors, I prepare a set of accounts for the auditors, and if I'm preparing management accounts for the bank manager then I prepare management accounts for the bank manager, and if I am preparing internal management accounts, those will be different" (Accountant, Company 3)

The accountant has the ability – and the insight – to prepare reports which are tailored to the needs of the different users. The different needs are identified both through professional experience but also, and perhaps more importantly, through the in depth knowledge of the various users as a result of the close contact within the SME setting. Adjusting and changing reports to suit the users might sound like an added complication for the accountant. But in fact it makes life easier. By giving each user the information they need in the format that makes most sense to them accountants ensure that the reports are understood, utilised and will generate a minimal number of queries.

Understandability is a key issue here. In many instances users may not have the necessary accounting knowledge to fully appreciate the information being provided, And even when users do have accounting training there may still be problems:

"But this information has to be understandable, you have to be careful not to lose people, otherwise they will lose their faith in the figures even though they have an MBA." (Accountant, Company 5)

The problem is that once they '*lose their faith*' then the accountant will have to work very hard at making them believe again. In fact whenever accountants introduce some reporting novelty they will '*first...have to make it believable*' (Accountant, Company 9) to the prospective users. Belief will only be achieved when users trust the provider.

Having fine-tuned the reports to the need of the users there is a risk however that: "... *it becomes repetitive...they lose a bit of their importance*" (Accountant, Company 13). If the same information is presented in every report then users tend to view it as routine and get a bit complacent. So part of the task of the accountant is to make sure that interest is maintained by varying the information presented every once in a while.

5.4 Viewing the world differently

Properties	Dimensions		
Interpretation of events	homogeneous	←——●→	diverse

Figure 10: Properties and dimensions - Viewing the world differently

Despite the fact that all the conditions for an effective interaction may be in place, there may still arise differences of interpretation. These differences may be due to a different world view which is inevitable because of the different roles performed by users and providers respectively. This is felt by the individuals involved.

"It is indeed felt. Although we're a small team in this business... and there is great communication this difference is felt. And that's in spite of the fact that I communicate freely with all my employees, especially the accountant...But I see the situation in another way - I wouldn't say differently - everyone sees the same thing but the way you analyse a situation is different." (Director 1, Company 12)

The accountant's role as provider of information is not questioned. Nor is the quality or the objectivity of the information provided. But that information may be interpreted differently. Thus for example an overdue debtor is an overdue debtor - there's no arguing with the accountant on that one. But whether the business should stop selling to that debtor or extend the credit period - that's a matter of interpretation and a frequent source of friction.

Sometimes the problem arises from a lack of awareness of the problems being faced by the users:

"Differences arise...because the accounting people don't see certain difficulties or certain needs that are faced by production as they are not in that domain." (Manager, Company 4)

The solution to this problem is increased communication and exchange of ideas between the different functions:

"I personally have regular meetings with our accountant so that we change the (reporting) system so that I, as production manager, can know the business's position." (Director 1, Company 6)

5.5 Feeling the pulse

Properties	Dimensions		
Direct involvement	broad		narrow
Interaction with other functions	frequent		restricted

Figure 11: Properties and dimensions - Feeling the pulse

A major point of emphasis of all interviewees, both users and providers, is the importance they attach to being close to the action. For owners and managers this means that they run the business from the shop-floor rather than from the office. There is no task which they haven't performed themselves at least once, even the most menial. This will also extend to the preparation of some of the financial reports they need:

"Of course, that's my job (working out standard costs)! I prepare them in advance. I know the specifications, cost of material, I can work that out to the gram. We know how much wastage we have. I rarely get it wrong." (Director, Company 9)

In almost all firms the managers and directors had some kind of financial report they were working on, right there on their desk. It wasn't just a matter of reading a report. They were directly involved in some aspect of the preparation, even if that was limited to requesting a change in format. This served as a means for them to keep up to date with everything that was happening in the business. In fact it was generally standard procedure for all reports generated by the accounting department to go to the managing director even when they were intended for lower level managers.

The involvement in the financial side of things was also considered to be a simple but effective means of control. By not delegating some of the more mundane activities, such as personally signing all pay cheques, week in, week out, opportunities for abuse can be identified and acted upon.

A very similar attitude was taken by accountants:

"When I'm preparing management accounts there is some accounting work which I normally prefer to do myself ...e.g.(posting) incoming invoices...because that gives a clear idea of what's going on...when I look at the management accounts at the end of the month I can know immediately why some costs increased, yes I had seen a couple of invoices." (Accountant, Company 7)

The accountants need to know what's going on just as much as the owners since ultimately they will have to be the ones who will have to do the explaining when information is presented. Just like the owners and managers, accountants will get out of their office and interact with the different functions in their own work environment:

"when we're costing mass produced items…I will personally go to the production department and start writing down all the details" (Accountant, Company 8)

This is how accountants get to know what happening around them and get to know the data with which they are working. Where this does not happen, the interaction between users and providers can be tense and accounting information loses much of its value:

"The accounting department is like an independent republic. It has always been that way" (Director 1, Company 6)

5.6 Optimising the information

Properties	Dimensions	
Information provision	filtered	unfiltered
Type of information	structured	unstructured
Amount of information used	partial	full

Figure 12: Properties and dimensions - Optimising the information

Information overload is a real problem that can be faced by users of accounting information. One of the most important - and powerful - functions of the providers of this information is to filter the amount of information presented:

"they (the monthly management accounts) should be as accurate as possible, but there's a limit to how much you can include. It is up to us (accounts department) to determine what we issue." (Accountant, Company 13)

The choices made can have a significant impact on the eventual decisions being taken. The critical issue is selecting which aspects of performance to highlight. To this end one has to *"try to be intelligent"* (Advisor 1, Company 9) in making that selection. This selection will have to reflect both the provider's technical expertise and the users' specific requirements and objectives.

The risk remains however that unutilised and unappreciated reports are produced anyway, month after month even if fully aware that there is *"a bit of inefficiency"* (Accountant, Company 9) in the process. It is possible in these cases that financial information serves mainly as a symbolic way of saying that the business is doing things the right way. The management accounting system is there, the reports are generated and everyone can tell everyone else how great it is. But in reality not much of the output from the systems is used.

At the end of the day it will be almost impossible to take the best decisions using the best information all the time. What will happen is that the amount and quality of information generated within the business will reach an 'optimum' state, that is one which is *"not necessarily the best"* (Director 1, Company 12) but that represents a balance between costs and quality. The optimum level is one where things can *"move smoothly"* (Director 1, Company 12). It is not necessary to pursue an ideal state to the point of exasperation. It is perhaps an aspect of satisficing which can be identified in these comments. As long as users can get on with the task of managing the business reasonably well, then there's no need to push the limits of information any further.

5.7 The value of accounting information

Properties	Dimensions
Usefulness in negotiations	high ←●——→ low
Usefulness for quick decision-making	high ←●——→ low
Usefulness in summarising complex situations	high ←●——→ full

Figure 13: Properties and dimensions - The value of accounting information

Accounting information is a very important component of the businesses' daily decision-making routine. Even though owners and managers have an in-depth knowledge of the business and the environment they operate it in, they still need a steady supply of meaningful, relevant information to support and maintain that knowledge. Decisions need to be taken quickly. Very often they will involve negotiations with third parties.

"If you're sitting at the negotiating table our karma (sic) is that you need to know more than the person in front of you. If you don't know more about the subject then don't negotiate or you'll go bankrupt" (Director, Company 17)

Users value accounting information as another weapon in their business armoury. They also highly value the fact that the information is available quickly and in a readily usable format.

...they've (the management team) developed a tool that they give a lot of importance to and that has changed also the extent of output that the finance department can generate. At the same time the availability of that tool and the output that the finance department is generating as it evolves and goes to another level, the board of directors has seen the value of that. And in seeing the value of that information, the board, when taking decisions, look for the output of the finance department as a basis for that decision. I think the processes of evolution have gone with each other. As the finance department evolved, so too did management's expectations of the output of the finance department." (Advisor 1, Company 9)

The fact that the accounting information systems are developed to fulfil the specific needs of users means that users will then actually use the information. The more they use the information the more they want the information refined. And the more the information is used the greater the providers' enthusiasm to refine the system. Thus a virtuous circle of accounting information provision is created.

Perhaps the most important contribution of accounting information is its ability to bring together several sources of information and provide a summary performance report which enables users to get an overview of the situation. Managers will often have a very clear view of the parts within a business. But they also need an overall view to see how these parts fit in with the rest and how overall results can be improved. Otherwise there is the risk of focusing on narrow areas without considering the wider implications. Even the owners themselves, with their intimate knowledge of the business appreciate this contribution:

"No, I can't say I'd be just as fine without them (accounting reports) ... you have to have that information from the Financial Controller to have an overall picture." (Director, Company 4)

5.8 The limitations of accounting information

Properties	Dimensions	
Ability to provide solutions	universal ↔	partial
Time constraints	high ↔	low
Interpretation of data	subjective ↔	objective

Figure 14: Properties and dimensions - The limitations of accounting information

In spite of the value given to accounting information, it cannot provide users with a solution to all their problems. The information cannot give *"answers that are not there"* (Advisor 1, Company 9) and accountants certainly do *"not have a crystal ball"* (Advisor 1, Company 9). This is a limitation of any type of information, including accounting information. It does not provide answers, but provides the tools with which users can build their own answers depending on the questions they are asking.

The nature of the business environment may sometimes limit the strength of the information provided in spite of repeated attempts at devising a better reporting system:

"When David (owner's son, qualified accountant) was around we tried to devise a costing system and he really analysed it in great detail. Peter (present financial controller) tried to do that as well. We enquired with foreign companies to see how they work out their costings. And it's very difficult to come up with the exact price in a (type of business) because there are so many bits and pieces... you can have a rough idea but only a very rough idea." (Director, Company 15)

In certain instances the speed of decision-making simply doesn't allow users enough time to refer to accounting information:

"We have incentive schemes in place with supermarkets and they're always asking for more. You just can't cost every request. Often you decide off the cuff, give it to them, and that's that." (Director, Company 9)

Of course it is still possible that users may actually expect accounting information to provide the answers, and when it doesn't they may be disillusioned about the usefulness of the information. In their desire to obtain answers that are not there, users will even misinterpret the nature of the accounting reports provided:

"a small exercise ... a small spreadsheet model ... gets construed ... as a business plan... what business plan?" (Independent Advisor 1)

This comment describes very much the expectations gap that can sometimes exist between the users and providers of accounting information. It is very important that there is a clear understanding of what information is needed and what it will be used for, if it is to be relevant and overcome any inherent limitations. Thus, perhaps another limitation may creep in when users use accounting information for purposes for which it was not intended. Where objectives are not stated the provider is essentially flying blind and will provide generic information which may not address the real needs of the users.

5.9 Raising the alarm

Properties	Dimensions	
Timeliness	high	low
Problem identification	specific	generic

Figure 15: Properties and dimensions - Raising the alarm

When problems arise in the business - and inevitably they will - an important function of accounting information is to give early warning of such problems. The benefit of accounting information in these situations is actually twofold: first realising "*at a very early stage when things start going wrong*" (Director, Company 4). Then making sure that the solution is sought in the right place:

"All these things (reports), they save you a lot of time not barking up the wrong tree." (Accountant, Company 16)

In the absence of a good reporting system it may take a while before a business even begins to realise that it has a problem, let alone start identifying possible solutions. This is particularly true in SMEs where the management team tends to multitask and may easily miss any warning signs. The focus of these reports may be internal, such as variances which trigger reports whenever a certain tolerance limit is reached. This is classic management by exception which was present in many of the firms. In some cases an external element is also brought in for example:

"I can only reduce overhead cost by increasing volume. And that's what everyone does, for sure. So you go to a supermarket and you see a product which in materials alone costs you sixty cents and the supermarket is selling it for one euro. How is that possible? For the supermarket to sell at one euro the supplier must be selling at fifty cents. Definitely. That's how much my material alone costs!" (Accountant, Company 8)

Thanks to detailed cost reporting the business can identify anomalies in the market. The reasons behind the anomaly can be varied. One of the reasons which is considered is the possibility of weaknesses in their own or their competitor's costing system. In a small business and accounting community such as the Maltese it is quite probable that most businesses will know who the competitors' accountants are, and the strength of their reporting system. If they feel something is not right, users and their accountants will often sit down together to make sure that their costing system is making sense.

Although accounting information will lead users in the right direction there may not always be a solution. In these instances the benefits of having a good early warning system are even greater.

There will be situations which are not within your control...accounting information helps you to decide to stop (production) in time rather than after struggling and going bankrupt" (Director, Company 4)

Within SMEs there is a great risk that owners will keep trying to push with their ideas even if they are not working due to their personal attachment. Accounting information will make it easier, even on a personal level, to accept defeat and move on. Seeing results in a report and having those results pointed out to you by a trusted confidant is perhaps the best kind of reality check.

5.10 Sharing the culture

Properties	Dimensions		
Problem solving	shared	←●————→	individual
Communication	open	←●————→	restricted
Cultural alignment	strong	←●————→	weak

Figure 16: Properties and dimensions - Sharing the culture

In an SME setting, cultural alignment is fundamental for a successful interaction between the various providers and users of financial information in the business. It is the shared culture that ensures that:
"we are talking the same language, we are on the same wavelength" (Director 1, Company 12)

Problems are shared and there is no shifting of responsibility. There is oneness in problems and in seeking solutions. The owner and the accountant may have different specialisations, different skills and different mind-sets. But they have a commonality of objectives and a clear understanding of the importance of a joint effort to achieve business success:

"If I have a problem then he has a problem and vice versa" (Director, Company 3)

The impact of a shared culture goes beyond the ability to communicate around financial information. It will also affect the way users and providers interact socially in the firm.

"Here we have an open door policy. If anyone wants to speak to the Managing Director, they just knock on his door, there's no need to fix an appointment through the secretary. There are no filters. So if the Managing Director has that approach, I feel I should behave in the same way. I can't create a barrier or I'll be the one left out, I'll become an outcast" (Accountant, Company 9)

This happens in spite of the fact that sometimes filters are necessary for accountants due to their varied roles - especially when performing that of controller. But the culture will prevail. At the end of the day, the alignment will be so complete that the accountants speak of the business as if it were their own.

Financial information may be used as a means of reinforcing the common culture. This *"indoctrination"* (Accountant, Company 5) takes place when key performance indicators are chosen which represent the owners' vision and these in turn are measured and reported by the accounting function. This will ensure that everyone is reading from the same page and the vision of the owners is passed on to the various managers through clearly stated financial and non-financial targets.

Cultural alignment is also very important when external sources of financial information are sought. In this case the alignment may extend beyond internal corporate culture:

"First we had a (Nationality 1) advisor ... then we got a (Nationality 2) one, their mentality being similar to the Maltese." (Director 1, Company 6)

For any advice to be accepted it has to be liked – i.e. it must fall in line with the vision of the owners for the business. So in spite of employing an expert and paying him good money the owners would not let him impose his view on the way they run the business. As the original advisor focused on exports, they realised that this was not the direction they wanted to take. The second advisor’s business model was closer the owners’ mentality and this was eventually implemented.

5.11 Multiple objectives

Properties	Dimensions		
Importance of profit maximisation	low		high
Preservation of business identity	low		high
Personal pride	strong		weak
Loyalty towards employees	strong		weak

Figure 17: Properties and dimensions - Multiple objectives

There is no doubt that the businesses involved in this research are there to make money. And a reasonable amount of money at that:

"in manufacturing, it just doesn't make sense work for a 3% (return). You're just better off putting money in a bank and getting the interest without risks and any waste of time." (Director, Company 10)

The entrepreneurs who run these businesses have families to feed and lifestyles to sustain. And in a small community like Malta, an interested observer will easily be able to assess how financially successful you are. This is not just a matter of personal pride. Where many business deals are based on a personal knowledge of the other party, signs of financial weakness may mean that credit lines will dry up and people will think twice before entering into any financial arrangements with you. However 'profit seeking' is not the same as 'profit maximising' and businesses will give other considerations a higher priority when taking business decisions.

For many respondents the element of tradition, of identity, was the main driver behind their most important decisions. Many of the businesses had the choice of converting to importers and distributors following the relaxation of protectionist measures upon EU accession. Yet they hung on to their manufacturing operations even though the alternative was, in pure financial terms, more profitable.

There is also a strong element of pride in the products delivered. Thus they will not risk compromising product quality in an attempt to maximise profits:

"...they will try to have a look at costs, but for them the product is more important... that the product is fresh on the market...that is a must...it costs us more to do that." (Accountant, Company 6)

It must be kept in mind that in Malta the owner's close family, friends and business peers would be consumers of that product. This increases the pressures as they are literally staking their personal reputation not just their business one.

Businesses also have a strong sense of loyalty towards their employees so that:

"Even during the difficult period we've just been through...no one fired anyone." (Manager, Company 4)

There is a business logic to this – employees are highly skilled and it might be difficult to recruit them back when business picks up. Short-term profit maximisation is subordinated to long term optimistic hopes of recovery. However this is an optimism which may be strongly fuelled by the desire not to lay off any employees. These are people they know and whom they trust. The employees trust the owners in return. It is customary in Malta for businesses to employ only people who are recommended by someone and that someone may well be a current employee. Very often whole families are employed. This is a strong personal bond not just a formal employee/employer relationship.

Overall there was a feeling that profit maximisation is something that *"as you go along the way, you mature out of"* (Accountant, Company 9). Thus starting off in a survival mode, the business would try to maximise profits until a satisfactory level is reached beyond which the out and out pursuit of profit gives way to other 'mature' considerations. The owners begin to *"compromise"* and start to do things for which *"they will be remembered"* (Accountant, Company 9).

All this has an impact on the provision of financial information. If there is an option the owners are keen on taking up, then they will keep seeking that bit of financial information that will 'prove' that it is indeed viable. On the other hand, options that are not really in line with the business objectives are *'not evaluated in micro detail'* (Advisor 1, Company 9).

5.12 The importance of accounting information

Properties	Dimensions		
Centrality for decision-making	high	←●——————→	low
Use by non-accountants	high	←●——————→	low

Figure 18: Properties and dimensions - The importance of accounting information

Accounting information plays a central role in the running of the SMEs. The various reports, which may be more or less detailed depending on the needs of the different businesses, are an important tool for decision-makers. They will highlight the key performance indicators which reflect the users' business priorities or perhaps personal mentality. Some emphasise sales analysis, others product costs, others still, daily cash takings and outgoings.

Here it is important to make a distinction:
"with accounts you're recording history. With management accounts you're creating profits." (Director, Company 10)

There is a risk that accounting information might become purely an accounting exercise. Where the accounting function is divorced from management and where the emphasis is on the compliance side of accounting, then the reports will tend to stay within the accountants' office. But respondents made it clear that this was not the case. Thus users make regular use of the reports generated by the accounting function meaning that they are *'not just for the accountants'* (Accountant, Company 8). In many instances users were also involved in some aspect of information generation.

That is not to say that owners in particular do not rely on gut feeling to take some decisions. But experience has taught them then when doing so, if things go wrong, they go spectacularly wrong and the consequences are long lasting. So before taking any major decision a proper evaluation is carried out.

"You have to sit down and work out some projections…even if we're just opening a take-away…in plain words, you can't just go to sleep, have a dream, wake up and do it next morning...do you know what the consequences where when I did that? Very often they were catastrophic." (Director, Company 3)

Of course, the entrepreneurial contribution of business owners it still fundamental. Ultimately it is that which drives the business forward. They could try to generate the financial information they need themselves, especially where the evaluation is not very complex. But that is not what they excel at and the risk is that they may end up not doing it properly or not doing it at all.

"if you don't want to do it yourself (generate financial information), that's fine if you believe that your time is better spent at being creative and building relationships…but someone needs to be covering your back." (Director, Company 13)

The accounting department provides that peace of mind, that reassurance that someone is looking at the numbers and seeing they make sense, even if the final decision will lie with the owners and managers. Accounting reports will financially quantify business ideas and flag any aspects which need attention. The end result is that the accounting function can become central to the operations of the firm.

"Some people see us as an administrative burden and unnecessary bureaucracy but they know that eventually it's all going to be evaluated financially and then they realize that if you want information they have to provide me with the input. Eventually they rate the accounting department very highly and whenever they seek advice they seek our seal of approval" (Accountant, Company 5)

So it's very much a give and take situation where the various users have to provide information from which accounting reports will be generated which in turn will become the basis for the evaluation of their decisions. But the financial information provides them with the tools they need to manage the business's performance.

5.13 The importance of the accountant

Properties	Dimensions		
Investment in accounting function	low		high
Control over flow of information	low		high
Involvement in running the business	low		high

Figure 19: Properties and dimensions - The importance of the accountant

Accountants in Malta, like in many other parts of the world, are paid salaries which are substantially above the national average. The accountant might very easily be the highest paid employee within an SME. Yet there seems to be little doubt that the benefits gained from the employment of an accountant outweigh the costs. When it comes to accountants "*there's no penny pinching*" (Director, Company 3).

Their importance to the businesses is felt by the accountants themselves:

"I think … that I am a key person for the company. In the sense that the contributions I make and the experience I have gained over the years … are constantly being used. Even in situations where practically there is no need for my involvement, they will involve me anyway as they value my opinion." (Accountant, Company 9)

The accountants' contributions vary (see 5.21) but two serve to underlie the importance of the accountant. The first is the total control that accountants have on the flow of financial information within the firm. They literally "*monitor everything*" (Accountant, Company 12). They not only keep tabs on everyone else, they also get to decide who sees the information they generate. They also decide if and when, aspects of performance need to be brought to the attention of managers and owners. They are thus the ultimate gatekeepers for information within the firm.

The other contribution that serves to highlight the importance of the accountant is that in most cases, the accountant takes over the control of the business in the absence of the owners. They become the "*captain of the boat*" (Accountant, Company 9) providing a steadying hand when the owners are away. This enables the owners not only to spend more time away from the premises, typically abroad, trying to make new contacts but also to take a holiday every once in a while.

The importance of the accountant is such that it can be taken beyond the role within the firm:

"I've always had a personal assistant, with an accountant's background" (Director, Company 2)

In this way, the accountant's view is present in all decisions all the time. The presence of the accountant becomes second-nature:

"I don't think you ever ask yourself that question (what do you get from employing an accountant) because his role in the company, the day to day running of the business, he's an integral part of it." (Director, Company 1)

But it's an accountant who is "*not just an accountant, but with a bit more knowledge of how things work"* (Director, Company 2). As shall be discussed in section 5.26, accountants have to broaden their horizons beyond the accounting world.

5.14 Third party requirements

Properties	Dimensions	
Requirements of lenders, funding agencies and business partners	high	low

Figure 20: Properties and dimension - Third party requirements

As businesses increase their interaction with parties outside the firm, so does their use of accounting information. In these cases, accounting information provides a *'sound basis'* (Independent Advisor 2) on which to negotiate and reach a deal which is acceptable to all involved.

Three different types of external interaction seem to have had a major impact on the SMEs' use of financial information. The first is lenders, most typically, local banks. *'Obligations with the banks'* (Advisor, Company 6) create the need for the business to provide future projections and frequent historical accounting reports. These load the providers of accounting information with substantial pressure as very often the lenders' requirements go beyond what is really needed for running the business. Thus the accounting system is not really geared to deal with these requests. But these are requests that have to be fulfilled anyway, sometimes at the risk of devoting less energy to those areas where the information is really needed. But ultimately the information will help sustain the lenders' belief *"in the directors, the product and the firm"* (Director 1, Company 12). This is important for the lenders to maintain their support even if businesses are facing difficult circumstances.

A second source of additional accounting information is a rather recent development. Following Malta's accession to the EU, Maltese SMEs started qualifying for several assistance programmes which the EU offers. These typically require very detailed financial information to be provided both before and after the approval of the application. Once again, these requirements stretch the limits of the accounting reporting system and external advisors may be used who are more knowledgeable about the application process and who will generate the information needed.

Inevitably this is a very expensive process which leads to a lot of resentment if the application is not successful:

"I won't get (accounting firm) to do the job again. They do an hour's worth of work and send you a massive bill. Unless I know that I will qualify for the funds I won't enter into any expenses." (Director, Company 9)

But perhaps the most intriguing is the third type of interaction, that with business partners. When decisions need to be taken with other businesses, then the various owners resort to their accountants to provide solid information on which they can establish a trading relationship. This leads to a professionalization that takes the form of detailed accounting records which are shared, often revealing sensitive internal information.

"…(we) used to produce and sell all our production. Now the business has changed. Now we're producing for private labels. We have subsidiaries, we have companies where we have other shareholders so you have to become more professional." (Director 1, Company 6)

The various accountants that may be involved in such a situation will of course be loyal to their respective employers. But accounting information, duly tested and verified by the other party's accountants, is considered super-partes and thus can be used to build a new business model. In extreme situations, where mergers rather than joint-ventures are required, accounting information may require an additional layer of objectivity which can be gained by appointing independent accountants as advisors:

"all the families had to get together (to invest in a new plant which could compete with imports) ... so in came (name of advisor) who was trusted by everyone." (Director 2, Company 6*)*

5.15 Dealing with crises

Properties	Dimensions	
Economic environment	boom	slump
Need for accounting information	augmented	diminished

Figure 21: Properties and dimensions - Dealing with crises

Going through a period of business turmoil can have a major impact on the attitudes towards financial information within SMEs:

"When things are going smoothly and lucratively a mistake is ignored. When you're in a phase like we're in now, with difficult markets etc, an error at that point could be fatal."(Accountant, Company 7)

Good margins hide bad decisions. During boom periods in the economy, businesses are carried forward on the general wave of economic growth. Thus attention to financial detail is not fundamental and rough approximations may be sufficient to run a profitable, if not the most profitable, business. But crises change all that. Now small errors may have very damaging consequences as contracting markets and diminishing margins can quickly turn a profitable business into a loss-making one. As a consequence detail becomes fundamental:

"When you have a negative result you will nitpick a lot more. So go actually down to price variances in each product." (Director, Company 4)

As businesses deal with what can be life-threatening crises, they will turn to their accounting system and extract information that will help them identify the source of the problem and evaluate possible solutions. Cost identification, with a view to cost reduction takes paramount importance. When solutions are proposed to deal with the crisis they will undergo a thorough financial evaluation. Thus users who until now would only skim financial reports will start probing them in detail and asking for more information. Overhead analysis and allocation and product profitability are scrutinised. Accountants themselves will come in the firing line as their judgment is challenged by those who see their own decisions exposed as not quite successful.

The crises also serve to increase the potential contribution that providers of accounting information can give to the business. The increased detail will allow accountants to embark on wide-ranging cost-saving initiatives which may impact every aspect of the operations:

"Last year I spent the best part of three, four months carrying out a time and motion study in all departments…we have to undergo major restructuring, there were some redundancies, we just have to look around us…in some processes you identify potential for cost cutting." (Accountant, Company 8)

The greater risks being faced in the short run can have a positive effect however, in the long run. As businesses put their operations under closer financial scrutiny, the efficiency of the business will improve. So if they do survive the crisis, what will emerge will be a '*tighter and sharper*' (Manager, Company 7) version of the original business and one where accounting information will play a more important role.

5.16 External Changes

Properties	Dimensions		
Attitude in business practices	formal	←●——→	informal
Regulatory environment	strict	←●——→	lax

Figure 22: Properties and dimensions - External changes

Changes in the environment outside the business can have a substantial impact on the way the businesses produce and use accounting information. A number of such changes took place in the recent histories of Maltese SMEs and are still having an impact to this very day.

*"part of it (change in quality of accounting information) is cultural, you had the main…quantum leap, there was a change in banking practices when XYZ bank took over ABC bank and their financial reporting requirements were much tighter than what we were generally used to."(*Advisor, Company 6)

Here the change is imported. The take-over of a local bank by an international one meant that new practices were imported which were much more formal than the typical 'Mediterranean' attitudes prevalent at that time within the banking sector. Immediately Maltese SMEs were forced to improve their financial records. The incentive was quite strong – the 'new' bank would refuse to provide new loans to anyone who did not comply. This caused a flurry of activity that saw businesses invest in accounting software, hardware and perhaps most importantly, employing qualified accountants either within the firm or as consultants.

Another milestone in the development of local SMEs was Malta's accession to the European Union in 2004. Essentially the impact was due to the gradual liberalisation (depending on the industry, this happened over a three year period) of markets and the removal of protection for Maltese businesses. This means that many businesses found themselves

at a cross-roads…there was nothing we could do…either take a leap forward or die a natural death." (Director, Company 9)

So businesses had to take a decision to invest when they were almost certain that market share would fall and employment levels could not be maintained. What was needed therefore was a major re-think of the business strategy. The experience, the instinct, the gut feeling, could not be relied upon any longer. As a consequence the various vital decisions which had to be taken went through a very thorough financial analysis, often supported by external advisors. The owners had to re-learn their own business. And accounting information was a very important learning tool.

A more subtle but gradual external change that has been happening in recent years is the greater level of compliance being imposed by Maltese regulatory authorities:

"the regulation...rules and laws were not enforced as they are today...it lends a certain 'leggerezza' (casual attitude) and lack of professionalism. Today they have to be much more organized." (Independent Advisor 3)

The Inland Revenue and VAT departments in particular are now able to give businesses a really hard time - and they regularly do. So businesses need to have good accounting information just to avoid trouble.

Apart from the specific circumstances outline above, businesses are now facing higher competitive pressures than even before. The general business environment has changed such that decision-makers needed accounting information on which to base their decisions:

"Maybe in the past you could do that (rely on gut feeling) because the market was less complex, protected and allowed that kind of attitude" (Advisor, Company 6)

Now accountants who used to be mainly concerned with historical reporting had to change their focus. The accounting function:

"generally needed to become more aggressive, to become more oriented to strategic, towards management accounting, towards introducing a strategic dimension and contributing towards strategic decision-making." (Advisor 1, Company 9)

The higher quality of reporting has resulted in the business become more professional in their attitudes not just to financial information but to the way they do business in general as part of a *"progression and evolution in culture and styles"* (Independent Advisor 1).

5.17 Internal changes

Properties	Dimensions		
Business model	traditional	←——●→	new
Generational change	slow	←——●→	fast

Figure 23: Properties and dimensions - Internal changes

Change in businesses is not always imposed via an external source. A number of internal developments may lead to a different way of doing things which in turn will lead to a different way of looking at accounting information.

"about 5 years ago we decided that…to become more competitive we had to remove the middlemen ... so we became more cost effective. (Director, Company 3)

The reasoning behind changes in business model can be, and very often are, financial. As a consequence the evaluation will require a financial analysis which is much more detailed than the current level of performance analysis.

Very often decisions to change a business model will have a knock on effect. Thus new premises, new machinery or new skill-sets in employees might be required. As part of the general overhaul, financial systems also get a revamp. For example, many SMEs used this change as an opportunity to introduce new ERP software with much more powerful financial reporting applications.

*"The next step forward is to have business intelligence, that expenses can be verified and rates of return calculated on an ad hoc basis. I think we're moving in that direction. As Navision and similar software becomes more common, more firms will focus on this type of reasoning. So I think it's moving, it has improved dramatically."(*Advisor, Company 6)

The changes in the business therefore bring about a change in attitude, a change in mentality, towards accounting information. This is further strengthened by the generational change that many SMEs are going through. The younger generations that are taking over have a more formal business education. They have grown up "*in an environment where accountants are employed*" (Independent Advisor 2). So to them going to an accountant for advice at the outset of the decision-making process will be a natural reaction. The old-style, gung-ho businessmen are being replaced by a younger, more educated, more professional breed of SME owners who are more willing to rely on financial information for decision-making.

"In the past you would find ten businessmen with that approach, old type businessmen. Now those ten are down to one. That's how much things have changed." (Independent Advisor 1)

The more formal business accounting education of the newer generation not only means that they are more willing to engage with the accounting information that is provided to them – it also means that they are able to generate the information they need from the powerful accounting systems installed. The new users will go to the accountant to learn how they can generate and interpret a report, rather than ask for the report to be generated for them. Accounting information thus infiltrates more aspects of decision-making, way beyond that which is provided directly by accountants.

5.18 Interaction between users and providers

Properties	Dimensions	
Flow of information	one-way	multi-directional
Level of cooperation	high	low

Figure 24: Properties and dimensions - Interaction between users and providers

Whether accounting information is used – and to what extent it is used – depends very much on the level of interaction between users and providers. The lower the level of interaction, the less likely that information generation and subsequent use are at their maximum potential.

In many of the SMEs, physical proximity and open door policies were proudly displayed as clear signs of heavy interaction. In fact in almost all instances the financial controller's office was situated next to the managing director's. The openness of communication makes it much easier for people to get the information they want from each other. Requests for information *"work both ways"* (Accountant, Company 8). The cooperation will benefit everyone as both providers and users need information from each other. It is a constant process of data collection, manipulation, presentation and dissemination. That is not to say that there will not be disagreements. For example the viewpoints of the sales and accounting functions can be very different:

"We obviously have different viewpoints. He (the accountant) is obviously concerned about costs and prices. We (sales) are concerned about market and market share. We are concerned about prices but we have to explain that prices are more difficult and that we've got a more difficult market and we've got to be more aggressive to get into it and things will improve and he says well I want you to improve now and we say well you'll just have to wait. But we work together." (Manager, Company 7)

But once the interaction is functioning properly then all involved will benefit. The providers will learn more about the business and hence be able to prepare more relevant information for users. Users will get information which makes more sense to them. In fact the accounting system can be used to accelerate the learning process for new members of the management team:

"We have now employed an operations manager and I've passed (the costing system) over to him so he'll know what he's dealing with and get a feel, so now he is preparing the reports."(Accountant, Company 8)

Although developed as a cost control tool by finance, the costing system proves to be extremely useful for the rest of the management team to get a feel for what's going on and how they can achieve business targets within their respective sections.

The interaction between external advisors and an SME's management team is also very important. In this case the key interaction is between the principal advisor and the financial controller. The advisor basically depends on the financial controller for the background information, whilst the financial controller may feel threatened by the situation. But, *"people who are competent and know what they're doing have no problem whatsoever"* (Advisor, Company 6) when the advisor comes in. Dealing with advisors also gives the accountant the opportunity to talk accounting with other accountants and this may serve as a sort of professional update process:

"I had a meeting with (accounting firm) yesterday…I had forgotten some of the meaning of some of the terms they were using. They just drive you crazy!" (Accountant, Company 11)

Ideally the interaction between the various management functions and accounting should be seamless where both have sufficient knowledge of each other's sphere of expertise to be able to contribute to each other's reporting requirements. Maybe this can be achieved by catching them young:

"I'm trying to convince my (managing director) son to take up accounting, and I study with him, and I ask him questions and he asks me. Because if you can combine those two – I'm a production man and my son on accounting, if you could bond the two…" (Director 1, Company 6)

Bonding the financial with the entrepreneurial would represent the ideal way forward. The future generations of SME managers are still in time to achieve that.

5.19 Communication

Properties	Dimensions		
Understanding the information	easy		difficult
Presentation of information	generic		specific
Timing of presentation	formal		informal

Figure 25: Properties and dimensions - Communication

The ability to communicate accounting information is just as important as the ability to generate it. Essential for this is a common language which all involved can understand. This may not be easy when accountants need to convey accounting concepts to people who do not have an accounting background or when they have to account for operations that they do not fully understand.

"When I'm explaining something to someone I need to do it in a way that he can understand what I'm on about...so I try not to refer to any numbers...in their language not in mine...and the same can be said for myself...I need to understand their terminology, it has to be both ways...that's how you build channels of communication, you need to understand the operation." (Accountant, Company 8)

But the regularity with which information is communicated and exchanged ensures that within the SMEs there is a reciprocal cross-fertilisation of ideas, values and knowledge. This goes well beyond the formal presentation of reports:

"We meet officially once a week with the management team, which the financial controller forms part of. But beyond that there are regular, almost daily, interactions with the financial controller. This interaction ranges from payments to be made and payments owing, to following and tracking currencies, hedging of currencies, relationship with banks, relationship with financial organisations."(Director, Company 13)

Perhaps more subtle is the issue of presentation. The accountant will have to make choices not only as to what information to present but also how and when to present it. Accountants take on the responsibility of guiding users, highlighting the most salient parts and where necessary explaining the contents of a report:

"I'm not just going to give them a report and say 'that's the report and that's it', we don't work like that" (Accountant, Company 6)

The power of accountants to influence users therefore is further strengthened as through this ‘teaching’ process they can ‘form’ the users’ knowledge of accounting such that their interpretations match theirs. Accountants, whether knowingly or not, will determine which of the various accounting options available users will become familiar with. In a sense, they will be forming the accounting culture of the users, in the same way that users form the business culture of the accountant.

Where accountants take the initiative to generate reports which require intensive analysis, choosing the right time to present information can be very important. Owners in particular, seemed to present accountants with very specific time windows when they would be more receptive to information that they did not ask for themselves. The frequent and constant interactions mentioned in other sections would mainly focus on routine updates and minor issues which require immediate attention. When more serious issues need to be discussed:

"usually when I discuss something with him, I do it on a Saturday when there's no one around, the factory is shut down, he is more relaxed". (Accountant, Company 12)

Overall, both users and providers of accounting information have to make an effort to ensure that communication can happen successfully and the better both are at what they do, the likelier that they will be able to communicate clearly:

"Today businessmen listen, advisors have learnt how to communicate more effectively. The better the businessman and the better the advisor, chances are they will be on the same wavelength.” (Independent Advisor 1)

5.20 Trusting the advisor

Properties	Dimensions		
Type of advice	generic	←——————●→	specific
Selection of advisor	neutral	←——————●→	related
Duration of relationship	short-term	←——————●→	long-term

Figure 26: Properties and dimensions - Trusting the advisor

Respondents generally showed a marked preference for internally generated accounting information. The basic premise here is that no external advisor can ever have the same level of knowledge as a person who *'lives in the business*' (Director, Company 3). This is understandable in an environment that gives so much importance to a ‘hands on’ approach by all the management team. But circumstances may arise which create the need for an external advisor.

"Consultants have two roles. You either need something which you don't have the time to do internally, or you need an expert to confirm or structure what you have in mind. " (Director, Company 14)

This is no admission of failure on part of the accountants or the other managers involved in information generation. Owners and their accountants are so caught up in the day-to-day activities that they may sometimes find it difficult to set aside sufficient time to create the high level information that is needed to take important strategic decisions. Yet they are aware of the importance of such information and are therefore willing to pay good money and save on time which they cannot afford to lose.

Advisors may also help give the owners and accountants some reassurance. The idea that an 'expert' is reviewing your numbers provides some comfort especially in the more important strategic decisions. Structuring their thoughts also helps them see more clearly what the issues at stake are. Sometimes, just by asking questions, the external consultant challenges the owners and the accountants and in justifying their positions they get the reassurance they need.

But before they can feel comfortable resorting to external consultants trust needs to be established. So, consultants will almost always only be appointed when they have been recommended by friends or business associates:

"I asked my bank manager and I knew they (the advisors) had done (company name)'s projections and I know (owner's name) and he told me that they gave him a good service. When you're paying that kind of money you need to know that you're getting a good service." (Director, Company 3)

Auditors would seem to be a natural point of reference as they already have inside knowledge of the business. More importantly they have already passed the trust threshold:

"We used Accounting Firm X who are our auditors. We felt that ... it was wise to use our auditors, once there's a relationship of trust which already exists..." (Director, Company 13)

In some cases the advisors have a quasi-management role and tend to get heavily involved in many business decisions. It is not uncommon for advisors to attend the most important management meetings on a regular rather than ad hoc basis. In one instance the advisor even had an office permanently allocated for his sole use.

Advisors also help smoothen the process of generational change that many SMEs are going through by which relatively young managers are finding themselves in top positions. Their lack of experience, both within the business and in the general business environment, can be compensated by the advisor who can bring the wisdom of old age:

"I'm thirty one years old and I have the experience of a thirty one year old...but then there's (advisor's name) who is the wise man, the shaman." (Director, Company 17)

Just like for internal accountants, once the trust in the advisors is established the relationship will last for many years and the businesses will be very loyal to their advisors, reappointing them whenever needed.

5.21 Juggling the roles

Properties	Dimensions		
Organisational roles	single	←———————●→	multiple
Time pressures	low	←———————●→	high
Potential of conflict between roles	low	←—————●——→	high

Figure 27: Properties and dimensions - Juggling the roles

Providing good quality information for business decision-making is a challenging task in itself. But very often the role of the accountant goes way beyond that. In the small business setting the role expands to include IT, HR, administration and more. This means that the accountants need to expand their knowledge and expertise beyond that which is normally expected from an accountant and beyond that which is provided in conventional accounting training:

"you become an expert on the conditions of employment legislation" (Accountant, Company 2)

Accountants seem to accept this multi-faceted role in SMEs as a given and none of the accountants interviewed seemed intent on challenging the status quo.

"Being a family run business there is no General Manager....the roles of administration, finance, IT, personnel all fall upon the accountant." (Accountant, Company 3)

This does not mean that they are not aware of the problem this brings with it. At the most obvious level, all the accountants complained of the time pressures which they face, and of finding it difficult to find the time to do the 'accounting' part of their jobs. On a less obvious level there is also the possibility that the various roles may be in conflict with each other. So for example, when dealing with HR issues, the accountant feels responsible for the employees who look to him "*for their protection*" (Accountant, Company 9). This may mean trying to preserve jobs even when laying off people might be the easier option. Thus accountants will try and use the objective financial information to support the more humane decision - even though those same numbers could be used by a more cold-blooded analyst to suggest improving the bottom line by firing people. The human relationships that develop in the SME setting do have an impact on the way financial results are interpreted.

But it is also evident there is a clear sense of pride in the fact that the accountants feel they are a reference point for everyone and everything in the business. They know that they can be relied upon by the owners to run the show on their behalf. And they know that lower level managers and employees are aware of their knowledge and their power.

The multiplicity of roles carries its risks however:

"If the accountant is fragmenting his energies on a million and one things, it becomes very difficult to put aside the day to day and get somebody else to do it in order to focus on the strategic issues, in order to focus on the pure value added issues." (Advisor 1, Company 9)

In trying to do too much the accountant may see his 'accounting' contribution diminished. This may lead to the business not having the necessary accounting information for good decision-making. It could also lead to accounting information being obtained from other sources, further undermining the position of the accountant. In both cases accountants may find themselves gradually pushed to the side, rather than the centre of the decision-making process.

5.22 Managing the reporting system

Properties	Dimensions		
Accounting system ownership	centralised	←●——→	dispersed
Accounting system complexity	simple	←——●→	complex

Figure 28: Properties and dimensions - Managing the reporting system

The reporting systems present in the SMEs have gone through substantial developments over the recent years. The increase in the detail of information required, the added complexity of the business environment, and the investment in highly automated production processes have created the need for more powerful and faster systems. This was made possible by the introduction of new software, run by improved computer systems.

A simpler accounting system may be sufficient for accountants to fulfil the 'purely' accounting functions. The production of good quality annual financial statements, fulfilling regulatory obligations, good relationships with authorities (VAT Department in particular) and good relationships with auditors are examples of areas which are the direct and immediate responsibility of the accountant and only the accountant. Although fundamental for the existence of the business as a legal entity, the effort that goes into producing them may not be appreciated by others in the business. To complicate matters, most of the 'purely' accounting reports are compulsory and subject to strict deadlines so they will have to take precedence over any other form of reporting. After all it's the accountant's neck that will be on the line if these obligations are not satisfied.

Thus one can understand the frustration of accountants who see a substantial personal effort going into developing something which is not going to make their life any easier. Quite the contrary, a new improved reporting system will require considerable effort to implement but also to maintain – the responsibility for which will remain with the accountant.

Having said that, accountants take pride in the systems they develop and maintain. Very often they will overhaul systems inherited from predecessors. This may be seen as a way through which they mark their territory. It's a declaration that the reporting system is theirs. They want to send out a clear message things are improved as a result of their direct effort.

In spite of the improved reporting that the accountants initiatives may produce, initial support may be lacking:

"I introduced some systems that weren't here before...I'm a bit of a perfectionist...when you come across that way people may resent you...but once they see that everything is in order they will start asking you for reports"(Accountant, Company 2)

The strong sense of ownership of the management accounting system by accountants is revealed in the way they refer to it. Thus it becomes "*my costing system*" (Accountant, Company 5), which "*I took over*" (Accountant, Company 7). They also make it clear that they have absolute control over what goes in and goes out of the system, to the extent that they even do some of the data input themselves rather than delegate it to subordinates. This not only ensures control but gives them a means of "*getting a grasp of what's happening in the organization*"(Accountant, Company 7). In an SME setting this is totally feasible.

The accountants also tend to control the whole process of software selection and installation and oversee the acquisition of the hardware required. As systems become bigger and more complex some loss of control may be felt as the accountant cannot physically manage the IT system which was often the case with small setups:

"you depend on other people for the system to work" (Accountant, Company 6)

But is there a risk that the higher level of sophistication of the reporting systems may make the accountants redundant, now that managers can generate their own reports with apparent ease? Not really:

"reports do look nicer but they still need to be interpreted by an accountant ... the numbers you get from a computer don't provide any value in themselves." (Advisor 2, Company 9)

The role of the accountant will remain there. The value added they provide is not the reporting per se but the analysis and interpretation of the reports. In SMEs that requires a personal knowledge not only of the business environment but also of the human environment in which it is operating.

5.23 Supporting the provider

Properties	Dimensions		
Management support	low	←——●→	high
Availability of resources	inadequate	←——●→	adequate

Figure 29: Properties and dimensions - Supporting the provider

In order to be able to provide the information requested by users, providers need the support of those very users. In the flat organizational structures typical in SMEs this means fundamentally the owners. However other managers and members of staff need to be supportive as well. It would be too easy to assume that since accountants and advisors are employed to provide information then the support for this function will be automatic. This is not necessarily the case.

First of all there needs to be a solid commitment towards the cause of the accountant. The management team needs to believe in what the accountant does or will be doing. Management can get frustrated by the time lag that will necessarily arise between when an accountant takes a new reporting initiative and the actual provision of information as the accountant will need to make sure the reports being generated are correct and making sense. This might not be easy when there are potential users "*bombarding the system before it is in place*" (Accountant, Company 2)

Then accountants need to be put in a position where they can actually deliver. This essentially means that the necessary resources are provided. Whereas hardware and software resources tend not to be problematic, a very serious issue is whether the accountant will have the time to provide what is expected. Accountants will see a substantial part of their working hours taken up by routine and sometimes less value adding tasks. The actual generation of relevant information, along with its interpretation and presentation, tends to get pushed back until after the other tasks have been completed. This usually translates in late evenings and working through weekends. But there seems to be a general acceptance that that's just the way it is:

"I do most of the 'accounting' work in the afternoon when everyone is getting ready to go home or after office hours when I can work quietly on my own. When I'm for example, finalising the management accounts I stay even later as I need to concentrate." (Accountant, Company 9)

Just like trust, support will have to be earned through the very outcome of that support. Thus support for the accountant's initiatives will be more forthcoming if users, especially the owners, can feel and touch the benefits that the financial reporting brings. And perhaps that way to do that is to quantify the financial benefits:

"And it's money...when you show someone that you will collect money that takes top priority"(Accountant, Company 2)

Therefore accountants have to keep proving that their efforts are giving a contribution to business results. Of course they run the system which can do just that.

5.24 Empowering the provider

Properties	Dimensions	
Level of accountants' authority	low	high
Accountants' freedom to take reporting initiatives	restricted	unrestricted

Figure 30: Properties and dimensions - Empowering the provider

If providers of information are to be able to deliver what is expected of them they need to be put in a position of authority. This authority will allow them to request information and support from other members of the management team. In SMEs, given the close proximity of everyone involved, this authority can cause resentment since the accountant will inevitably measure performance.

"I think it has been accepted...if I am in control I have to be in control. If I am a controller. Otherwise I would be an accountant and prepare historic data."
(Accountant, Company 7)

The authority to control goes beyond the collection of information. The accountant will determine what goes into reports. Thus whenever a performance report is being prepared "*the official version*" (Accountant, Company 5) is always the accountant's. The accountant also gets to see reports that other member of the management team won't have access to:

"as regards management accounts...we don't give a copy to management"
(Accountant, Company 4)

This means that the accountant is in a unique position as the only person, apart from the owner, who can observe and evaluate the performance of others in the business. This in itself increases the authority of the accountant and other managers end up viewing the accountant as "*the boss*" (Manager, Company 4), at least when the owner is not around.

This authority frees the accountants to take the initiative for generation of new types of reports and inevitably new measures of performance. But this isn't just about the accountant controlling. Because accountants have a complete vision of the business and an intimate knowledge of the reporting system they can suggest new reports which will address the needs of users. Reports which the users themselves did not know could be produced. This serves to reinforce the validity of the accountant's contributions and in turn enhance their authority.

One feature of SMEs that may undermine the accountant's authority is the over confidentiality with other employees. This is especially the case where the accountant rose through the ranks. Thus there will be a point in time where the individual moves from being an equal or subordinate to being a superior. This may cause problems as authority sometimes needs a certain distance:

"I succeeded my predecessor and got promoted when he retired...so there is no barrier...there isn't that sense of deference you'd expect for a manager" (Accountant, Company 9)

Can the power of accountants within the firm lead them being feared? Yes, this can happen and even owners themselves may feel uncomfortable when dealing with their accountants. This particularly the case when managers and owners have limited accounting knowledge. Accountants can prove the owners and other managers wrong – at least from a financial point of view:

"Many individuals, especially in small businesses where there is owner participation, don't like having someone tell them what to do. An accountant can come up with one or two figures that will shock you and will prove your deficiencies. And some people don't like that. And with figures you can't argue. Figures are figures." (Director, Company 14)

5.25 Users' accounting knowledge

Properties	Dimensions		
Level of user accounting training	high	←———————●→	low
Risk of information misuse	high	←——————●———→	low

Figure 31: Properties and dimensions - Users' accounting knowledge

Very few of the SME owners and top managers had any formal accounting training. But the business skills which are instinctive or built through years of experience help bridge the gap between them and their accountants:

"I remember figures from ten years ago so I don't have a problem dealing with accountants ... I don't quite understand the debit and the credit but I think that is trivial. But I do understand most of the material stuff they do. So no accountant is going to treat me like an idiot." (Director, Company 14)

Inevitably some problems may be encountered, especially with the more technical reports. Here the accountant will have to provide the necessary explanations so that users can make sense of the information provided. But in an SME setting this is a worthwhile activity as, due to the long-term relationships, the users will eventually become conversant with all of the principles they need. In certain cases formal accounting training sessions are provided by the accountants themselves. So, it may take a while, but eventually they all get there. Misunderstandings may still arise however:

"When he (the financial controller) used to talk to me about some measure, payback period, efficiency and the such, we used to have a discussion. I needed to look at the way he was looking at it. Efficiency can mean one thing for me and another thing for the accountant." (Director, Company 16)

However some level of accounting or at least business education will be a useful tool for the users. In fact accounting knowledge enables decision-makers to use decision support tools when their experience or their instinct is not enough:

"it helps, it helps. I would say at this point experience is more important, but the decisions that you take when you are at an early age, when you don't have that acumen for things, I think having a degree in economics or in any financial institution (sic) gives you the confidence to go forward with your decision."
(Director, Company 15)

Dealing with users who do not have any accounting knowledge can be frustrating for accountants. It is true that one the one hand that means that any reports they prepare could end up being accepted with minimal questioning. But it also means that accountants have a higher load of responsibility since they will have to make sure that users really understand what is going on. The most frustrating situation arises when the accountants' efforts go wasted:

"If I think it (the decision) warrants a twenty page thing I will prepare a twenty page report. It would be frustrating if the feedback is blank faces. You try to explain but there's a limit. But I still prepare a proper report which is filed and minuted so if anyone outside the management team refers to it they will find a detailed report."
(Accountant, Company 11)

Accountants are not just fulfilling professional obligations as ethically required. They are also ensuring that their efforts and inputs towards the decision-making process are well documented so that they can be tested should the need arise. If things go wrong, accountants will be in the firing line, especially where the users have a very low accounting knowledge. Good quality reports are their alibi.

But perhaps the biggest danger arises when users choose not to understand what the accountant is trying to tell them:

"One of the things I've noticed with information in business leaders is that very often either on purpose or even sometimes, which is even more dangerous, either politically or simply because they don't want to hear the truth especially if they own the business and they can afford it they think, they don't want to hear data that

contradicts their views. And this selective listening is very dangerous."(Independent Advisor 3)

5.26 Accountants' business knowledge

Properties	Dimensions	
Duration of employment	short-term	long-term
Adequacy of accountants' training	low	high
Accountants' job mobility	low	high

Figure 32: Properties and dimensions - Accountants' business knowledge

Accountants provide valid contributions to decision-making if they '*understand the way the company has to be run'* (Manager, Company 4). There are two aspects to this. First they need to be in tune with the owners' style of management and their way of evaluating financial information. As has been discussed in other sections the long-term relationships typical in Maltese SMEs serves to develop this kind of understanding. Knowing the way in which an owner will interpret information sometimes requires the accountants to go against that which their training has told them is reasonable judgment. Of course they would also have the numbers to prove the unreasonableness of that judgment:

"He (the accountant) has been working for me for a very long time, he knows the nature of the business. If someone came along and saw our debtors' figure they'd be in shock ..." (Director, Company 1)

The second aspect that accountants need to come to terms with is the fact that accounting training is per necessity generic. Gaining business knowledge may require the accountants to specialise in areas which would not be covered within the normal accountant training programmes:

"During my accountancy training I had no idea what farming was and the investment it requires ... then I got involved in it!" (Accountant, Company 3)

Accountants are expected to be more than just accountants. Thus face a steep learning curve as they will have to learn both the specific financial measures but also the technical details of how the specific type of business operates. They may well end up being more up to date with industry standards rather than with accounting standards. The problem is that this very specific business knowledge may not be readily transferable. In a small economy like Malta the chances are that there will be very few, if any, businesses operating in a similar industry so there will be very few openings for accountants who want to change employer without necessarily 'retraining' themselves. So the long-term relationship typical of many accountants employed in SMEs may be to a certain extent forced since literally, there is nowhere for a disgruntled accountant to go.

Another problem related to accountants' training is the fact that many start their careers by working as auditors with one of the accounting firms. This means that they will have to go through a shift an attitude once they move to employment as management accountants within a specific firm. The transition may not be easy and some struggle to adapt:

"I think my background helped me. My qualification is CIMA so I never worked in auditing like most people tend to do." (Accountant, Company 7)

In spite of the accountants' best efforts to get to know the way the business works it may not be sufficient. In certain instances their knowledge will need to be supplemented by that of advisors, especially where a wider view of things is required:

"His (the accountant employed by a business) experience is focussed on his business. I (the advisor) have a broader exposure to many sectors ... when you talk about breadth of experience or knowledge it's a big plus." (Independent Advisor 1)

Even when it comes to advisors, being an accountant is not enough to be a good advisor. It is fundamental to have *"the analytical skills, the curiosity to learn* *more...the adaptability because in Malta we cannot over-specialise"* (Independent Advisor 3).

5.27 Conclusion

This chapter has presented the first stage of grounded theory data analysis, namely open coding. The 25 categories that emerged from the raw data were explained and developed in terms of their properties and dimensions. These will now form the basis for the next stage of analysis which will attempt to identify interrelationships between the categories. This will be done in the next chapter.

CHAPTER 6 - AXIAL CATEGORIES

6.1 Introduction

This chapter will discuss the second phase of data analysis, namely axial coding. Whereas the purpose of the first stage of analysis was to open up the data and determine the building blocks which will serve to build the final analysis, this stage focuses on the interconnections which may exist between these data blocks. This involves 'crosscutting or relating concepts to each other' (Corbin and Strauss, 2008, p.195). Thus the analysis starts gaining a higher level of abstraction as the various open categories are interwoven together. This sets the groundwork for the third and final level of analysis, selective coding, which will be discussed in the following chapter.

Although for ease of presentation these two phases are presented as two distinct chapters, in reality the processes of open and axial coding very often happen simultaneously as the researcher is constantly making connections and writing up summary memos whilst immersed in the data. Corbin and Strauss (2008) have even removed the 'axial coding' chapter from the latest edition of their text to further highlight the artificiality of splitting the two phases of data analysis.

The ultimate aim of axial coding is to develop a set of concepts of a higher level of complexity. As open categories are generated and developed it becomes increasingly apparent that some are inter-related and form a structure which can be used to explain an overarching concept. Thus the open categories become sub-categories of the axial categories identified. However the foundation of the axial categories remains in the source data and they are continuously verified against new data that is collected (Corbin and Strauss, 1990). This means that the axial categories are still firmly grounded in the findings.

6.2 The Code Matrix

The outcome of the axial coding process can be seen in the Code Matrix shown in Table 5. The matrix shows how the twenty-five open categories were combined into eight axial categories. The numbers on the left-hand column of the matrix refer the sections in the previous chapter where the open categories which make up the axial categories were discussed.

Open Category		Axial Category
5.4	Viewing the world differently	Aligning the visions
5.10	Sharing the culture	
5.11	Multiple objectives	
5.14	Third party requirements	Dealing with uncertainty
5.15	Dealing with crises	
5.16	External changes	
5.17	Internal changes	
5.3	Presenting the information	Communicating effectively
5.8	The limitations of accounting information	
5.18	Interaction between users and providers	
5.19	Communication	
5.25	Users' accounting knowledge	
5.2	Trusting the accountant	Establishing trust
5.20	Trusting the advisor	
5.21	Juggling the roles	Mastering multiple functions
5.22	Managing the reporting system	
5.23	Supporting the provider	Enabling the accountant
5.24	Empowering the provider	
5.6	Optimising the information	Creating actionable information
5.7	The value of accounting information	
5.9	Raising the alarm	
5.12	The importance of accounting information	
5.13	The importance of the accountant	
5.5	Feeling the pulse	Staying close to the action
5.26	Accountants' business knowledge	

Table 5: The Code Matrix

The discussion that will follow will focus on establishing the relationships between the open categories. Therefore, as much as possible, repetition of material discussed in the previous chapter will be avoided. Each axial code will now be discussed sequentially.

6.3 Aligning the visions

Viewing the world differently	Aligning the visions
Sharing the culture	
Multiple objectives	

Table 6: Aligning the visions

The closeness of interaction observed in the research setting highlights the importance of the various individuals involved having some sort of common view of what they expect the business to be. Although coming from different professional backgrounds and personal mindsets they meet on the common ground that is represented by the business. There they explore the various points of view and develop a working relationship that acknowledges a variety of objectives. Thus, the open categories 'viewing the world differently', 'sharing the culture' and 'multiple objectives' can be combined to become the subcategories of the axial category which is being labelled 'aligning the visions'.

Different individuals may be deemed as viewing the world through a different lens. In that case it is possible the correct combination of views - or lenses - may result in an instrument that can magnify the detail or bring distant events closer. This is certainly the case in the SME world where, through constant interaction, the views of users and providers of accounting information are combined to create an image which provides better information than each can achieve on their own. Yet a correct alignment is crucial if the image is to be sharper rather than blurred.

In the setting being examined very often this boils down to two persons seeing things differently. The starting points of view may initially be quite misaligned. The different personal background and different professional/business training of users and providers give rise to different and sometimes contrasting interpretations of the same financial information. There is also the issue of different priorities - what is more important to one may be more or less important to the other. But with good communication and regular interaction the different worldviews can be reconciled.

An important issue that needs to be settled is clarity about the business objectives. Accounting professionals are indoctrinated via their training into the 'profit-maximisation' objective - which is a very convenient decision-making rule. But the reality of the SME world revealed in this study is much more complex than that. Providers of information need to become aware of that and take on board the several priorities. Until that happens, the non-maximisation decisions which are taken may be a source of frustration for providers as they see their professional output and judgement ignored. But as they evolve with the business and within the business they will start to provide the kind of information which best supports the owners' objectives. This will give value to their output and increase job satisfaction.

The alignment will have to extend beyond the provision of accounting information. The providers will have to share the organizational culture even when it comes to how they behave on the premises and the modes of communication with the various individuals - both upstream and downstream. The end result is an identification with what the business stands for.

"The accountants have the same sense of pride (in the business) as we (the owners) have" (Director, Company 12)

The demarcation line between the different personal and professional attitudes becomes more blurred. But this only serves to bring into sharper focus the issues which everyone - users and providers - need to tackle to take the business forward along the shared path to success.

Accounting information can indeed become the main tool for aligning the visions of everyone involved in running the business. The type of measures reported, the manner and the frequency with which they are reported and the interpretation given will drive performance at all levels. Through their intimate knowledge of the owners' objectives, accountants can select measures that convert the owners' visions from abstract, intangible ideas to quantifiable and measurable financial and non-financial targets. Since the measures will reflect the owners' vision they are more likely to be considered relevant by the owners themselves, even those who have a limited accounting background. Owners will thus pay more attention to these measures and will start using them in their decision-making processes, safe in the knowledge that the information they are using is in line with their own vision for the business.

6.4 Dealing with uncertainty

Third party requirements	Dealing with uncertainty
Dealing with crises	
External changes	
Internal changes	

Table 7: Dealing with uncertainty

The second axial category is being labelled 'dealing with uncertainty'. Uncertainty in this context is seen to be caused by the changes coming from different sources, both external and internal as discussed in the open categories 'third party requirements', 'dealing with crises', 'external changes' and 'internal changes'. The underlying theme throughout all four open categories is that a new environment is being created which makes it very difficult for all involved to predict the outcomes of decisions or to rely on previous knowledge when making those decisions.

Until recently, the Maltese SMEs faced a very stable economic environment which meant that they faced a situation of reasonable certainty. The owners would have been involved from the very beginning and senior managers get to that position after many years with the firm, probably slowly rising through the ranks. There are few surprises that the business can throw at them and their instincts are finely honed and extremely reliable. And in a protected, controlled and stable environment like that faced by many Maltese SMEs until a few years ago the level of certainty can reach substantially high levels.

This certainty meant that there was little need for in-depth analysis of decision situations. In general what worked last year, will work again this year and the next. Where a novel situation arises, it is rarely a major upheaval and can be dealt with by a dose of common sense based on the years of previous experience.

But the substantial changes that had to be faced by Maltese SMEs in the recent years changed all that. First of all, new regulations, new reporting requirements, new fiscal regimes and tighter enforcement have combined to create a scenario unlike anything that decision-makers have had to face in the past. Accountants had to bear the brunt of these changes and ensure that the accounting systems they maintained could cope with the added pressure.

Secondly the new economic and competitive environment being faced rendered all the years of decision-making experience practically useless for the purpose of taking future oriented business decisions. The future that the decision-makers are facing now will bear very little resemblance to the past they are used to. There is the real possibility that relying on the tried and tested approaches would lead to the wrong decisions being made. So rather than having internal knowledge which they could access instinctively, now decision-makers have to unlearn what they know and start from scratch. Accounting information provided the best starting point for this to happen.

The ability of financial information to drill down to the minute details of business performance proved to be very important as margins had to be recalculated. In many instances the margins were actually calculated for the first time ever as business were now being faced with greater pressure for cost control.

Financial information also has the ability to summarise massive amounts of information into a few meaningful figures, and this ability proved to be fundamental when deciding on new strategic directions which businesses had to take in view of the substantial changes being faced. It also allowed the new generations of entrepreneurs who were entering the businesses to learn the ropes more quickly and be able to provide valid contributions even when they had far less experience than the older generations.

Thus financial information provided some basis on which to take decisions when the usual parameters were not available anymore. It served to fuel the entrepreneurial courage which was faltering:

" very often the directors want an external input to take things more seriously and push the project through" (Independent Advisor 2)

It also served to cool down the enthusiasm when decision-makers were getting carried away:
"figures don't always give you the results that you want" (Director, Company 14)

However the support doesn't mean that decision-makers can abdicate from their responsibility and let the numbers run the business. There is no hiding behind a wall of numbers. There is no one they can blame if things go wrong.

"the decision is always ours" (Director 1, Company 12)

6.5 Communicating effectively

<table>
<tr><td>Presenting the information</td><td rowspan="5">Communicating effectively</td></tr>
<tr><td>The limitations of accounting information</td></tr>
<tr><td>Interaction between users and providers</td></tr>
<tr><td>Communication</td></tr>
<tr><td>Users' accounting knowledge</td></tr>
</table>

Table 8: Communicating effectively

The five open categories grouped in this section all deal with aspects of accounting information delivery. They represent choices, difficulties and opportunities which if addressed correctly should enable accountants to gather the information they need and deliver the information that is requested. Hence the axial category is being labelled 'communicating effectively' as a substantial amount of effort goes into transferring data and information between the two sides of the user/provider interface.

Modern accounting systems have the ability to generate vast amounts of information, quite literally at the touch of a button. None of the reports will be useful unless their content is intelligible to the people to whom they will be presented. As a result accountants are very much aware of the need to tailor the output from their systems to the specific needs of specific users:

"tell me what you will be using it for... there will be different data for different purposes." (Accountant, Company 5)

Professional training programmes instil in accountants the concept that you need different costs for different purposes. This seems to be something that some users find difficult to realise and hence may not be forthcoming when the accountant asks them what they will be using their information for – and exactly who will be using that information. This may lead to the wrong type of information being used to make important decisions.

Even if the right type of information is provided, users may not have sufficient accounting knowledge to make the best use of it. This makes the task of the accountants rather frustrating but at the same time gives them more power as users will have to rely more on the accountants' own interpretation of the information they have provided. Thus they not only inform but also form the users' decisions.

Difficulties may arise since in order to provide information, the accountant first needs to collect information. This is often collected from the person who initiated the request for information. This means that a constant interaction is needed between users and providers to produce meaningful information. Where this interaction is weak, it will be more difficult to provide relevant and appropriate information.

There is also the possibility that decision-makers simply won't have the time to consider all the financial information at hand. The speed with which some business decisions need to be taken means that they will sometimes have to rely on experience and instinct. All these difficulties may restrict the accountants' abilities to get their message across.

Accountants need to be good communicators of information not just good providers. The choices with regards content, presentation, timing and frequency of reporting will have an impact on whether the relevant information generated is used at all. Attracting the users' attention and making sure they listen is a skill which is learned over the years by getting to know them very closely. There will of course be instances when, in spite of the accountants' best efforts, users simply don't want to see the information. In that case there is very little accountants can do except stick to professional ethical standards and have the courage to say things which people around them might not want to hear.

"In any set of accounts you hide the inefficiencies within your efficiencies. So that will be your profit. Then some bright accountant will analyse your results by category and reveal some results you won't like."(Director, Company 14)

But when the potential difficulties are overcome the result is a harmonious process of information seeking and sharing that will benefit everyone in the business. Users will provide better background information, which will allow accountant to provide better reports. These reports will be more meaningful to users who will make good use of them and, finding them useful, will request more. And the cycle begins again. The result is a highly motivated and satisfied accountant who is seen as an enabler by the members of the management team.

6.6 Establishing trust

Trusting the accountant	Establishing trust
Trusting the advisor	

Table 9: Establishing trust

The issue of trust came across very strongly throughout all the interviews. The axial category 'establishing trust' has therefore been created which brings together the various trust issues captured by the open categories 'trusting the accountant' and 'trusting the advisor'. Together these two categories make a very strong case for the fundamental importance trust in the relationship between users and providers of accounting information.

Whether the source of accounting information is external or internal, trust needs to be established as a precondition for any interaction between users and providers. The foundation of this trust is personal. Entrepreneurs emphasised the importance of knowing your accountant. This can be direct knowledge, gained through several years of working alongside each other, or it can be indirect, through recommendations from people whom the entrepreneur already trusts.

Trust generates trust. Trusting the provider on a personal level will then allow the user to trust the provider on a professional level. There cannot be the latter without the former. Indeed, the latter is subservient to the former. Entrepreneurs can be comfortable with a reasonably lower level of competence, but will not tolerate any betrayal of trust. Taking the wife analogy used by one of the respondents a step further one can see that the same principles apply. Once the trust relationship, both personal and professional, is established it is not questioned any further:

"I have my own internet banking but I've never used it to check anything ... because first of all I have a person (the accountant) whom I trust more than myself with my money and secondly because he is very competent" (Director, Company 17)

The interplay between external and internal advisors can be quite interesting since it can be one of the building blocks of trust between entrepreneurs and their internal accountants. Whilst getting an external advisor may at face value appear to be a lack of professional trust in the internal accountant, it will eventually lead to a higher level of trust. In the really tricky decision situations, the ones which are riskiest, the ones which will make most reliance on accounting information, having an external advisor go over the figures – even if just to confirm them – will show that the internal provision of accounting information is up to scratch. Following such an episode, the reliance which users will place on internal providers will increase and so will the providers' trust in themselves.

Trust is rewarded, both for internal and external providers. The rewards can be financial, in the form of substantial salaries or consultancy fees paid. These are being literally paid out of the owners' pockets. There are also non-financial rewards. Especially for internal providers, the feeling of being trusted contributes substantially to their job satisfaction and increases their motivation to perform even better – often beyond the call of duty.

6.7 Mastering multiple functions

Juggling the roles	Mastering multiple functions
Managing the reporting system	

Table 10: Mastering multiple functions

The accountants in the businesses analysed are more than 'just' accountants. They have to combine their accounting role with several others which require a breadth and depth of business knowledge. The requirement to do this suggests the creation of the axial category 'mastering multiple functions' which combines the open categories 'juggling the roles' and 'managing the reporting system'.

The multiple roles that accountants tend to play within the SMEs are a direct consequence of the alignment of visions and trust that is earned. This is further reinforced by the fact that many of the accountants would have been promoted through the ranks. Many joined the firm at a time when it was smaller, i.e. a time when everyone would tend to do a bit of everything.

This is a very important part of the process of becoming relevant to the business. The entrepreneur knows every nook and cranny of the business. He can do all of the tasks, from answering the phone to operating the equipment. This makes him confident of his superior knowledge of the business. It thus becomes crucial that his most trusted confidant, i.e. the accountant, has the same broad level of knowledge. This is why they can talk to their accountant about anything that's going on in the business. The accountant will not only know what they are going on about, they will also have an informed opinion on the matter. Most importantly they will know the kind of accounting information that needs to be, and can be, provided to address the issues at hand, even when users themselves might not be aware of the potential contributions of accounting systems.

The accounting information system can be a powerful tool in SMEs if it delivers what it promises to deliver i.e. decision relevant information. It is after all the role of the accountant *"to raise awareness to the directors of all the bits and pieces going on"* (Accountant, Company 13). Accountants need to be sure that this happens and their ability to carry out several functions should enable them to do this. In this sense their approach to information systems is not just as 'providers' and 'administrators' but also as 'multiple users'. What this means is that beyond the information which they need for themselves, they can also understand exactly what it is that the other users need as they can indeed be users themselves when they perform tasks beyond the 'pure' accounting function. Accountants will also be in a position to carry out the interpretations that may be necessary to make sense of accounting data. But because of the multiple tasks they perform, they can interpret the data from several users' point of view instinctively.

As the accountant matures within the organization the 'non-accounting' tasks become something they look forward to and a major source of job satisfaction. Performing multiple functions may have started out of necessity but eventually it will ensure that accountants will not be replaced by the advanced information systems they themselves implement. Rather they will become integral to their relevant use and further development and increase the contributions that the accountants can give to the business:

"I deal with mills, labour, the unions negotiating the collective agreement, basically all facets. Health and safety as well, which I don't enjoy to this very day as it carries criminal responsibility. But they have all helped me" (Accountant, Company 16)

6.8 Enabling the accountant

Supporting the provider	Enabling the accountant
Empowering the provider	

Table 11: Enabling the accountant

The open categories 'supporting the provider' and 'empowering the provider' both refer to processes through which accountants become enabled to contribute towards the SME decision-making process. Together they form a coherent structure which bolsters the accountants' position in the firm. The axial category labelled 'enabling the provider' has thus been created which combines the two open categories and integrates their various properties.

Without support and authority accountants cannot perform their decision support role. If they have both then they will be enabled to provide what they are expected to provide. Support without authority can be very frustrating. The enthusiasm of the top management will be there but accountants will be unable to do anything about it if they can’t get the access to the information they need. Authority without support will lead to constant clashes and the risk of the accountant becoming an irritating nuisance.

Support will be forthcoming if the accountants show that they really know what’s going on in the business. They won't just be stepping on people’s toes but will be giving them a helping hand. Their views need to be seen as in line with the direction the business wants to take. There’s no point in owners supporting accountants who in turn are not supporting the owners' vision. Crucially support will follow the establishment of a trusted relationship between user and provider.

Accountants also need to prove that supporting the accounting function will provide value for money. Even though pure profit is not the owners' objective, accountants can help their own cause by focussing on the bottom line of their contributions to a business's decision-making. They are in an ideal position to do so. The stronger the argument they make in terms of financial impact, the greater the support.

Authority may be trickier and goes beyond the labelling of a role and the placement within the organizational structure. Authority is given by the top management and is also earned by the actions of the accountants themselves. Where authority is mainly given by the owners there may be some resistance by those who feel that their own authority is being undermined. This might happen of course with other members of the management team. In this case the owners will have to make a proper commitment to the accountant.

Resistance to the accountant's authority may however also come from the owners themselves. When this happens the accountant is undermined at the outset. In the SME setting, resistance at the top will filter to the lower levels very quickly. Accountants don't survive for long in that a situation.

"I know a lot of people who fear the accountant because they have never bothered to sit down and understand their logic." (Director, Company 14)

That's where the accountant will have to try to earn authority through interactions with users. Personality issues may be relevant here. But on a professional level it will always boil down to the quality of the information provided. If it is useful users will eventually look up to the accountant.

6.9 Creating actionable information

Optimising the information	Creating actionable information
The value of accounting information	
Raising the alarm	
The importance of accounting information	
The importance of the accountant	

Table 12: Creating actionable information

What makes accounting information valuable in the context being examined is a combination of several factors. These factors are captured in the five open categories being grouped under the axial label 'creating actionable information'. Each encapsulate distinct properties which when combined together contribute to the accounting information being considered valuable by the persons to whom it is being addressed.

Accounting information appears to be an integral part of the decision-making process within the SMEs. This does not happen overnight, and perhaps not even instinctively. It is the result of years of collaboration between the users and the providers of the information. Accountants constantly refine the systems they administer so that they are fine-tuned to the needs of the users.

The information system allows the accounting function to provide some level of review with regards to the decisions being made. Thus it can help prevent costly mistakes being made. It also gives some reassurance to the decision-makers that the decisions are financially sound. Even if it only serves to confirm that their instincts were fundamentally correct, decision-makers see accounting information the ultimate test of their business prowess. Essentially what they are seeking is the accountants' blessing to go ahead with their projects:

"I'll tell them upfront. You already know most of the answers. What you don't know is what the right answers are ... because you have more than one answer and what we can do together is come up with those answers that make more sense. We (the accountants) bring in the process, the research, the discipline." (Independent Advisor 1)

Even in an SME setting getting the whole picture is not always easy and users run the risk of getting lost in the detail or get carried away by a new idea to the exclusion of everything else. At every stage of the business life-cycle accounting information allows users to see what the overall performance is really like. A good accounting report will bring everything back in focus and show how the different parts contribute to the success or otherwise of the business. It will also give warning signs which might otherwise be missed and trigger timely corrective action.

All this makes accountants a fundamental part if the business information system. The crucial skill here is the ability to deliver just the right amount of information, with the right level of detail. Too much and it will be ignored. Too little and it won't be considered relevant.

6.10 Staying close to the action

Feeling the pulse	Staying close to the action
Accountants' business knowledge	

Table 13: Staying close to the action

The final axial category has been labelled 'staying close to the action'. It combines the open categories 'feeling the pulse' and 'accountants' business knowledge' as both refer to the process by which accountants gain an exhaustive knowledge of all the relevant activities that are going on within the business.

For the accountants' contributions to be relevant, the information they provide must be embedded in the business within which they are operating. This places requirements on the accountants that go beyond the formal training they receive:

"Someone with a lot of qualifications might join the firm (as accountant) ... they'd do crazy within a week if they tried to apply the (cost structure) theory. You will get there but after doing a lot of background work." (Accountant, Company 8)

They must gain an in-depth knowledge of the sector the business operates in and of its internal operations. This can only be gained by accountants through a deep and complete immersion in everything that happens in and around the business. This approach will reflect that of the SME owners and other managers. Accountants cannot remain isolated in their accounting world. They, quite literally in some businesses, need to get their hands dirty just like everybody else.

Getting close to the action also means getting close to the people. It's not just about learning the ropes. It's also about learning what makes people behave the way they do. Both will have an impact on the accounting information which accountants will be providing. The former will enable accountants to understand the business mechanics which will allow precise and relevant measurement. The latter will tell the accountant how to go about collecting and communicating information.

The end result will be an accountant that is as much a part of the business as the owners and their family. The business-specific level of specialisation achieved is such that the accountants may find it difficult to leave the business as they would have to re-learn their trade. This serves to reinforce the commitment towards the business they have nurtured, in some cases right from its inception.

6.11 Summary

This chapter has described the second stage of grounded data analysis. This process has revealed eight axial categories, each of which is built up using the open categories which were identified in the first stage of analysis described in the previous chapter. The ensuing discussion showed how sets of open codes can be grouped around a central theme which connects them. The resulting axial categories have therefore a higher level of abstraction than the open categories even though they are still firmly grounded in the data. However at this stage the axial categories still lack a unifying theme which interconnects them within a coherent grounded theory. The next chapter will attempt to do that in the third and final level of data analysis.

CHAPTER 7 - SELECTIVE CODING AND THE EMERGENCE OF THE CORE CATEGORY

7.1 Introduction

This chapter will discuss the third and final stage of data analysis namely selective coding. The aim of this stage is to identify a central or core category which can bring together the various components identified in the previous chapter. Some of the connections may have already become apparent during the discussion of the axial categories. However this chapter will weave a coherent framework which will support the resulting core category. The core category will represent a higher level of abstraction than open or axial categories. The end result will be a 'concept that all other concepts will be related to' (Corbin and Strauss, 2008, p.104). Thus it will be possible to relate the core category to most of the other categories in a meaningful way (Holton, 2007).

The theory that has been generated in this study is a substantive theory i.e. one that 'refers to an empirical area of sociological enquiry and is specific to groups and place' (Lempert, 2007, p.246). In the case of this research the empirical area is management accounting practices, and the specific setting is within manufacturing SMEs in Malta. In order to assist the researcher to identify the core category, the paradigm model proposed by Corbin and Strauss (2008) was applied. The next section will discuss in detail how this was carried out.

7.2 The paradigm model and the emergence of the core category

Corbin and Strauss (2008, p.89) propose that researchers use the paradigm model as a tool which can help them think about the complex relationships that may exist between the various concepts that arise from qualitative research. This consists of a set of questions which researchers can apply to the data at hand so that relationships between context and process can emerge. They break down the model into three components.

The first component is labelled conditions. These help reveal 'the circumstances or conditions' (Corbin and Strauss, 2008, p.89) that lead an individual to respond in a particular way. Thus conditions describe the environmental context which gives rise to phenomenon being observed. They determine 'why, where, how and what happens' (Corbin and Strauss, 2008, p.89). Conditions can be analysed into micro conditions i.e. those that are very close to the individual and macro conditions i.e. those arise further away (Corbin and Strauss, 2008, p.91). Both are important as they combine to create a complete description of the context. Section 7.5 will describe the contextual conditions for this study in detail.

The second components of the paradigm model are the actions and interactions (Corbin and Strauss, 2008, p.89). These represent how individuals deal with the phenomenon being observed by adopting a number of strategies. In this context strategies are 'purposeful or deliberate acts that are taken to resolve a problem and in so doing shape the phenomenon in some way' (Strauss and Corbin, 1998, p.133). The strategies adopted by participants in this study are described on section 7.4.

Consequences are the third component of the paradigm model (Corbin and Strauss, 2008, p.89). They represent what happens as a result of the actions and interaction which took place. Understanding the consequences helps provide more comprehensive explanations of the phenomenon being analysed (Strauss and Corbin, 1998, p.134). These will be described in detail in section 7.6.

Together these three components can help the researcher integrate the various codes generated in the previous stages of data analysis such that a comprehensive and coherent substantive theory can be generated that explains the phenomenon at hand. Using the paradigm model wisely should help the core category emerge but should not force such a discovery. Corbin and Strauss (2008, p.90) warn researchers not to fixate on labels they attach to codes as that may stifle the analysis. Rather the model should be used as a flexible tool with a view to the logic behind it.

When trying to identify the core category the researcher is presented with a choice:

> "*A central category may evolve out of the list of existing categories. Or a researcher may study the categories and determine that though each category tells part of the story, none capture it completely. Therefore, another more abstract term or phrase is needed, a conceptual idea under which all the other categories can be subsumed.*"
> (Corbin and Strauss, 2008, p.104)

The latter is the choice that was made for this study. As the various axial codes were integrated within the paradigm model it was felt that an overarching process could explain how the various codes were centrally connected. *Enabling sensemaking through accounting information* emerged as the concept that 'represents the main theme of the research' with sufficient 'analytic power' to 'convey theoretically what the research is all about' (Corbin and Strauss, 2008, p.104). As the various categories came together it became apparent that accounting information was necessary for the decision-makers to be able to proceed with the various business decisions. In this sense accounting information acts as an enabler. At the same time the decision-making process involved a sensemaking process as decision-makers tried to come to terms with the various social, economic and environmental influences.

Sensemaking is a fundamental social process through which individuals understand what is going on around them through interactions with other individuals around them (Maitlis, 2005). The concept is of course not specific to the field of management accounting. However it provides a very comprehensive insight with regards to what is going on in the interaction between accountants and decision-makers in the context being examined in this study. Although for ease of presentation the integration between the theory that emerges from this research and existent theory will be carried out in detail in the next chapter, the next section will give a brief description of sensemaking and how it was identified as a fundamental component of the core category. It will also explain the enabling aspect of accounting information.

7.3 The core category - 'enabling sensemaking through accounting information'

The core category that emerges from this study is being labelled 'enabling sensemaking through accounting information'. The accountant, by providing relevant information, which is communicated effectively, will put decision-makers in a position where they can move ahead with a decision.

The Merriam-Webster dictionary (online) provides the following definition of the word 'enable':

"a : *to provide with the means or opportunity*

b : *to make possible, practical, or easy"*

Owners expressed how the input from their accountants is considered to be essential for them to run their businesses:

"I would not know what to do if I did not have an accountant" (Director 1, Company 12)

In this sense management accountants perform an enabling function as owners feel that without the availability of accounting information their ability to run the business efficiently is severely impaired. The information in itself however is not enough. The accountants themselves have to be at hand to provide a sounding board for their ideas and to discuss the accounting information provided:

"I couldn't manage without him, you just can't. Today we are beefing up the accounting department, I have employed an assistant (for the accountant) even in today's situation. So that I will have time to analyse and discuss with Peter (the accuntant)." (Director, Company 3)

As shall be discussed later on in this chapter, several contextual conditions contribute to the creation of this need for accountants and accounting information. At the same time several processes are necessary to render the accountants and the accounting information they provide acceptable and relevant to the decision-makers. These processes are consistent with the processes of organisational sensemaking. Accounting information becomes an integral part of the sensemaking process as it provides a practical way of capturing and highlighting relevant information and presenting it in a way such that can be processed by decision-makers. As one respondent stated it provides *"a framework of structured thinking"* (Advisor 1, Company 9) for decision-makers. It is in fact *"the role of the financial controller to raise awareness to the directors of all the bits and pieces going on"* (Accountant, Company 13).

Sensemaking can be defined as follows:

> *"Sensemaking implies a ... complex process, where developing an understanding of one's situation is still the key, but where perceptions are driven by pre-existing personal and organizational* ***identities****, where* ***interpretation*** *of an existing world is placed in partnership with ongoing* ***enactment*** *of that world, and where conclusions are driven by* ***plausibility*** *rather than accuracy" (Miller, 2005 p.222, emphasis added)*

The above definition captures the essence of sensemaking. The key factors that are identified within it are the very same factors that became evident as the paradigm model was developed. Thus, the findings show that the decisions that are taken are formed by the business **identity** - a broad sense of what the business stands for which goes way beyond the pure money-making objectives. This means that accountants have to be able to move away from the profit-maximisation assumption which underlies most of their professional training. In the context of the SMEs in this study, profit-maximising is too simplistic an objective. The identity of the business is often an extension of the owners' and may reflect the heritage of a number of generations. This must be recognised by accountants as they make choices with regards to the choice, presentation and interpretation of accounting information. The following quote captures the essence of the role of identity in the sensemaking process:

"I think there was a large element of tradition, of this is a manufacturing company and this is a manufacturing company with obligations to its employees and the responsibility of the board is to find ways and means of ensuring continuity. And that orientation I believe is not necessarily equivalent to profit maximization at all costs." (Advisor 1, Company 9)

As with all decision situations any information available needs to be interpreted whilst keeping in mind the aforementioned objectives. Accountants help **interpret** the decision environment and in this regard they make choices which will influence that interpretation:

"How much should you be theoretically refined in a report? Will that be appreciated by the owner of the business? You have to decide what value to give to a report." (Accountant, Company 11)

As they interpret the data, accountants create meaningful information which decision-makers can absorb and use:

"reports do look nicer (when generated by more advanced software) but they still need to be interpreted by an accountant, numbers are meaningless" (Advisor 2, Company 9).

The evolution of the SMEs decision-making process has been such that owners have moved from a situation where they would take decisions with little, if any, consultation and minimal formal financial analysis to one where no decisions are made before they have been discussed with a trusted advisor and evaluated financially in a way that is acceptable to them. Both of these functions are performed by the accountants and the information they provide becomes the decision enabler.

"In the past I used to take risks. Nowadays I don't. Nowadays I want to see facts, I check and recheck all the figures with our team and only then I take the decision". (Director 1, Company 6)

Even though users are requiring more detailed accounting information, accountants will find that it may be necessary to reduce the emphasis on detail and precision in favour of information which owners may find **plausible** i.e. easier to understand and believe:

*"they (the monthly management accounts) should be as accurate as possible, but there's a limit to how much you can include. It is up to us (accounts department) to determine what we issue." (*Accountant, Company 13)

In determining what to issue accountants are putting together the elements of a story - a story which must be believable to those who are hearing it:

"It's not a perfect science is it?... because the costs that you attach to job is not a perfect science ... it might be imperfect but imperfections are consistent...so at least you get a story." (Manager, Company 7)

As they constantly interact with the decision-makers, accountants transpose the business ideals into the accounting information they provide. The end result is that accounting information supports owners in the **enactment** of their vision for the business:

"if he (the accountant) didn't understand the business concept behind it he'd be telling me horror stories every day!" (Director, Company 1)

The SMEs in the study have faced a number of changes in internal and external conditions that have triggered the need for an accountant to provide advice that can bolster the decision-makers' knowledge base. Accountants however will only be accepted as a source of advice if a relationship of trust has been established. Trust is fundamental and a number of strategies are adopted to establish first a personal trust and second a professional trust in the accountant. Once the trust is established, a number of strategies are employed to ensure that advisors have both the behavioural and business knowledge that allow them to be in tune with the needs of the business.

This knowledge will extend also into communication modes that will ensure that the information is actually considered and understood. All of this will generate information which owners can act upon. This information-generating cycle completes a sensemaking process which will enable the business to move ahead. Accounting information generated in this manner tells a story that is believable to the decision-makers. The information has to fit within the underlying sensemaking process and, as shall be discussed in the following sections of this chapter, strategies are adopted such that this is achieved. The accountants and the accounting information they provide thus become central to the decision-making process in the SMEs. The paradigm model representing this process is summarised in figure 33, where the terms in upper case refer to the axial categories discussed within the previous chapter.

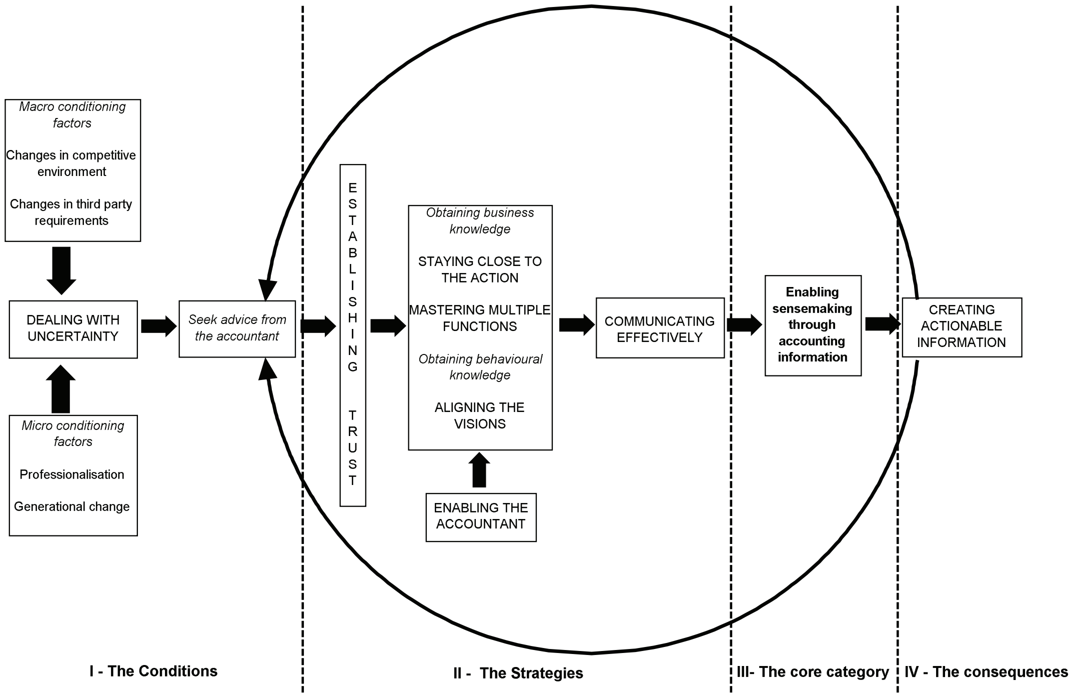

Figure 33: The paradigm model - Enabling sensemaking through accounting information

Thus it can be seen that the various components of the paradigm model are linked to the underlying sensemaking process. The context, the strategies and the consequences are all part of the process that puts accountants in a position to contribute to organisational sensemaking and become enablers in that process. The next sections will now explain the various parts of the paradigm model in detail starting with the strategies adopted for accountants to become sensemaking enablers.

7.4 The strategies

As previously discussed, the term 'strategies' here refers to actions and interactions which individuals resort to in their efforts to deal with the various situations being faced. In the process that emerges from this study, various axial categories can be seen as strategies which serve to manage the inter-relationship between accountants and decision-makers so that accountants can contribute sensemaking-enabling accounting information.

7.4.1 Establishing trust

Trust is at the foundation of any relationship between accountants and decision-makers. Unless the accountant is trusted no interaction will take place. Trust is a barrier that determines whether the exchange of information between the owners and the accountants will happen at all. In fact trust can be more important than competence:

"An employer will have more peace of mind from having a person he can trust rather than a person with a lot of qualifications". (Accountant, Company 2)

In this context, trust is first and foremost personal. Owners need to trust the accountant just like they would trust a close family member. The process of establishing trust may take a long period of time. However, once it is established it is practically absolute and accountants are trusted with a wide range of responsibilities without any real checks and controls:

"*Sometimes I feel like I'm abusing of the way in which he (the owner) leaves everything within my decisions. Literally, all decisions that involve finance, then he jokes about the fact that I want to meddle with everything, but I tell him that everything involves money!"* (Accountant, Company 7)

In many cases the accountants were individuals who had obtained their qualification whilst already working for the firm and eventually got promoted to the top position. In that way owners will have had the time to get to know them well and over a long period of time before placing them in such a sensitive position. When someone external to the firm needed to be employed several firms offered the job to their external auditor.

Once the trust barrier is overcome, then the real interaction begins. Now the owners feel more comfortable providing information to the accountants. This will form the basis for accountants learning about the business as shall be discussed in section 7.4.2. The more information about the business they give to the accountants, the more the accountants will learn and thus be in a position to provide relevant information. This will in turn lead to the development of professional trust.

Sometimes the relationship can break down of course. But it is such an important relationship that it may be worthwhile for the owners to try and recover it:

"he (the accountant) went away for about two years and he came back, for my sake. It helped me reflect on some mistakes I made. Now he is back here and I feel very comfortable with that." (Director, Company 3)

In many cases the relationship between owners and accountants has lasted for more than a decade and the feeling was that it will continue until either of them retires from the business.

7.4.2 Obtaining the knowledge

Having built a foundation of trust the knowledge building process can begin. This will be made up of two different components. On the one hand there is business knowledge - knowing what the business does. This aspect of knowledge building is supported by the axial categories 'staying close to the action' and 'mastering multiple functions'. On the other hand there is the behavioural knowledge - knowing what the business stands for. This is supported by the axial category 'aligning the visions'.

7.4.2.1 Gaining business knowledge by staying close to the action and mastering multiple functions

Business knowledge is obtained through a constant interaction with the various individuals in the business and the activities they perform. It's an approach that starts with the owners but is practiced also by the accountants. This mainly involves taking a hands-on approach and doing even the most menial tasks within one's 'official' domain. This allows accountants to have a feel for all the transactions that make up the accounts and as a consequence have a feel for everything that's happening in the business. However in practice this hands-on approach extends way outside the domain of accounting. Accountants will be found doing production scheduling (Company 4), human resources administration (Company 12) and health and safety procedures (Company 16). This allows them to understand what goes on in all parts of the business and understand the information needs of the people running the different parts of the business.

"No, no, no. I don't like to work from my office, if I do I cannot understand ... I cannot give advice or the right opinion if I'm just dealing with papers. Definitely not." (Accountant, Company 17)

The emphasis in the tone of this accountant is very telling. Accountants learn so that they can contribute more. In doing so they learn the language that the 'others' speak. This will allow them to communicate effectively, as will be discussed in section 7.4.4.

7.4.2.2 Gaining behavioural knowledge by aligning the visions

Knowing what the business stands for is just as important and knowing what the business does. In fact, that latter is subservient to the former.
"It's not always the profitability purpose of doing things, it's the smooth running and reputation of your business to keep it at a certain level up there." (Director, Company 15)

The business goals reflect the owners' ideals and often this also carries the weight of previous generations who were involved in the business. Accountants have to immerse themselves in the organisational culture and learn to believe in the same business ideals as the owners. In this way they can provide the type of accounting information that best supports those business ideals. They will also be able to interpret that accounting information in the way in which an owner would interpret it. In this way ‘personality’ or ‘mentality’ clashes are minimised. Moreover the accountants become:

"just as proud of the business as we (the owners) are". (Director 1, Company 12)

That is not to say that accountants abandon professional objectivity – in fact owners expect that from their accountants. But preparing accounting information for decision-making will always involve a number of subjective choices and accountants will find it easier to reach their users when they make choices in tune with the users' mentality.

It is important that the business vision is communicated, formally or informally so that accountants can identify it and align themselves with it. If this is done, aligning the visions is not an option. The accountant is either in or out:

"The important thing is that the business must have a plan. The question is how competent you are in relating that written or unwritten plan to your staff. Once you relate that to your staff there are people who will agree and people who won't. The people who won't will shake hands and move on, the once that remain will row your boat." (Director, Company 14)

7.4.3 Enabling the accountant

In the process of obtaining knowledge support is fundamental. Accountants will need individuals to give them information. They will also report on those same individuals' performance. It is quite natural for there to be some resistance to the accountant in this respect. If this situation is not handled properly it can degenerate into outright antagonism. This is where the support of the owners becomes paramount.

"I think one of the real enablers is the extent to which the accountant can manage to get buy-in from the rest of the senior managers from the board of directors and from, ultimately in a lot of family owned businesses in Malta, the owner. If the accountant manages to get the buy-in from the decision-makers, then I think that buy-in in itself is very much an enabler. But in the absence of that buy-in there is a fundamental problem." (Advisor 1, Company 9)

If support is not forthcoming accountants will be blocked and their efforts frustrated. On the other hand if the support is there, resistance may be less marked as other people in the organization see the accountants' authority as an extension of the owners'. Where the resistance is strong then the support will mean that they will still have to co-operate even if under protest.

7.4.4 Communicating effectively

Collecting, compiling and analysing information can turn out to be a futile exercise if accountants are not able to communicate it effectively. Every aspect of the information generation process must be done with the end user in mind. The previously discussed strategies should ensure that accountants are fine-tuned with the information needs of the users. Then they must also make choices with regards to how, when and in what form to present the information. This will encourage users to actually pay attention to what the accountants are saying and truly understand the significance of the information provided.

"There is very good communication in this firm. In the past I used to be happy just to have done the job (generate reports) and that's it... presentation was given secondary importance. But now I know it's useless having information unless it is communicated." (Accountant, Company 5)

This may present a challenge to accountants, especially ones who have moved to their current employers from another business or from an accounting firm. They have the expertise in generating the information but they need to learn fast how to deliver it in a way which may be substantially different from what they were used to. The particular needs of users may include different levels of formality, different modes of delivery and even different times of the day which will make them more receptive to what the accountants have to say.

"We are quite informal, i.e. our meeting are over a piece of cake there or a coffee here, or in the car, or on the phone over the weekend." (Director, Company 17)

The underlying theme here is the adaptability of accountants when communicating information. There are no standard formats or modes but each situation will require an ad hoc solution.

7.5 The Conditions

Various factors combine together to create the specific context being faced by the users and providers of accounting information within the Maltese SMEs. Some factors are present within the general business environment and are termed macro conditioning factors. Others exist within the businesses themselves and are termed micro conditioning factors. These factors form the components of the axial category 'dealing with uncertainty'.

7.5.1 Macro conditioning factors

The environment surrounding the SMEs has changed considerably in the recent past. The two main changes which have had a direct impact on the decision-making abilities of SME owners are the changes in the competitive environment and the changes in accounting information requirements by third parties. Together they combine to create a higher level of uncertainty that has to be dealt with by the owners.

7.5.1.1 Changes in competitive environment

The increased exposure to global competition and in particular the gradual removal of protection upon Malta's accession to the EU, have created competitive pressures which Maltese SMEs had never had to face in the past. Competition has given customers more choice, introducing foreign imports backed by professional marketing campaigns which local businesses could not match. Competition has also put intense pressure on prices, eating away at the profit margins which local manufacturers were used to.

"Yes, yes, big time (change in attitude towards accounting information). It was a totally different world. Before, when you got the economy which is booming... you couldn't go wrong. You could almost say the past rewarded the bad businessmen." (Independent Advisor 1)

Decision-making processes needed to be updated to take into account these new realities. This created the need for more detailed accounting information whereas in the past a few approximate numbers might have been enough. Hence, the need to turn to an accountant who has the skills and can install the systems which can provide that information.

7.5.1.2 Changes in third party requirements

Maltese SMEs have had to deal with new or additional requirements for financial information as a result of the new additional requirement imposed by governmental agencies (mainly through VAT regulations);

" financially (statutory obligations), nowadays things are much more complicated" (Director, Company 15)

as well as providers of finance (mainly a major local bank which was taken over by a foreign bank):

"banks before were parochial...today the whole culture has evolved...and XYZ bank was their coming" (Independent Advisor 1)

This challenged both the accounting systems which now had to generate more detailed and timely information and also the owners' ability to understand that very same information they were being asked to provide as they negotiated access to funds vital for their survival and growth. Accountants were the answer to these challenges.

7.5.2 Micro conditioning factors

Within the SMEs themselves changes have been happening which have had an impact on the attitude towards accountants and accounting information.

7.5.2.1 Professionalisation

As the businesses grew and faced new realities the decision-making approaches had to become more professional. As managers were employed and strategic alliances with other SMEs were forged, the need was felt for a more formal approach to decision-making which was based on information that was more objective, verifiable and easy to communicate.

"When we make this type of arrangement (joint venture) you must have absolute transparency...there must be absolute transparency right at the outset so as to avoid arguing every season. Things are changing so frequently." (Director 1, Company 6)

Accounting information provides the structure which is needed to address these new realities being faced within the business as it provides a common language which can be used to communicate with other businesses.

7.5.2.2 Generational change

Many of the Maltese SMEs examined in this study had been established in the first wave of Maltese industrialisation, in the aftermath of Maltese independence and gradual winding down of the British military presence and the loss of income this represented on a national level. The next generation of entrepreneurs is now stepping in and taking over from parents or other older relatives.

"The main reason (for a change in attitude towards accounting information) is natural progression and evolution in culture and styles" (Independent Advisor 1)

The new managers and owners may not have the same level of business know-how as the people who created the business from scratch. But they are more financially literate, with many taking some form of business studies in their schooling years. They are also used to the idea of having an accountant in the business all the time, rather than someone whom you went to occasionally as the older generation might have done when the businesses were first set up. Thus they find it perfectly natural to turn to an accountant to provide them with decision-support information which will enable them to close the gap on their elders in terms of business knowledge.

7.5.3 The impact of the contextual factors - dealing with uncertainty

As a result of the above factors, current business owners are finding it more difficult to rely on instinct or prior knowledge to take decisions. Prior knowledge, where available, is becoming less relevant as the business scenarios have changed considerably. Margins of error are much smaller such that instinctive analysis may not be accurate enough especially if things go wrong. This has increased the level of uncertainty being faced. In order to deal with this uncertainty, owners now require an additional input into the sensemaking process which will enable them to reach a plausible conclusion. Thus they are turning to accountants who, by virtue of their training and their position in the firm are in a position to provide them with the information they need to take valid decisions.

7.6 The consequences – Creating actionable information

The outcome of the process described so far is that accountants will be able to provide information that in form and content is such that owners can use it to drive their decisions. Thus it becomes actionable i.e. able to drive actions.

"In order to fix things during challenging periods you have to turn to ... accounting" (Director, Company 4)

This is information that will address the owners' uncertainties which triggered off the need for the information in the first place. This is information that users feel they can use because it reflects not only their needs but also their vision. It is information that is built on a sound knowledge of the business and of the people within the business. Most importantly it fits within the underlying sensemaking process.

The information is developed once accountants have an intimate understanding of the business situation. This is a social process which requires accountants to immerse themselves in the identity of the business. The constant interaction with users means that accountants develop information systems that reflect the users' vision but also allows them to enact that vision. The information may not be the most detailed technically possible but it will serve its purpose. It may is *"not necessarily the best"* (Director 1, Company 12) but represents a balance between costs and quality. The optimum level is one where things can *"move smoothly"* (Director 1, Company 12).

The information will be used in a variety of ways. Some will want to see a detailed step by step evaluation and will only act once all the numbers make sense. Some will only want to see that the information more or less confirms their initial analysis and all the numbers do is prove that they were right. Some will only want to make sure that the information doesn't contradict their initial analysis by much - after all they know what is best for the business and unless the numbers show they could be very wrong then they are probably right. Whatever the case, they will wait for the accountant to provide the information before they commit to a decision:

"it was difficult for the director to lay off 25 employees...and what's the future...you're going to reduce sales by one million, will that really improve your results? Can you imagine the responsibility? So you need someone to back you up with financial information." (Accountant, Company 3)

7.7 Conclusion

This chapter has presented the final stage of grounded theory analysis. By applying Corbin and Strauss's (2008) paradigm model, a core category labelled 'enabling sensemaking though accounting information' was identified. This grounded theory displays the four properties of fitness, understanding, generality and control (discussed in section 4.5) which, according to Glaser and Strauss (1967, p.237), are required for it to be valid and applicable in practice. Fitness is achieved as the theory is 'faithful to the everyday realities of [the] substantive area' being researched (Glaser and Strauss, 1967 p.239). The concepts contained within it have been allowed to emerge from the data and reflect the views of the individuals who participated in the research. Understanding was confirmed by discussing the theory and the processes contained within it with the 'people working in the substantive area' (Glaser and Strauss, 1967 p.239). Their ability to relate the components of the grounded theory to their own experiences indicated that they could easily understand the processes described by the theory. The generality of the theory is derived from the fact that, within the substantive area, the processes were observed to be in place in several different situations, ranging from day-to-day cost control to one-off restructuring decisions. This 'diversity' within the data means that the theory is made up of 'general concepts relevant to most situations (Glaser and Strauss, 1967 p.243). Control is achieved as via the strategies discussed, the theory presents a number of 'controllable variables' (Glaser and Strauss, 1967 p.245) which accountants can use to manage their relationship with information users. This would allow them to 'develop a wider variety of interactional tactics than ordinarily would be in [their] personal repertoire' (Glaser and Strauss, 1967 p.246). The next chapter will now integrate the theory within other extant related research.

CHAPTER 8 - THEORETICAL INTEGRATION

8.1 Introduction

In this chapter the theory which emerged from the findings, as outlined in the previous chapter, will be integrated within other extant literature that describes similar phenomena. The aim of this process is to allow the researcher to extend, validate and refine knowledge in the field being discussed (Strauss and Corbin, 1998, p.52). This becomes an essential part of theory building (Eisenhardt, 1989b). Locke (2001, pp.121-124) suggests that the process of integrating existing literature with the findings can be carried out within the chapter presenting the theory or in a separate chapter. The second option has been chosen in this thesis to allow for a clearer development of the emerging theoretical structure and also to reduce the length of the chapters, making them easier to read and follow.

The literature that will be discussed in this chapter was not identified at the outset of this research. Thus whereas the first literature review helped the researcher tune-in to the field of research, this second literature review builds on the findings of the research carried out. Thus it is influenced by the findings and not vice-versa. In this way the inductive approach is satisfied and minimises the risk of researcher bias when analysing the data. Although some of the sources mentioned in the first literature review will be used again, most of the chapter deals with new material that centres around the process of sensemaking that was described in the previous chapter. Sensemaking will be discussed to show how the various components of the paradigm model outlined in figure 33 fit within the extant sensemaking literature. The discussion will them move to the aspect of trust which plays a fundamental role in the processes observed. In the following sections, references to the components of the paradigm model will be underlined for ease of reference.

8.2 An overview of sensemaking research

The concept of organisational sensemaking has been the subject of numerous research studies. This research spans a number of organisational contexts. An early conceptual paper by Daft and Weick (1984) dealing with modes of interpretation set the tone for much of the sensemaking research that was to follow. Eisenhardt (1989a) looked at sensemaking as part of fast decision-making. Weick (1993) and Gephart (1993) explored the collapse of sensemaking in the context of organisational disasters. Harris (1994) and later McLarney and Chung (2000) looked at culture. Various authors (Isabella, 1990; Gioia and Chittipeddi, 1991; Gioia *et al*, 1994; Gioia and Thomas, 1996; Taylor, 1999; Thomas *et al*, 2001; Ericson 2001; Steinthorsson and Söderholm, 2002) looked at sensemaking perspectives in the context of strategic change and strategic management. Seligman (2006) focussed on IT adoption, whilst Maitlis (2005) and Maitlis and Lawrence (2007) explored the social processes of organisational sensemaking. Thiel *et al* (2012) analysed sensemaking strategies used by leaders for ethical decision-making. Other managerial settings were explored by Hill and Levenhagen, 1995; Hasan and Gould, 2001; Balogun and Johnson, 2004; Weick *et al*, 2005; Catasus *et al*, 2009; Sharifi and Zhang, 2009; Cornelissen, 2012 and Bettiol *et al*, 2012. Some of these papers will be integrated in the discussion that will follow in sections 8.3 and 8.4. Research that directly addresses sensemaking and its relationship to accounting, such as Boland (1984, 1993), Jönsson (1987), Tillmann and Goddard (2008) and Catasús *et al* (2009) will be discussed in greater detail in section 8.5.

8.3 Sensemaking - a definition

"Sensemaking refers to processes of meaning construction whereby people interpret events and issues within and outside of their organisation that are somehow surprising, complex or confusing to them." (Cornelissen, 2012, p.118)

The sensemaking process 'starts with chaos' (Weick *et al*, 2005, p.411). As new, unfamiliar scenarios unfold, people within the organisation will need to notice, select and absorb information from various sources. They will then create plausible narratives that will allow them to take any necessary actions (Weick *et al*, 2005). Sensemaking is thus a dynamic process that leads to concrete actions.

Sensemaking is broader than interpretation (Weick, 1995, p.6). The sensemaking process starts before interpretation can take place as individuals choose which of the environmental cues are to be extracted for interpretation. This places sensemaking at a higher level of abstraction, with interpretation being one of the components of sensemaking. Sensemaking is an ongoing, continuous process rather than an isolated, static moment (Weick, 1995, pp.14-15). This means that sensemaking both precedes and follows decision-making (Maitlis, 2005). Seligman (2006) points out that sensemaking is a cyclical process and that the actions taken are not the conclusion of that process but rather generate further stimuli which in turn guide further action.

The above descriptions substantially correspond to the situation observed within the SMEs analysed. The changes they have had to face increased the complexity of the decision situations and created an uncertain and confusing environment for owners, managers and accountants. The possible interpretations of these 'events and issues' (Cornelissen, 2012, p.118) led to a range of options which could have taken the businesses in several different directions. The interpretation was focused on selected aspects which were brought to the forefront through the financial analyses provided by accountants. The sensemaking however never stops as the organisation learns and obtains feedback from past sensemaking which drives future sensemaking. This cyclical process is reflected in the paradigm model.

8.3.1 The seven properties of sensemaking

Weick (1995) sets out what he describes as the seven properties of sensemaking. These properties explore the nature of the process which individuals go through as they try to deal with the situations that they come across. These properties will now be individually examined and related to the findings of this research.

8.3.1.1 Sensemaking is grounded in identity construction

According to Mills (2003, p.55), identity construction "is at the root of sensemaking". The sensemakers' sense of identity will have a major influence on the way in which information is processed and will influence the other properties of sensemaking. Thus who individuals think they are will determine what they choose to enact and how to interpret (Weick *et al*, 2005). When environmental changes trigger a sensemaking process very often the individual will start that process by asking “who are we, what are we doing, what matters, and why does it matter?” (Weick *et al* 2005, p.416). The answer to those questions will set the tone for what follows.

As the ultimate decision-makers, the SME owners’ identity will have a fundamental role in shaping organisational sensemaking. The owners’ sensemaking is very much determined by who they see themselves as and what the business they own stands for. For the accountants to become an integral part of the organisational sensemaking process they must identify themselves in this business identity. In this way the ‘individual’s schemas come to resemble those of other organisational members’ (Harris, 1994, p.313). The code aligning the visions essentially describes how this is achieved by the accountants in SMEs. Thus the information they provide is shaped by what the business wants to be.

8.3.1.2 Sensemaking is retrospective

Sensemaking involves a process by which individuals look back on past events and decisions and give meaning to those events and decisions (Weick, 1995). This *a posteriori* interpretation of events will then be used to drive future sensemaking, with the cycle repeating itself. Accounting reports, by their very nature, provide information about past events, and compare the most recent past events to ones further back. Even when accounting information is future oriented, such as budgets and business plans, it is always compared to past results in order to interpret the impact of a decision. Thus accountants, through the information they provide are crucial enablers of retrospective sensemaking. The term actionable information has been used to describe this outcome. As can be seen in the paradigm model, the actionable information created by accountants is fed back into the sensemaking process.

8.3.1.3 Sensemaking is focused on and by extracted cues

Sensemakers extract cues from their environment that help them develop a sense of what may be occurring (Weick, 1995). They will notice how something that is happening now is different from (or similar to) something that happened earlier:

noticing, identifying and bracketing cause the sensemaking process to start (Weick *et al*, 2005).

The accountants, through the effective communication strategy and through the actionable information they provide, bring any deviations from the norm to the attention of the SME owners. They act as the filters which bring to the fore those cues that they consider to be more relevant. Knowing what cues to provide is important otherwise the information provided will be of reduced usefulness (Seligman, 2006). The accountants' noticing and bracketing is guided by 'mental models ...acquired during (their) work, training and life experience' (Weick *et al*, 2005, p.411). The strategies shown in the paradigm model enable the accountants to develop mental models that are in tune with those of the decision-makers. Thus the cues they extract and communicate are in turn noticed by the decision-makers.

8.3.1.4 Sensemaking is ongoing

Sensemaking never stops. At any point in time the individual is in the middle of extracting cues out of the constant stream of stimuli being faced (Weick, 1995). The present sensemaking is influenced by the previous sensemaking and will influence future sensemaking. It is a constant loop that feeds and reinforces itself.

The pattern of sensemaking observed and represented in the paradigm model follows this pattern. The accounting information provided reflects the previous information processes and will itself inform future ones. In this process the fundamental role of accounting information is reinforced with each cycle.

8.3.1.5 Sensemaking is social

Organisational sensemaking is a social process. Meaning is constructed in the context of the social structures within which sensemaking is taking place. These social structures generate interactions where ideas, beliefs, opinions and information are shared. The outcome of these interactions may not necessarily lead to conclusions which represent the opinions of the entire social group (Seligman, 2006). However the individual sensemakers will have absorbed the various inputs from the various participants and incorporated them into their mental framework. Cornelissen (2012, p.132) describes how people in professional roles in organisations use metaphors to ‘align themselves with the expectations of others’. The language they employ, through the use of single or multiple metaphors, allows them to find a balance between their position and what the social group around them expects.

Accountants use the strategy labeled as <u>effective communication</u> in order for their contributions to the organisation to be heard and noted by the owners. The open door policies, improvised and formal meetings and attention-grabbing techniques highlighted within the strategy emphasise the social nature of the interactions in the sensemaking process. Accountants also ensure that they engage in social interaction with other organisational stakeholders through the strategy labelled <u>staying close to the action</u>. Through these strategies they both influence and are influenced by the other members of the SMEs social structure.

8.3.1.6 Sensemaking is based on plausibility rather than accuracy

In practice it is impossible for decision-makers with limited time at hand and limited analytical capacity to seek all possible pieces of information and to evaluate them to their full extent. Weick *et al* (2005, p.415) state that:

> *'Sensemaking is not about the truth and getting it right. Instead it is about continued redrafting of an emerging story so that it becomes more comprehensive, incorporates more of the observed data, and is more resilient in the face of criticism'*

The potential for information overload is ever present even within SMEs as accounting systems increase in capability and users increase their information requirements. Accountants cannot just bombard users with information. They have to create a story which decision-makers can understand and believe. By adopting the various knowledge building strategies accountants will be able to tell a story that users will find credible and understandable because it will reflect their own knowledge and beliefs. Then it has to be <u>communicated effectively</u> so that it can become part of the users' sensemaking processes and become <u>actionable information</u>.

8.3.1.7 Sensemaking is enactive of sensible environments

As individuals operate within an organisational environment they influence and form that environment. In a way they are creating an environment which reflects their own personal views. This notion is very important in SMEs where the environment reflects the views of the present and previous generations of owners. That increases the importance of the strategy labelled aligning the visions. It enables accountants to tune in to the environment and make sure that when they influence it through the information they provide they will do so in a way which is consistent with the overriding views of the owners. Thus the environment that is enacted will stem from the same business vision. Enactment also requires a trust relationship and good communication between the parties involved (Johansson and Balvinsdottir, 2003) both of which feature strongly in the findings of this research. This aspect of the enactment process will discussed in more detail is section 8.6 dealing with trust.

8.4 Sensegiving

Sensegiving can be viewed as a variant of sensemaking (Weick *et al*, 2005) where the emphasis is on creating meaning for others. Thus the sensegiver is trying to influence how others around him – both above and below in the organisational structure – think. Gioia and Chittipeddi (1991, p.442) suggest that sensegivers will provide a 'viable interpretation of a new reality' and will try to influence other organisational members to adopt the same interpretation. This will in turn be used during the sensemaking process which will therefore reflect the sensegiver's 'preferred redefinition of organisational reality' (Gioia and Chittipeddi, 1991, p.442).

Sensegiving can be carried out in both directions within the organisational hierarchy. Gioa and Chittipeddi (1991), Gioa and Thomas (1996) and Bartunek *et al* (1999) focused on top-down sensegiving where leaders tried to influence the sensemaking of their subordinates. This may seem the most obvious form of sensegiving as leaders are in a natural position to influence subordinates. However bottom-up sensegiving can be just as important. In this case the subordinates will try to influence the sensemaking of their leaders. Dutton *et al* (2002) observed how lower level managers ‘sell’ issues which are relevant to their needs to higher level managers. Westley (1990) demonstrated that lower level managers engage in ‘strategic conversations’ with their superiors. In doing so they influenced the interpretation of the issues at hand and their subsequent enactment. Corvellec and Risberg (2007) suggest that through the sensegiving process individuals are directed to the version of reality preferred by the sensegiver. Accountants, although holding a very high position in the SME hierarchy, are still subordinate to the owners. In this sense, the owners are at the top of the sensegiving process whilst the accountants are at a lower level even though the distance between the two is very small.

Maitlis (2005) examined in detail the interrelationship between leader and stakeholder sensegiving. She established a matrix which combined high and low levels of sensegiving by leaders and stakeholders and the impact these would have on the sensemaking process in the organisation. This is summarised in the diagram below:

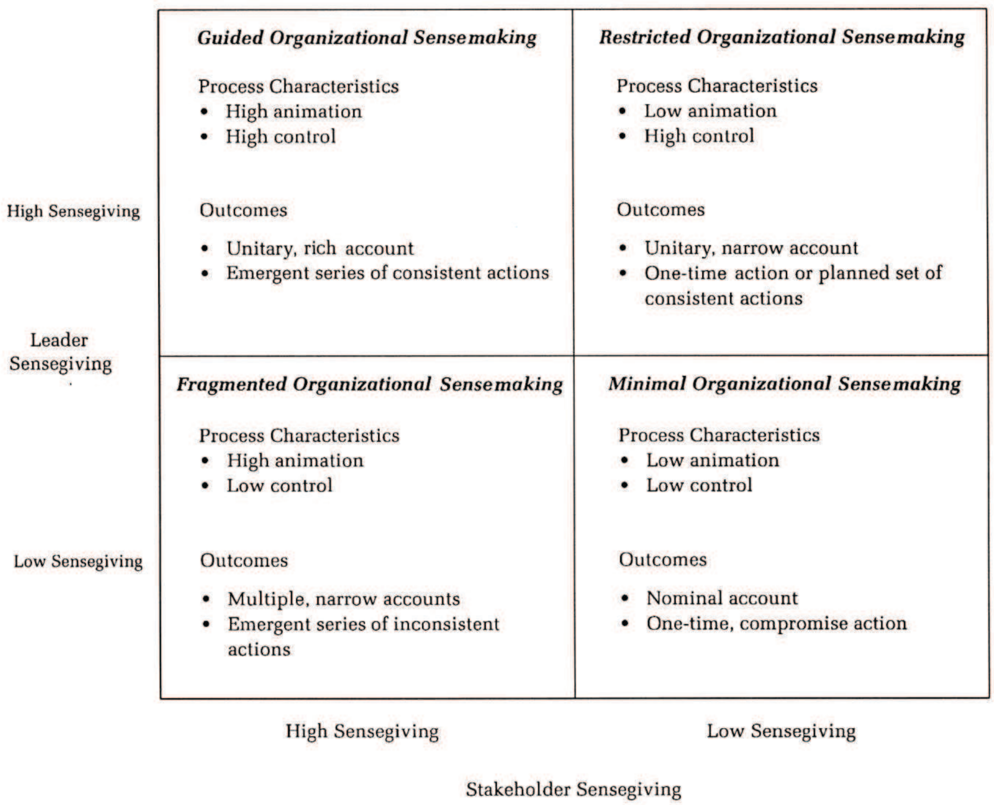

Figure 34: Four forms or organisational sensemaking (Maitlis, 2005, p.32)

The sensemaking process described in this research is very similar to the 'Guided organisational sensemaking' which according to Maitlis (2005) combines high levels of sensegiving on part of both the leader – in this case the SME owner – and the stakeholder – in this case the accountant. The owners clearly form and inform the business environment. That is why it is vital for the accountants to align the vision with that of the owner. This strategy is in essence a leader sensegiving process, something in which accountants participate willingly. But accountants make their own substantial sensegiving contribution as well. When they are in the process of creating actionable information they make choices, and through effective communication present reports that will influence the way that decision-makers will take the business forward. Thus the owners and the accountants influence each other through a reciprocal sensegiving process. Both are in a very strong position in the firm, possibly the two most important figures in the organisational structure. This results in strong sensegiving. The outcome, as described by Maitlis (2005), is a coherent, complex, flow of decisions that take the business forward in a direction that is believed in by both.

Maitlis and Lawrence (2007, p.68) determined that three enabling conditions had to be present for stakeholders to be able to participate in sensegiving. The first condition is that the stakeholders must have the ‘relevant expertise’ relating to the issue. The second condition is ‘legitimacy’ which refers to the stakeholder having the authority of role to express opinion and be listened to. The third condition is the ‘opportunity to engage’ in sensegiving activities. This refers to the stakeholders actually being in a position where they can engage with the leaders.

All three conditions are observed to be in place in the sensemaking model described in this research. Through their formal qualification but most importantly through staying close to the action accountants obtain the expertise necessary for their opinion to be considered relevant. Legitimacy is obtained as owners, by enabling the accountants, place them in a position of authority. Accountants are given plenty of opportunities to engage with the owners through the constant interaction and specifically through their strategy for effective communication.

8.5 Sensemaking research in accounting

A small number of authors (Boland, 1984, 1993; Jönsson, 1987; Tillmann and Goddard, 2008; Catasús *et al*, 2009) have addressed directly the inter-relationship between accounting and sensemaking. In practice, accounting activity involves a combination of written and oral interactions which represent and interplay between sensemaking and sensegiving (Catasús *et al*, 2009). There is therefore a lot of potential in exploring this area further. In fact Berry *et al* (2009) suggest Weick's (1995) sensemaking agenda as an important possible dimension which can provide a way forward in researching accounting practices. This prior research will now be analysed in further detail.

Through an experimental study, Boland (1984) analysed how managers made use of accounting data in a sensemaking situation. Using a landscaping analogy, one of the participants in the experiment stated that using accounting information in the sensemaking process was similar to 'going up in a balloon and seeing how the yard looks' (Boland, 1984, p.878), as opposed to looking at the well kept yard from ground level. This very much mirrors the situations observed where the SME owners are too involved in the details to be able to see the whole picture. Accounting reports provide that perspective. The problem of course is that differences in the recognized objectives of the organisation will lead to different interpretations of the accounting information. The participants in Boland's (1984) experiment were very surprised by these differences. They were thus challenged into trying to understand what the organisation is all about (Boland, 1984, p.879). This is very similar to the processes for aligning the visions as described in the paradigm model which accountants use to ensure that objectives are aligned with those of the owners so that interpretations may be aligned as well.

Boland (1993, p.135) concludes that a reader of an accounting report is not an 'uninvolved, passive recipient of a clear and obvious message'. Rather they will

> '*take individual responsibility for reshaping the raw data in the text and reclaiming from it a set of the* ***truly*** *important data –* ***that which will be used to inform them*** *– and discard the remainder.*'
> (Boland, 1993, p.135, emphasis added).

This process is picked upon by the accountants interviewed in this research. If they see their information being discarded they will both be demotivated and be considered irrelevant by the SME owners. That is why they embark on strategies for effective communication such the information they provide will be as close as possible to what they users need so it becomes actionable.

In Jönsson's (1987, p.294) study, accounting is seen as common language that "serves as a bridge in the establishment of a common interpretive scheme". A common interpretation requires interaction and accounting information provides an ideal starting point for those interactions by bringing together the various organizational perspectives into one common report. In this research it appears that accountants go one step further. They make sure they obtain the knowledge and take steps for effective communication so that the reports will be much easier for different persons to understand and use. Thus the 'bridge' between the various users is built on solid foundations which reflect the organisation and its vision.

Tillmann and Goddard (2008, p.97) focussing on the sensemaking activities of accountants determined that accountants:

> *'undertake sense-making activities to understand strategic situations and construct meaning for themselves which also influence other organisational participants' sense-making.'*

Although that research was set in a large multinational company, similar processes are observed as in the SME setting of this research. Thus accountants had to develop a 'feel for the game' (Tillmann and Goddard, 2008, p.94) via a socialisation process much like the accountants in this study through strategies for obtaining the knowledge.

Sensegiving has also been explored in the context of accounting information. Catasús *et al* (2009, p.174) argue that, accounting information can be used as a 'tool for persuasion'. An accounting report is seen as a 'sensegiving cue that aims to give input to the sensemaking process' (Catasús *et al*, 2009 p.165) and reveal what are considered to be the most important sensemaking cues. Accountants and other managers participate in organizational sensegiving by re-classifying, re-labelling and illustrating accounting data so that it tells the story which they want to give. This is evident in the findings of this research as accountants make choices for effective communication. These choices inevitably reflect the personal preferences of the accountants. However as they have gone through a process of aligning the visions there should not be any direct conflict between their views and those of the decision-makers.

8.6 Trust

Another main theme that emerges from this research is the fundamental importance of trust in the relationship between owners and accountants. This trust is at the basis of the relationship and, and as has been shown in the previous chapter, there can be no interaction without trust. That is why it is represented as a hurdle in the paradigm model. Trust has to be established before any of the strategies can be employed which will eventually lead to accounting information becoming an integrative part of the sensemaking process.

For the purposes of this study the definition of trust developed by Tomkins (2001) will be used in view of the impact it had on subsequent research (Balvinsdottir *et al*, 2011). Tomkins (2001, p.165) defines trust as:

> *'The adoption of a belief by one party in a relationship that the other party will not act against his or her interests, where this belief is held without undue doubt or suspicion and in the absence of detailed information about the actions of that other party'*

The phrase 'without undue doubt or suspicion' is key to this definition. The findings of this research reveal a blind trust by owners in their accountants. They let them get on with their work without establishing any formal structures in place to check what they are doing. So even though accountants produce a number of reports, they themselves are not reported on. Thus the owners do not keep 'detailed information about the actions' of their accountants. They trust them to run the show in their absence and they listen to them more than they would listen to anyone else.

Several authors (e.g. Zucker, 1986, McAllister, 1995, Lewicki and Bunker, 1996) have developed theories of how trust can take various forms. Shapiro *et al* (1992) provide an analysis which is most relevant for this research. They distinguish between three different types of trust. Thus Deterrence-based trust is based on the fear of retribution that may arise if the trust is not maintained. Knowledge-based trust is based on the fact that two or more persons may get to know and understand each other so well that they can predict each other's behaviour. Finally, Identity-based trust can be found in those situations where one person internalises the other person's preferences to the point where there is an identification with the other. Shapiro *et al* (1992) see these are three progressive level of trust. They propose that trust starts with Deterrence-based trust and over time may or may not evolve into Identity-based trust.

The type of trust observed in the SMEs shows that the trust relationship between owners and accountants has reached the higher Identity-based trust level. In the process of establishing trust, owners and providers rely on frequent contact and long-term relationships so that they get to know each other very well. They get to know each other's preferences and idiosyncrasies. This would ensure a high level of Knowledge-based trust. However when this is combined with the process of aligning the visions, the higher-level, Identity-based trust is achieved. The owners' trust in the accountants is fundamentally driven by the fact that they believe that the accountants share their own vision. In essence, they trust the accountants as much as they trust themselves and this is reflected in their reliance on the accountants. The accountants' presence in the business becomes an extension of the owners'. Deterrence-based trust does not appear to be relevant in the context of this study. This is to be expected as it is the lowest level of trust which would only be present at the beginning of the relationship between the owner and the accountant.

The link between trust and the use of financial information has been recognized in organizational research such that Knights *et al* (2001, p.318) claim that:

> *"Any discussion from whatever disciplinary perspective (accounting, economics, or sociology), of financial practices, firms and institutions is, eventually, bound to touch upon issues of trust."*

In spite of this, the phenomenon has not been given its due share of attention in accounting literature, prompting Tomkins (2001, p.185) to state:

> *"The consideration of trust is **the** fundamental consideration before all other determinants come to play...it is surprising therefore that that this dimension seems to be absent from accounting theory, although it is quite implicit in many accounting procedures."*
> (emphasis in the original)

Since then a number of accounting studies have been carried out that have focused upon aspects of trust in inter-firm relationships e.g. Adobor (2005), Coletti *et al* (2005), Free (2008), Vèlez *et al* (2008), Vosselman and van der Meer-Kooistra (2009). Intra-firm trust issues, such as the ones being considered in this thesis, have also been examined and will be discussed in more detail in the following sections.

8.6.1 Trust and the external accountant

A number of studies (Gooderham *et al*, 2004; Bennett and Smith, 2004; Blackburn *et al* 2010, Schizas *et al*, 2012) have focused on the trust component of the relationship between the SME owners and their external accountants, serving as advisor. These studies tend to agree that trust is a 'linchpin in the SME-accountant relationship' (Blackburn *et al*, 2010, p.28). Just like the businesses examined in this research, these studies show that trust building is a long-term process. The point of initial contact with the accountants is normally through compliance services. However as the relationship develops over time and the owners learn to trust the external accountants they will also go to them for business advice. These processes are very similar to those observed in this study. Owners turn to advisors to help them <u>deal with uncertainty</u> but will only rely on their advice if they have <u>established trust</u> in them.

Of particular interest for this research is Blackburn *et al*'s conclusion (2010) that empathy is an important tool in establishing this trust. They define empathy as 'understanding and genuinely caring about the clients' interests' (Blackburn *et al* (2010, p.27). For the owners this was very important as this showed that the external accountants understood their business and urged accountants to act as if they were an internal department.

The importance of aligning the visions shown in this research confirms that a very similar principle applies within the Maltese SME scenario. Advisors are expected to share the culture just as much as the internal accountants. Moreover, some advisors were treated like fully-fledged members of the management team, such was their level of involvement with the business.

8.6.2 Trust and the internal accountant

This research has revealed that, within the Maltese SMEs, the main interaction is between the owner and the accountant employed internally by the business. Two studies in particular have focussed on this aspect and will now be discussed in detail.

Johansson and Balvinsdottir (2003) looked at the accountant's role in the interaction between the person being evaluated and the evaluator. In this situation, the potential tension between the evaluator and the evaluated can be mitigated by the accountant who through the figures provided can act as an 'impartial judge' (Johansson and Balvinsdottir, 2003, p.229). However this is dependent on accountants being trusted i.e. there has to be a belief that they have good intentions when producing the figures. Johansson and Balvinsdottir (2003, p.231) coin the term 'carriers of trust' to describe how accountants have influence in organisations as a consequence of others having trust in them. They observe strategies which accountants use in order to generate trust in them. Principally this involved a democratic attitude towards other organisational members and the supply of accounting information to lower level managers such that they started to make use of that information on a day-to-day basis. These strategies served to bring the importance of the accountant to the attention of the managing director. As a result the accountant started to be consulted by the managing director.

Another important aspect of Johansson and Balvinsdottir's (2003) research in the context of this study is the role which they observe trust has in the enactment processes in the organisation. As has previously been discussed (see sec 8.3.1.7) enactment is one of the pillars of sensemaking. According to Johansson and Balvinsdottir (2003) some level of trust has to be present before the enactment process can start. As people are trusted they will become more committed to the tasks at hand and become personally involved in their work. As this commitment is observed, a sense of security is instilled in those around them which in turn generates more trust. This circular process repeats itself continuously, increasing the trust and the communication between accountants and other organisational members and thereby supporting the enactment of organisational processes.

The above strategies can be observed in the context of professional trust within the strategy labelled establishing trust in the paradigm model. This is sustained by the strategies which accountants use to obtain the knowledge relevant to the situation. The more information the accountants provide the more is requested and the greater centrality of their role. Thus their contributions become vital in the sensemaking process across the organisation.

Busco *et al* (2006) explore the way in which management accounting systems contribute to the process of individual (un)learning during periods of change and how they can contribute to the identification of solutions that can be trusted by organizational participants. They refer to Webb's (1996) suggestion that when organisations face a serious crisis there will be inadequate resources to deal with that crisis and individuals will look around to find who can provide those resources. The contextual factors described in the previous chapter depict this kind of situation. The need to ignore previous knowledge and embrace change leaves owners and managers with a sense of inadequacy and therefore feeling the need for someone to support them in decision-making. In these situations it becomes crucial to know who and what you can trust (Busco *et al* 2006, p.14).

The processes of '(un)learning and change...require acts of sense-making by the individual that follow and complement engagement in social practices, such as management accounting' (Busco *et al*, 2006, p.36). Thus management accounting is anchored firmly within the sensemaking processes. In line with the findings of this study, management accounting practices are described as having a 'central role in

enabling' (Busco *et al*, 2006, p.34, emphasis added) the processes by which individuals and organisations adapt to changes.

However this can only happen if the accounting system is embedded within 'trusted rationales (i.e. accepted norms of behaviour and ways of thinking' (Busco *et al* 2006, p.14). The process by which accepted norms of behaviour and ways of thinking are embedded in the Maltese SMEs has been discussed thoroughly when discussing the process of aligning the visions. Once the accountants are seen as people who know what would fit with the business mentality, they will become increasingly trusted as a source of advice.

The problem remains that it is very difficult to separate between 'personal trust' i.e. trust in the persons who represent the system (in the context of this study, the accountant); and 'systems trust' i.e. trust in the processes being applied (in the context of this study the management accounting system) (Busco *et al*, 2006, p.34). There is a strong interdependence between these two since access to the systems happens through direct contact with specific individual persons. Thus trust in the system can be established through the trust in the person who provides the necessary reassurance (Bachmann, 2001). In this study it was evident that trust in the person comes first. Trust in the system follows eventually. In fact it is perfectly acceptable to have a system which is less than 100% trustworthy. But no breach of trust on part of the person will be tolerated.

8.7 Conclusion

This chapter has provided an in-depth analysis of how the substantive theory that has emerged from this research compares to extant literature. This concludes the process of theory building by refining the emergent theory and by validating it against other well-established frameworks. The various elements of the paradigm i.e. context, strategies and outcomes have been found to be the subject of numerous other studies. These confirm the fundamental importance of accounting information and trust in enabling sensemaking. Yet the combination of these various aspects in the setting of an SME environment is unique to this study. In this context trust, accounting information and sensemaking become a seamless process at the heart of which stands the accountants as the hub through which all parts of the process connect. The accountants are the axis around which all the business information systems revolve. They have control over both the generation and the access to information. In this position they perform the crucial task of 'effectively co-ordinating communication flows to link different areas of the business' (Pierce and O'Dea, 2003, p.287). This study confirms Pierce and O'Dea's (2003) conclusion that for this to happen, technical accounting knowledge is not enough. The accountants need a sound knowledge of the other business functions, achieved by <u>mastering multiple functions</u>. They also need strong inter-personal and social skills which will enable them to <u>communicate effectively</u>.The next chapter will elaborate upon the conclusions and contributions of this research.

CHAPTER 9 - CONCLUSION

9.1 Introduction

This chapter will bring this research project to its conclusion by summarising the key findings and highlighting the contributions that have been made to the research and accounting community. The first part will outline the main findings. These findings are then discussed in terms of their theoretical contributions to organisational and management accounting research. Reference will also be made to the contributions which apply to management accounting practice. This will be followed by a commentary on the methodological contributions. Finally suggestions for further research are made.

9.2 Summary of the main research findings

As revealed in the literature review, management accounting research in the context of SMEs has been rather limited. This thesis has tried to address this gap by investigating the processes of interaction between users and providers of management accounting information within manufacturing SMEs in Malta. This is the first study of its kind in the Maltese scenario. This research setting is very appropriate as the Maltese SME sector is vital to the Maltese economy. In fact, the relative contribution of this sector to the Maltese economy is much higher than that of SMEs in other EU countries. The manufacturing sector in particular has managed to weather the economic crises and increase employment whilst larger companies have suffered (European Commission, 2013). Moreover, given the extremely high demand for accountants in the Maltese economy, researching the contributions of management accounting to this fundamental sector can help the profession provide more relevant and more valuable advice.

The research used parallel data sources so that the processes underlying the phenomenon being investigated can be captured in all their complexity. Respondents were therefore chosen from both sides of the information exchange, namely owners and managers as users and accountants and advisors as providers of information. A

Grounded Theory methodology was adopted for the collection and analysis of findings.

The main findings reveal that management accounting information is at the core of the sensemaking cycle in Maltese manufacturing SMEs. This process has been labelled 'enabling sensemaking through accounting information'. Management accounting information performs an enabling function as users need the input from their accountants before they can move on with their decision-making. Another important finding is that trust in the accountant is an underlying condition that transcends any other consideration when determining whether the information will be considered by the decision-makers.

Decision-makers are facing changes in their business environment that have created uncertainty. This reduced their reliance on prior and instinctive knowledge for business decision-making. Changes can come from within the business in the form of increased professionalisation and generational change. Other changes are external such as changes in competition rules and increased information requirements by third parties. It is in this context that SME owners find the need to turn to their accountant to provide essential information which becomes an integral and enabling component of their sensemaking process.

The information accountants provide is highly actionable i.e. it leads to actions that allow businesses to move forward. It is relevant to the needs of the business and it is used by the decision-makers as a matter of routine. This does not happen automatically. A number of strategies are adopted by accountants so that the information is generated and delivered in such a way for it to fit within the sensemaking process. One such strategy refers to the manner in which knowledge is obtained. Through staying close to the action accountants ensure that they obtain business specific knowledge i.e. one which is based on the specific circumstances of the business rather than general principles. By aligning their visions with those of the owners the business objectives are understood and absorbed and therefore there is unity of vision between the owners and their accountants. This is crucial strategy for accountants to provide information that supports that vision. Knowledge cannot be obtained unless accountants are put in a position where they can obtain that knowledge. Through the strategy of supporting the accountant owners facilitate the knowledge gathering process. Finally, knowledge is not worth much without the strategies for effective communication being in place which allow for the accounting information to be presented in such a way as to be noticed, understood and used by decision-makers.

However before any of this can happen a relationship of trust has to be established between the owners and the accountants. Personal trust is established. This is a long-term process which may be aided by selecting accountants who are already well-known to the. Professional trust will follow as the accountants start to provide the information which is seen to be valuable.

9.3 Theoretical and empirical contributions

This research presents a unique analysis of the role of management accounting information within a sensemaking framework in an SME setting. A number of theoretical contributions can thus be identified with regards to the fields of management accounting and sensemaking as well as empirical contributions to management accounting practice.

This research started with the premise that management accounting is not a plug-in into an objective decision-making process but rather a tool that can be used and communicated in a variety of subjective contexts (Jönsson, 1998). It therefore serves to extend the knowledge provided by prior interpretive research in management accounting, specifically within the context of Maltese manufacturing SMEs.

Firstly, this research addresses Pierce and O'Dea's (2003) call for management accounting research that involves both management accountants and managers. Even though accountants can become the most important advisors to the decision-makers, they are still not however, decision-makers themselves. By carrying out interviews with the various parties involved in the generation and use of accounting information, it has been possible to provide a comprehensive view of how management accounting information is used and how it fits within the organizational decision-making process. Some of the findings of this research are similar to Pierce and O'Dea's (2003): the importance of adapting management accounting information to the needs of the business; the importance of a broader knowledge of the various business functions beyond the financial aspects; and the importance of social interpersonal skills. However this study extends these findings to the SME setting. In this contest it brings to the forefront the importance of the trust relationship between accountants and decision-makers and places management accounting information as a key component of the sensemaking framework in these organisation. Both of these contributions shall be discussed separately in the following paragraphs.

The second main contribution relates to trust which is revealed as the fundamental pre-requisite for any interaction between decision-makers and management accountants to take place in SMEs. As debated by Busco *et al* (2006), both personal and systems trust are important. However the findings reveal that in the SME setting personal trust comes first. It is a barrier that must be removed before users and providers of accounting information can work together. This research has also identified the various strategies which may be employed to establish trust. As a consequence it makes accountants aware that trust does not come along with the title. Trust is earned and the process is not quick or easy. Accountants with vast practical experience may still need to prove their personal worth before their professional advice can be accepted. This has important practical implications as will be discussed further on in this section.

The analysis of the relationship between management accounting and sensemaking is the third contribution in the section. As suggested by Berry *et al* (2009), sensemaking offers an opportunity to extend research that tries to understand management accounting practice. This research adds to Tillmann and Goddard (2008) by establishing sensemaking as a fundamental process within SMEs. It also identifies the position of management accounting information within that process. As an enabler of sensemaking, management accounting information is identified as a core contributor to organisational success. Furthermore, in line with Catasús *et al* (2009), management accountants play a fundamental sensegiving role within SMEs. Accountants are in a position to exert a very strong influence on the decisions taken as they make choices with regards to the information they feed into the sensemaking process. Accounting information is thus not a neutral and impersonal input to decision-making and accountants need to be aware of their responsibilities in this regard.

Fourthly, this research extends Weick's (1995) sensemaking model to a previously unexplored setting. It shows that within SMEs, sensemaking displays many of the characteristics described by Weick (1995). In this context the aspects of identity, plausibility and the social nature of sensemaking are of particular interest. Sensemaking is shown to be a social process even in the SME setting where the owner may appear to be the solitary decision-maker. Plausibility of information becomes very important as decision-makers seek to absorb what could be overwhelming amounts of information. But any information has to reflect the identity of the business. This research also addresses what Weick *et al* (2005, p.417) describe as one of the 'haunting questions' when discussing organized sensemaking, namely whether for organized action to take place it is necessary to have a structure of shared beliefs. The grounded theory reveals the enabling function of accounting information. But this depends on the accountants aligning their vision with that of the owners. In this way, the information reflects a structure of shared beliefs with regards to what the business stands for and the direction in which the decisions being taken will drive it.

Further to the above, a fifth contribution of this research is the extension to the SME setting of Maitlis's (2005) model as high levels of sensegiving by decision-makers and accountants combine to create 'guided organisational sensemaking'. Accountants are in a unique position to influence decision-makers as much as they are influenced by them. Then, through the accounting information they provide, they reinforce the sensegiving process directed towards other organisational members. In this way accounting information acts as a 'bridge' (Jönsson, 1987) that facilitates communication of shared beliefs throughout the organisation.

Finally, this research brings useful insights for accounting practice. Accountants need to realise that they need to get to know what their employers are really trying to get out of the business before they can provide decision-relevant information. The rational decision-making models used in accountant training courses (e.g. Drury, 2012) do not allow for the unique vision which decision-makers in SMEs may have for their business. This vision may be something that is difficult to articulate in the form of a clear quantifiable objective as is often assumed in those models. The vision has to be absorbed by getting to know the complete business environment. This has important implications in particular with regards to knowledge transferability. The principles learnt during training or experience gained in previous jobs may not always be valid when applied in a different SME setting. Accountants need to allow the time to immerse themselves in the business ethos so that their contributions can gain validity. They also need to be aware of the social process of decision-making. Decision are not the result of a dry and straightforward calculation by a single decision-maker but are the outcome of a complex social process to which different individuals - including the accountants themselves - contribute in both a personal and a professional manner. These insights need to become an integral part of accounting training programmes. Accountants must be made aware at the outset of the need to adapt their roles and styles to suit the specific needs of SMEs rather than discover this through experience (and after possible failure). Accounting training programmes should also include an exposure to a broad set of management skills and techniques such as marketing, production scheduling, information technology, human relations and even health and safety so that accountants will be able to approach these areas with a basic knowledge. This will enable them to learn and adapt more quickly as they find themselves faced with the necessity to perform multiple roles within SMEs.

9.4 Methodological Contributions

This research has used a grounded theory approach to generate a substantive theory that explains the role of management accounting in Maltese manufacturing SMEs. Although substantive interpretive research may lack the generalisability of functionalist research, it can serve as a starting point for further studies which can lead to the development of a formal theory with a higher level of generalisability. Moreover the process of developing data analysis through progressively higher levels of abstraction allows for the identification of concepts which may find applicability in other different settings. SMEs all over the world will face conditions similar to the ones outlined in this study at some point in time so the findings of this research may be relevant in those situations as well.

This study has shown how researchers can take the lead from Parker and Roffey (1997) and extend the application of grounded theory to interpretative studies in management accounting. Grounded theory provides an ideal methodological platform for such a task and allows for the development of theories through rigorous data analysis thereby ensuring that the result truly reflect the participants' experiences. The process of theory building was mainly guided by Corbin and Strauss's (2008) approach. Once the substantive theory was developed it was integrated within the Sensemaking framework developed by Weick (1995). As a result of this process a number of contributions may be identified which can help develop further the application of Grounded Theory methodology.

The first contribution of this thesis is that it extends the applicability of grounded theory by applying it to the research of management accounting in an SME setting and supplements the limited number of management accounting studies which have used this methodology. This thesis shows how such an approach can help understand the social processes that determine the ultimate validity of management accounting and hopefully this will encourage future research to consider using grounded theory.

The various stages through which the grounded theory was developed have been discussed in previous chapters. However it is worth reiterating one important aspect here as it constitutes a second important methodological contribution. The process of data analysis can sometimes become stifled if the procedures are applied too rigidly. In fact Corbin and Strauss (2008) themselves relaxed the distinction between the open coding and axial coding phases of data analysis. Although in this thesis they are listed as distinct, sequential chapters for ease of presentation, the code generation process was neither distinct nor sequential. The higher level of abstraction required by axial codes started to happen naturally as the open codes were being developed. The brain cannot be stopped from making connections - it is this instinctive process which enables the researcher to see beyond the data and let patterns of interconnections emerge. These will ultimately provide the framework on which the grounded theory will be developed. A 'relaxed' attitude to the sequence data analysis does not undermine 'rigour'. Each code is still robustly constructed through the process of constant comparison.

The paradigm model was used to help develop the core category for this research. It proved to be a very useful tool as it enabled the researcher to identify the linkages between the various components of theory that emerged from the findings. Another contribution results from this process. A researcher may end up forcing labels onto codes in order to make them fit into the 'standard' paradigm model. Although the paradigm model is useful it must not serve as a straightjacket. In particular the model assumes a certain linearity which may not reflect the underlying complexity of the phenomenon being explored.

This research was carried out in a small country with a small business community. In almost every instance there was some kind of connection between the researcher and the subjects of the interviews. This may have helped in gaining access to the interviewees and in breaking the ice. However it is also possible that certain respondents may have been very cautious in the replies due the possibility of the researcher having some form of personal connection with other respondents, even within the same business. As a final contribution it is suggested that interviews within the same organization are not conducted in close succession. It must be recognised that going out of the managing director's office and straight into the office of the financial controller may have led respondents to be more cautious about what they said. A more relaxed atmosphere was observed where interviews were conducted a few weeks apart. Of course this is subject to practical considerations and conditions of access.

9.5 Suggestions for further research

This research has shed light on the management accounting phenomenon in a very specific SME setting. Although it is possible that the findings may apply to other SMEs facing similar circumstances further research will be required to extend these findings. Therefore it is being suggested that this study can be reproduced both in different economic sectors as well as within the same sector but in different countries. In this way a more formal theory can be derived from the substantive theory developed in this thesis. Such research may also include functionalist studies which can lead to a more widely generisable theory. As the accounting profession becomes harmonised globally such studies can help bring the various issues identified in this study within mainstream accountancy training so that accounting can maximise its potential contribution to the SME sector.

This research has shown that in the relatively small management structure typical of most SMEs, leader and stakeholder sensegiving is a powerful process which will have a substantial impact on sensemaking. The SME environment is therefore an ideal setting for further studies which may extend the applicability of Maitlis's (2005) matrix. Case studies which focus exclusively on this aspect may shed light on the potentially fundamental influence that accountants may exert in SME decision-making.

Trust has been identified as a major determinant of the interaction between accountants and decision-makers and as such merits further research. New research in this area can focus on the strategies that are adopted to establish trust. Interpretive studies could develop a theory of trust building that could help accountants and SME owners accelerate the process through which they get to that point where their relationship can begin to flourish. Other interpretive studies can also develop further

Johansson and Balvinsdottir's (2003) concept of accountants being 'carriers of trust' throughout the organisation.

Finally, it may be worthwhile carrying out further research to supplement Busco *et al*'s (2006) case study which shed light on the role of management accounting systems in un/learning during periods of crisis. As business environments change ever more rapidly research in this direction can explain how accountants can help organisations adapt and move forward to remain competitive and survive.

APPENDIX 1 - OPEN CONCEPTS TO OPEN CATEGORIES

	Open Concepts	Open Category
1	Knowing your accountant	Trusting the accountant
2	Trust in the accountant	
3	The presentation of information	Presenting the information
4	Flexibility	
5	Bounded rationality	Viewing the world differently
6	Us and them	
7	Accounting work not done by accountants	Feeling the pulse
8	Close to the action	
9	Hands on accounting	
10	Getting on with the business of management	
11	Satisficing	Optimising the information
12	The value of experience	
13	Decision evaluation	The value of accounting information
14	Long term decision making	
15	The value of accounting information	
16	Challenging the accountant	The limitations of accounting information
17	Misinterpretation of advice	
18	The limit of accounting information	
19	Strategic awareness	Raising the alarm
20	Early warning system	
21	Thinking machine	
22	Commonality of business objectives	Sharing the culture
23	A common language/culture	
24	Loyalty of employers to employees	Multiple objectives
25	Belief / courage	
26	Various business objectives	
27	The importance of accounting information	The importance of accounting information
28	Centrality of the accounting function	
29	The importance of the accountant	The importance of the accountant
30	Accountants' comfort zone	
31	Reliability	
32	External pressures and the need for accounting information	Third party requirements
33	Developing the business, developing the accounting	
34	Accounting information and crises	Dealing with crises
35	Shocks to the system	
36	Accountants' use of accounting information	

37 38 39	Changing realities Enviromental stability Keeping to the path	External Changes
40 41 42	Uncertainty - internal The family Generational change	Internal changes
43 44 45	Trust in the owners Functional interaction - within firm Functional interaction - with advisors	Interaction between users and providers
46 47	Communication Accounting as meeting point	Communication
48 49 50 51 52	Loyalty of advisors The role of the advisor Beyond the audit Changing role of advisors Trust in the advisor	Trusting the advisor
53 54 55 56	Accountant as controller Accountant as advisor Multiple roles of accountant A balancing act	Juggling the roles
57 58 59 60	Management accounting system Self preservation The role of software Internal pressures on financial information	Managing the reporting system
61 62	Management buy-in Supporting the accountant	Supporting the provider
63 64 65 66	Directors' authority Accountant's authority (power) Initiative Fearing the accountant	Empowering the provider
67 68 69	Knowledge limitations Directors' characteristics Managers'/owners' accounting knowledge	Users' accounting knowledge
70 71 72 73 74 75 76 77	Belief in own abilities Accountant's characteristics Advisors' characteristics Accountant's business knowledge Job satisfaction The limit of the accountant The limit of the advisor Outside the comfort zone	Accountants' business knowledge

REFERENCES

ACCA 2013, *Accountants for small business*, Chartered Association of Certified Accountants, London.

ACCA 2012, *Driving SME Growth Through an Evolving Finance Function*, Chartered Association of Certified Accountants, London.

Accountancy Board 2014, *, Registered Accountants Register* [Homepage of Accountancy Board], [Online]. Available: https://secure3.gov.mt/accountancyboard/Registers/RegisteredAccountants.aspx [2014, May 1].

Adobor, H. 2005, "Trust as sensemaking: the microdynamics of trust in interfirm alliances", *Journal of Business Research,* vol. 58, pp. 330-337.

Ahrens, T. & Chapman, C.S. 2007, "Management accounting as practice", *Accounting, Organizations and Society,* vol. 32, no. 1-2, pp. 1-27.

Ahrens, T. & Chapman, C.S. 1999, "The role of management accountants in Britain and Germany", *Management Accounting (UK),* May, pp. 42-43.

Alattar, J.M., Kouhy, R. & Innes, J. 2009, "Management accounting information in micro enterprises in Gaza", *Journal of Accounting and Organizational Change,* vol. 5, no. 1, pp. 81-107.

Amat, J., Carmona, S. & Roberts, H. 1994, "Context and change in management accounting systems: a Spanish case study", *Management Accounting Research,* vol. 5, no. 2, pp. 107-122.

Ansari, S.L. & McDonough, J.J. 1980, "Intersubjectivity - The challenge and opportunity for accounting", *Accounting, Organizations and Society,* vol. 5, no. 1, pp. 129-142.

Bachmann, R. 2001, "Trust, power and control in trans-organizational relations", *Organization Studies,* vol. 22, no. 2, pp. 337-365.

Balogun, J. & Johnson, G. 2004, "Organizational restructuring and middle manager sensemaking", *Academy of Management Journal,* vol. 47, no. 4, pp. 523-549.

Balvinsdottir, G., Hagberg, A., Johansson, I., Jonall, K. & Marton, J. 2011, "Accounting research and trust: a literature review", *Qualitative Research in Accounting and Management,* vol. 8, no. 4, pp. 383-424.

Bartlett, D. & Payne, S. 1997, "Grounded theory : its basis, rationale and procedures" in *Understanding social research: perspectives on methodology and practice*, eds. G. McKenzie, J. Powell & A. Powell R., Falmer Press, London, pp. 173-195.

Bartunek, J.M., Krim, R.M., Necochea, R. & Humphries, M. 1999, "Sensemaking, sensegiving, and leadership in strategic organizational development" in *Advances in Qualitative Organizational Research, Vol. 2*, ed. J. Wagner, JAI Press, Greenwich, CT, pp. 37-71.

Baxter, J. & Chua, W.F. 2003, "Alternative management accounting research - whence and whither", *Accounting, Organizations and Society,* vol. 28, pp. 97-126.

Bennett, R.J. & Robson, P.J.A. 1999, "The use of external business advice by SMEs in Britain", *Entrepreneurship and regional development,* vol. 11, no. 2, pp. 155-180.

Bennett, R.J. & Smith, C. 2004, "The Selection and Control of Management Consultants by Small Business Clients", *International Small Business Journal,* vol. 22, no. 5, pp. 435-462.

Berry, M. 1998, "Strategic planning in small high tech companies", *Long Range Planning,* vol. 31, no. 3, pp. 455-466.

Berry, A.J., Coad, A.F., Harris, E.P., Otley, D.T. & Stringer, C. 2009, "Emerging themes in management control: A review of recent literature", *The British Accounting Review,* vol. 41, pp. 2-20.

Berry, A.J., Faulkner, S., Hughes, M. & Jarvis, R. 1993, "Financial Information, The Banker And The Small Business", *The British Accounting Review,* vol. 25, no. 2, pp. 131-150.

Berry, T., Sweeting, R.C. & Goto, J. 2006, "The effect of business advisers on the performance of SMEs", *Journal of Small Business and Enterprise Development,* vol. 13, no. 1, pp. 33-47.

Berry, T., Sweeting, R.C., Goto, J. & Taylor, M. 2002, *Financial management practice amongst SMEs*, Working paper, Manchester Metropolitan University, http://hdl.handle.net/2173/1456.

Bettiol, M., Di Maria, E. & Finotto, V. 2012, "Marketing in SMEs: the role of entrepreneurial sensemaking", *International Entrepreneurship Management Journal,* vol. 8, pp. 223-248.

Bjørnenak, T. & Olson, O. 1999, "Unbundling management accounting innovations", *Management Accounting Research,* vol. 10, pp. 325-338.

Blackburn, R., Carey, P. & Tanewski, G.A. 2010, *Business advice to SMEs: professional competencies, trust and ethics.*, Chartered Association of Certified Accountants, London.

Blackburn, R. & Jarvis, R. 2010, *The role of small and medium practices in providing business support to small- and medium-businesses*, International Federation of Accountants Small and Medium Practices Committee, New York.

Blumer, H. 1969, *Symbolic interactionism, perspective and method,* University of California Press, Barkely.

Boland, R.J. 1993, "Accounting and the interpretive act", *Accounting, Organizations and Society,* vol. 18, no. 2-3, pp. 125-146.

Boland, R.J. 1989, "Beyond the objectivist and the subjectivist: Learning to read accounting as text", *Accounting, Organizations and Society,* vol. 14, no. 5-6, pp. 591-604.

Boland, R.J. 1984, "Sense-making of accounting data as a technique of organizational diagnosis", *Management Science,* vol. 30, no. 7, pp. 868-882.

Boland, R.J. & Pondy, L.R. 1983, "Accounting in organizations: A union of natural and rational perspectives", *Accounting, Organizations and Society,* vol. 8, no. 2-3, pp. 223-234.

Brignall, S., Fitzgerald, L., Johnston, R. & Markou, E. 1999, *Improving Service Performance: A Study of Stepchange Versus Continuous Improvement,* CIMA Publishing, London.

Broad, M., Goddard, A. & Von Alberti, L. 2007, "Performance, Strategy and Accounting in Local Government and Higher Education in the UK", *Public Money and Management,* vol. 27, no. 2, pp. 119-126.

Bromwich, M. 1990, "The case for strategic management accounting: the role of accounting information for strategy in competitive markets", *Accounting, Organizations and Society,* vol. 15, no. 1/2, pp. 27-46.

Burchell, S., Clubb, C., Hopwood, A., Hughes, J. & Nahapiet, J. 1980, "The roles of accounting in organizations and society", *Accounting, Organizations and Society,* vol. 5, no. 1, pp. 5-27.

Burns, J., Ezzamel, M. & Scapens, R. 1999, "Management Accounting change in the UK", *Management Accounting (UK),* March, pp. 28-30.

Burns, J., Hopper, T. & Yazdifar, H. 2004, "Management accounting education and training: putting management in and taking accounting out", *Qualitative Research in Accounting and Management,* vol. 1, no. 1, pp. 1-29.

Burrell, G. & Morgan, G. 1979, *Sociological paradigms and organisational analysis,* Ashgate, Aldershot.

Busco, C., Quattrone, P. & Riccaboni, A. 2007, "Management Accounting: Issues in interpreting its nature and change", *Management Accounting Research,* vol. 18, no. 2, pp. 125-149.

Busco, C., Riccaboni, A. & Scapens, R.W. 2006, "Trust for accounting and accounting for trust", *Management Accounting Research,* vol. 17, no. 1, pp. 11-41.

Carraher, S. & Van Auken, H. 2013, "The use of financial statements for decision making by small firms", *Journal of Small Business and Entrepreneurship,* vol. 26, no. 3, pp. 323-336.

Carson, D., Gilmore, A., Cummins, D., O'Donnell, A. & Grant, K. 1998, "Price setting in SMEs: some empirical findings", *Journal of product and brand management,* vol. 7, no. 1, pp. 74-86.

Catasus, B., Martensson, M. & Skoog, M. 2009, "The communication of human accounts:examining models of sensegiving", *Journal of Human Resource Costing and Accounting,* vol. 13, no. 2, pp. 163-179.

Chapman, C.S. 1997, "Reflections on a contingent view of accounting", *Accounting, Organizations and Society,* vol. 22, no. 2, pp. 189-205.

Charmaz, K. 2006, *Constructing Grounded Theory,* Sage, London.

Charmaz, K. 1995, "Grounded Theory" in *Rethinking methods on psychology*, eds. J.A. Smith, R. Harre & L. Van Lagenhove, Sage, London, pp. 26-49.

Chartered Institute of Management Accountants 2005, *Official terminology,* CIMA Publishing, Oxford.

Chartered Institute of Management Accountants 2000, *Official terminology,* CIMA Publishing, Oxford.

Chua, W.F. 1988, "Interpretive sociology and management accounting - a crtitical review", *Accounting, Auditing and Accountability Journal,* vol. 1, no. 2, pp. 59-79.

Chua, W.F. 1986, "Radical Developments in Accounting Thought", *The Accounting Review,* vol. LXI, no. 4, pp. 601-632.

Coletti, A.L., Sedatole, K.L. & Towry, K.L. 2005, "The effect of control systems on trust and cooperation in collaborative environments", *Accounting Review,* vol. 80, no. 2, pp. 477-500.

Collier, P.M. 2005, "Entrepreneurial control and the construction of a relevant accounting", *Management Accounting Research,* vol. 16, no. 3, pp. 321-339.

Collis, J. & Jarvis, R. 2002, "Financial information and the management of small private companies", *Journal of Small Business and Enterprise Development,* vol. 9, no. 2, pp. 100-110.

Colville, I. 1981, "Reconstructing "behavioural accounting"", *Accounting, Organizations and Society,* vol. 6, no. 2, pp. 119-132.

Cooper, R. & Kaplan, R.S. 1999, *The Design of Cost Management Systems,* 2nd edn, Prentice-Hall, Upper Saddle River, New Jersey.

Cooper, R. & Kaplan, R.S. 1988, "Measure costs right: make the right decisions", *Harvard Business Review,* October, pp. 96-103.

Corbin, J. & Strauss, A. 1990, "Grounded theory research: Procedures, canons, and evaluative criteria.", *Qualitative Sociology,* vol. 13, no. 1, pp. 3-21.

Corbin, J. & Strauss, A. 2008, *Basics of Qualitative Research,* 3rd edn, Sage Publications, Thousand Oaks, CA.

Cornelissen, J.P. 2012, "Sensemaking uder pressure: the infliuence of preofessional roles and social accountability in the creation of sense", *Organization Science,* vol. 23, no. 1, pp. 118-137.

Corvellec, H. & Rosberg, A. 2007, "Sensegiving as mise-en-sens—The case of wind power development", *Scandinavian Journal of Management,* vol. 23, pp. 306-326.

Covaleski, M.A. & Dirsmith, M.W. 1988, "The use of budgetary symbols in the political arena: an historically informed field study", *Accounting, Organizations and Society,* vol. 13, no. 1, pp. 1-24.

Covaleski, M.A. & Dirsmith, M.W. 1986, "The budgetary process of power and politics", *Accounting, Organizations and Society,* vol. 11, no. 3, pp. 193-214.

Covaleski, M.A. & Dirsmith, M.W. 1983, "Budgeting as a means for control and loose coupling", *Accounting, Organizations and Society,* vol. 8, no. 4, pp. 323-340.

Covaleski, M.A. & Dirsmith, M.W. 1990, "Dialectic tension, double reflexivity and the everyday accounting researcher: on using qualitative methods", *Accounting, Organizations and Society,* vol. 15, no. 6, pp. 543-573.

Curran, J., Jarvis, R., Kitching, J. & Lightfoot, G. 1997, "The pricing decision in small firms: complexities and the deprioritising of economic determinants", *International Small Business Journal,* vol. 15, no. 2, pp. 17-32.

Daft, R.L. & Weick, K.R. 1984, "Toward a model of organizations as interpretation systems", *Academy of Management Review,* vol. 9, no. 2, pp. 284-295.

Day, J., Reynolds, P. & Lancaster, G. 2006, "Entrepreneurship and the small to medium-sized enterprise: A divergent/convergent paradox in thinking patterns between advisers and SME owner-managers", *Management Decision,* vol. 44, no. 5, pp. 581-597.

Drucker, P.F. 1995, *Managing in a time of great change,* Butterworth-Heinemann, Oxford.

Drury, C. 2012, *Management and cost accounting,* 8th edn, Cengage, London.

Drury, C. & Tayles, M. 1997, "Evidence on the financial accounting mentality debate: a research note", *The British Accounting Review,* vol. 29, no. 3, pp. 263-276.

Dugdale, D. & Clowyn Jones, T. 1998, "Throughput Accounting - Transforming practices", *British Accounting Review,* vol. 30, pp. 203-220.

Dunk, A.S. 2004, "Product life cycle cost analysis: the impact of customer profiling, competitive advantage, and quality of IS information'", *Management Accounting Research,* vol. 15, pp. 401-414.

Dutton, J.E., Ashford, S.J., Lawrence, K.A. & Miner-Rubino, K. 2002, "Red Light, Green Light: Making Sense of the Organizational Context for Issue Selling", *Organization Science,* vol. 13, no. 4, pp. 355-369.

Efferin, S. & Hopper, T. 2007, "Management control, culture and ethnicity in a Chinese Indonesian company", *Accounting, Organizations and Society,* vol. 32, pp. 223-262.

Eisenhardt, K.M. 1989a, "Making fast strategic decision in high velocity environments", *Academy of Management Journal,* vol. 32, no. 3, pp. 543-576.

Eisenhardt, K.M. 1989b, "Building Theories from Case Study Research", *The Academy of Management Review,* vol. 14, no. 4, pp. 532-550.

Ekanem, I. 2005, "'Bootstrapping': the investment decision-making process in small firms", *The British Accounting Review,* vol. 37, no. 3, pp. 299-318.

El Louadi, M. 1998, "The relationship among organization structure, information technology and information processing in small Canadian firms", *Canadian Journal of Administrative Sciences,* vol. 15, no. 2, pp. 180-199.

Elharidy, A.M., Nicholson, B. & Scapens, R.W. 2008, "Using grounded theory in interpretive management accounting research", *Qualitative Research in Accounting and Management,* vol. 5, no. 2, pp. 139-155.

Ericson, T. 2001, "Sensemaking in organisations - towards a conceptual framework for understanding strategic change", *Scandinavian Journal of Management,* vol. 17, pp. 109-131.

Ernst and Young 2013, *Market gaps in access to finance and the feasibility of new financing instruments in the EU addressing the credit needs of Maltese businesses*, Malta Business Bureau, Malta.

European Commission 2013, *2013 SBA Fact Sheet, Malta*, European Commission, Brussels.

European Commission 2003, *Commission recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises*, Commission Recommendation, European Union, Brussels.

European Commission 27/05/2013-last update*, Fact and figures about the EU´s Small and Medium Enterprise (SME)* [Homepage of European Commission], [Online]. Available: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/index_en.htm [2014, June 6].

Free, C. 2008, "Walking the talk? Supply chain accounting and trust among UK supermarkets and suppliers", *Accounting, Organizations and Society,* vol. 33, no. 6, pp. 629-662.

Friedman, A.L. & Lyne, S.R. 1997, "Activity-based techniques and the death of the beancounter", *The European Accounting Review,* vol. 6, no. 1, pp. 19-44.

Galloway, D. & Waldron, D. 1988a, "Throughput Accounting—1: The need for a new language for manufacturing", *Management Accounting (UK),* November, pp. 34-35.

Galloway, D. & Waldron, D. 1988b, "Throughput Accounting—2: Ranking products profitably", *Management Accounting (UK),* December, pp. 34-35.

Garg, A., Ghosh, D., Hudick, J. & Nowacki, C. 2003, "Roles and Practices in Management Accounting Today", *Strategic Finance,* July, pp. 1-6.

Gephart, R.P. 1993, "The textual approach: Risk and blame in disaster sensemaking", *Academy of Management Journal,* vol. 38, no. 6, pp. 1465-1514.

Gibb, A.A. 1997, "Small Firms' Training and Competitiveness: Building Upon the Small business as a Learning Organisation", *International Small Business Journal,* vol. 15, no. 3, pp. 13-29.

Giddens, A. 1984, *The Constitution of Society: Outline of the Theory of Structuration,* University of California Press, Berkeley, CA.

Giddens, A. 1979, *Central Problems in Social Theory: Action, Structure and Contradiction in Social Analysis,* Macmillan, London.

Gioia, D.A. & Chittipeddi, K. 1991, "Sensemaking and sensegiving in strategic change initiation", *Strategic Management Journal,* vol. 12, no. 6, pp. 433-448.

Gioia, D.A., Thomas, J.B., Clark, S.M. & Chittipeddi, K. 1994, "Symbolism and strategic change in academia: The dynamics of sensemaking and influence", *Organization Science,* vol. 5, pp. 363-383.

Gioia, D.A. & Thomas, J.B. 1996, "Identity, image and issue interpretation: sensemaking during strategic change in academia", *Administrative Science Quarterly,* vol. 41, no. 3, pp. 370-403.

Glaser, B.G. 2007, "Doing formal theory" in *The SAGE handbook of grounded theory*, eds. A. Bryant & K. Charmaz, Sage, London, pp. 97-113.

Glaser, B.G. 2002, *Constructivist Grounded Theory?*, Forum Qualitative Sozialforschung / Forum: Qualitative Social Research, 3(3), Art. 12, Available: http://nbn-resolving.de/urn:nbn:de:0114-fqs0203125 [2014, May 16]

Glaser, B.G. 1992, *Emerging vs forcing: basics of Grounded Theory analysis,* Sociology Press, Mill Valley, CA.

Glaser, B.G. 1978, *Theoretical Sensitivity,* Sociology Press, Mill Valley, CA.

Glaser, B.G. & Strauss, A.L. 1967, *The discovery of grounded theory,* 3rd edn, Aldine Transaction, New Brunswick.

Goddard, A. 2005, "Accounting and NPM in UK local government - contributions towards governance and accountability", *Financial Accountability & Management,* vol. 21, no. 2, pp. 191-218.

Goddard, A. 2004, "Budgetary practices and accountability habitus - A grounded theory", *Accounting, Auditing and Accountability Journal,* vol. 17, no. 4, pp. 543-577.

Goddard, A. & Assad, M.J. 2006, "Accounting and navigating legitimacy in Tanzanian NGOs", *Accounting, Auditing and Accountability Journal,* vol. 19, no. 3, pp. 377-404.

Gooderham, P.N., Tobiassen, A., Doving, E. & Norhaug, O. 2004, "Accountants as sources of business advice for small firms", *International Small Business Journal,* vol. 22, no. 1, pp. 5-22.

Granlund, M. & Lukka, K. 1998, "Towards increasing business orientation: Finnish management accountants in a changing cultural context", *Management Accounting Research,* vol. 9, pp. 185-211.

Greenhalgh, R.W. 2000, "Information and the transnational SME controller", *Management Accounting Research,* vol. 11, no. 4, pp. 413-426.

Guba, E.G. & Lincoln, Y.S. 1994, "Competing paradigms in qualitative research" in *Handbook of qualitative research*, eds. N.K. Denzin & Y.S. Lincoln, Sage, London, pp. 105-117.

Guilding, C., Cravens, S.C. & Tayles, M. 2000, "An international comparison of strategic management accounting practices", *Management Accounting Research,* vol. 11, pp. 113-135.

Guilding, C. & McManus, L. 2002, "The incidence, perceived merit and antecedents of customer accounting: an exploratory note", *Accounting, Organizations and Society,* vol. 27, pp. 25-49.

Gul, F.A. 1991, "The effects of management accounting systems and environmental uncertainty on small business managers' performance", *Accounting and Business Research* , Winter, pp. 57-61.

Harris, S.G. 1994, "Organizational culture and individual sensemaking: a schema-based perspective", *Organization Science,* vol. 5, no. 3, pp. 309-321.

Hasan, H. & Gould, E. 2001, "Support for the sense-making activity of managers", *Decision Support Systems,* vol. 31, pp. 71-86.

Heath, H. & Cowley, S. 2004, "Developing a grounded theory approach: a comparison of Glaser and Strauss", *International Journal of Nursing Studies,* vol. 41, no. 2, pp. 141-150.

Hill, R.C. & Levenhagen, M. 1995, "Metaphors and mental models: sensemaking and sensegiving in innovative and entrepreneurial activities", *Journal of Management,* vol. 21, no. 6, pp. 1057-1074.

Holland, J. 2005, "A grounded theory of corporate disclosure", *Accounting and Business Research,* vol. 35, no. 3, pp. 249-267.

Holmes, S. & Nicholls, D. 1988, "An analysis of the use of accounting information by Australian small business", *Journal of Small Business Management,* vol. 26, no. 2, pp. 57-68.

Holton, J.A. 2007, in *The SAGE handbook of grounded theory*, eds. A. Bryant & K. Charmaz, Sage, London, pp. 265-289.

Hopper, T. & Powell, A. 1985, "Making Sense of Research into the Organisational and Social Aspects of Management Accounting", *Journal of Management Studies,* vol. 22, no. 5, pp. 429-465.

Hopper, T.M. 1980, "Role conflicts of management accountants and their position within organisation structures", *Accounting, Organizations and Society,* vol. 5, no. 4, pp. 401-411.

Hoque, Z. (ed) 2006, *Methodological issues in accounting research: theories and methods*, Spiramus Press, London.

Horngren, C.T., Srikant, M.D. & Rajan, M.V. 2012, *Cost accounting - a managerial emphasis,* 14th edn, Prentice Hall, Upper Saddle River, NJ.

Howorth, C. & Westhead, P. 2003, "The focus of working capital management in UK small firms", *Management Accounting Research,* vol. 14, no. 2, pp. 94-111.

Hutaibat, K., von Alberti-Alhtaybat, L. & Al-Htaybat, K. 2011, "Strategic management accounting and the strategising mindset in an English higher education institutional context", *Journal of Accounting & Organizational Change,* vol. 7, no. 4, pp. 358-390.

Institute of Management Accountants 2008, *Definition of Management Accounting,* Institute of Management Accountants, Montvale, NJ.

Isabella, L.A. 1990, "Evolving interpretations as change unfolds: how managers construe key organizational events", *Academy of Management Journal,* vol. 33, no. 1, pp. 7-41.

Ismail, N.A. & King, M. 2005, "Firm performance and AIS alignment in Malaysian SMEs", *International Journal of Accounting Information Systems,* vol. 6, no. 4, pp. 241-259.

Jarvis, R. & Rigby, M. 2012, "The provision of human resources and employment advice to small and medium-sized enterprises: The role of small and medium-sized practices of accountants", *International Small Business Journal,* vol. 30, no. 8, pp. 944-956.

Jarvis, R., Kitching, J., Curran, J. & Lightfoot, G. 1996, *The financial management of small firms: an alternative perspective.*, ACCA Report no. 49, Chartered Association of Certified Accountants, London.

Jarvis, R., Curran, J., Kitching, J. & Lightfoot, G. 2000, "The use of quantitative and qualitative criteria in the measurement of performance in small firms", *Journal of Small Business and Enterprise Development,* vol. 7, no. 2, pp. 123-134.

Johansson, I. & Balvinsdottir, G. 2003, "Accounting for trust: some empirical evidence", *Management Accounting Research,* vol. 14, pp. 219-234.

Johnson, H.T. & Kaplan, R.S. 1987, *Relevance lost - the rise and fall of management accounting,* Harvard Business School Press, Boston.

Jönsson, S. 1987, "Frame shisting, sense making and accounting", *Scandinavian Journal of Management Studies,* May, pp. 255-298.

Jönsson, S. 1998, "Relate management accounting research to managerial work", *Accounting, Organizations and Society,* vol. 23, no. 4, pp. 411-434.

Kaplan, R.S. & Norton, D.P. 1996, "Using the balanced scorecard as a strategic management system", *Harvard Business Review,* January-February, pp. 75-85.

Kaplan, R.S. & Norton, D.P. 1993, "Putting the balanced scorecard to work", *Harvard Business Review,* September-October, pp. 134-147.

Kaplan, R.S. & Norton, D.P. 1992, "The balanced scorecard - measures that drive performance", *Harvard Business Review,* January-February, pp. 71-79.

Kattan, F., Pike, R. & Tayles, M. 2007, "Reliance on management accounting under environmental uncertainty: the case of Palestine", *Journal of Accounting and Organizational Change,* vol. 3, no. 3, pp. 227-249.

King, R., Clarkson, P.M. & Wallace, S. 2010, "Budgeting practices and performance in small healthcare businesses", *Management Accounting Research,* vol. 21, pp. 40-45.

Kirby, D.A. & King, S.H. 1997, "Accountants and small firm development: filling the expectation gap", *The Service Industries Journal,* vol. 17, no. 2, pp. 294-304.

Knights, D., Noble, F., Vurdubakis, T. & Willmott, H. 2001, "Chasing Shadows: Control, Virtuality and the Production of Trust", *Organization Studies,* vol. 22, no. 2, pp. 311-336.

Latour, B. 2005, *Reassembling the social : an introduction to Actor Network Theory,* Oxford University Press, Oxford.

Latour, B. 1987, *Science In Action. How to Follow Scientists and Engineers through Society,* Harvard University Press, Cambridge, Mass.

Laughlin, R. 1995, "Methodological themes - Empirical research in accounting: alternative approaches and a case for “middle-range” thinking", *Accounting, Auditing & Accountability Journal,* vol. 8, no. 1, pp. 63-87.

Lavoie, D. 1987, "The accounting of interpretations and the interpretation of accounts: The communicative function of "the language of business"", *Accounting, Organizations and Society,* vol. 12, no. 6, pp. 579-604.

Lempert, L.B. 2007, "Asking questions of the day: memo writing in the grounded theory tradition." in *The SAGE handbook of grounded theory,* eds. A. Bryant & K. Charmaz, Sage, London, pp. 245-264.

Lewicki, R.J. & Bunker, B.B. 1996, " Developing and maintaining trust in work relationships" in *Trust in organizations: Frontiers of theory and research*, eds. R.M. Kramer & T.R. Tyler, Sage, Thousand Oaks, CA, pp. 114-139.

Locke, K. 2001, *Grounded theory in management research,* Sage, London.

Lohr, M. 2012, "Specificities of Managerial Accounting at SMEs: Case Studies from the German Industrial Sector", *Journal of Small Business and Entrepreneurship,* vol. 25, no. 1, pp. 35-55.

Lowe, A. & Koh, B. 2007, "Inscribing the organization: Representations in dispute between accounting and production", *Critical Perspectives on Accounting,* vol. 18, no. 8, pp. 952-974.

Lucas, M., Prowle, M. & Lowth, G. 2013, *Management Accounting Practices of UK Small-Medium-Sized Enterprises (SMEs)*, Chartered Institute of Management Accountants, London.

Lybaert, N. 1998, "The information use in a SME: its importance and some elements of influence.", *Small Business Economics,* no. 10, pp. 171-191.

Lye, J., Perera, H. & Rahman, A. 2005, "The evolution of accruals-based Crown (government) financial statements in New Zealand", *Accounting, Auditing and Accountability Journal,* vol. 18, no. 6, pp. 784-815.

Maitlis, S. 2005, "The social processes of organisational sensemaking", *Academy of Management Journal,* vol. 48, no. 1, pp. 21-48.

Maitlis, S. & Lawrence, T.B. 2007, "Triggers and Enablers of Sensegiving in Organizations", *Academy of Management Journal,* vol. 50, no. 1, pp. 57-84.

March, J.G. 1987, "Ambiguity and accounting: The elusive link between information and decision making", *Accounting, Organizations and Society,* vol. 12, no. 2, pp. 153-168.

Marriott, N. & Marriott, P. 2000, "Professional accountants and the development of a management accounting service for the small firm: barriers and possibilities", *Management Accounting Research,* vol. 11, no. 4, pp. 475-492.

Mauldin, E.G. & Ruchala, L.V. 1999, "Towards a meta-theory of accounting information systems", *Accounting, Organizations and Society,* vol. 24, pp. 317-331.

McAdam, R. 2000, "Quality models in an SME context: A critical perspective using a grounded approach", *International Journal of Quality and Reliability Management,* vol. 17, no. 3, pp. 305-323.

McAllister, D.J. 1995, "Affect- and cognition-based trust as foundations for interpersonal cooperation in organizations", *Academy of Management Journal,* vol. 38, pp. 24-59.

Mackintosh, N.B. & Scapens, R.W. 1990, "Structuration theory in management accounting", *Accounting, Organizations and Society,* vol. 15, no. 5, pp. 455-477.

McLarney, C. & Chung, E. 2000, "What happened is prologue: creative divergence and corporate culture fabrication", *Management Decision,* vol. 38, no. 6, pp. 410-419.

Merriam-Webster 2014, *, Dictionary and Thesaurus* [Homepage of Merriam-Webster], [Online]. Available: http://www.merriam-webster.com/ [2014, April 11].

Mia, L. 1993, "The Role Of Mas Information In Organisations: An Empirical Study", *The British Accounting Review,* vol. 25, no. 3, pp. 269-285.

Miller, C.C. 2005, "Sensemaking and entrepreneurship" in *The Blackwell encyclopedia of management*, eds. M.A. Hitt & R.D. Ireland, 2nd edn, Blackwell, Oxford, pp. 222-224.

Miller, P. & O'Leary, T. 1990, "Making accountancy practical", *Accounting, Organizations and Society,* vol. 15, no. 5, pp. 479-498.

Mills, J.H. 2003, *Making sense of organizational change,* Routledge, London.

Mitchell, F. & Reid, G.C. 2000, "Editorial. Problems, challenges and opportunities: the small business as a setting for management accounting research", *Management Accounting Research,* vol. 11, no. 4, pp. 385-390.

Morgan, G. 1983, "Social science and accounting research: a commentary on Tomkins and Groves", *Accounting, Organizations and Society,* vol. 8, no. 4, pp. 385-388.

Morgan, G. 1988, "Accounting as reality construction: Towards a new epistemology for accounting practice", *Accounting, Organizations and Society,* vol. 13, no. 5, pp. 477-485.

Mouritsen, J. 1996, "Five aspects of accounting departments' work", *Management Accounting Research,* vol. 7, no. 3, pp. 283-303.

Nandan, R. 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. 65-77.

National Statistics Office (Malta) 2014, *Gainfully Occupied Population: October 2013*, National Statistics Office (Malta), Malta.

Nayak, A. & Greenfield, S. 1994, "The use of management accoutning information for managing micro business" in *Finance and the small firm*, eds. A. Hughes & D. Storey, Routledge, London.

Parker, L.D. & Roffey, B.H. 1997, "Methodological themes - Back to the drawing board: revisiting grounded theory and the everyday accountant's and manager's reality", *Accounting, Auditing and Accountability Journal,* vol. 10, no. 2, pp. 212-247.

Perez de Lema, D.G. & Durandez, A. 2007, "Managerial behaviour of small and medium-sized family businesses: an empirical study", *International Journal of Entrepreneurial Behaviour and Research,* vol. 13, no. 3, pp. 151-172.

Perren, L.J., Berry, A.J. & Partridge, M. 1999, "The evolution of management information, control and decision-making in small growth-oriented service sector businesses: Exploratory lessons from four cases of success", *Journal of Small Business and Enterprise Development,* vol. 5, no. 4, pp. 351-361.

Perren, L.J. & Grant, P. 2000, "The evolution of management accounting routines in small businesses: a social construction perspective", *Management Accounting Research,* vol. 11, pp. 391-411.

Pierce, B. & O'Dea, T. 2003, "Management accounting information and the needs of managers: Perceptions of managers and accountants compared", *The British Accounting Review,* vol. 35, no. 3, pp. 257-290.

Reid, G. & Smith, J. 2002, "The bigger picture", *Financial Management,* January, pp. 24-26.

Reid, G. & Smith, J. 2000, "The impact of contingencies on management accounting system development", *Management Accounting Research,* vol. 11, pp. 427-450.

Richardson, S., Cullen, J. & Richardson, B. 1996, "The story of a schizoid organization: how accounting and the accountant are implicated in its creation", *Accounting, Auditing and Accountability Journal,* vol. 9, no. 1, pp. 8-30.

Roberts, J. & Scapens, R.W. 1985, "Accounting systems and systems of accountability - understanding accounting practices in their organizational contexts", *Accounting, Organizations and Society,* vol. 10, no. 4, pp. 443-456.

Romano, C.A. & Ratnatunga, J. 1994, "Growth stages of small manufacturing firms: the relationship with planning and control", *British Accounting Review,* vol. 26, pp. 173-195.

Roslender, R. 1996, "Relevance lost and found: critical perspectives on the promise of management accounting", *Critical Perspectives on Accounting,* vol. 7, pp. 553-561.

Roslender, R. 1990, "Sociology and management accounting research", *Journal of Business Finance and Accounting,* vol. 17, no. 4, pp. 351-370.

Ryan, B., Scapens, R.W. & Theobald, M. 2002, *Research method and methodology in finance and accounting,* 2nd edn, Thomson, London.

Sathe, V. 1983, "The controller's role in management", *Organizational Dynamics,* vol. 11, no. 3, pp. 31-48.

Scapens, R., Turley, S., Burns, J., Joseph, N., Lewis, L. & Southworth, A. 1996, *External Reporting and Management Decisions - A Study of their Inter-relationship in UK Firms,* CIMA Publishing, London.

Scapens, R.W. 2008, "Seeking the relevance of interpretive research: a contribution to the polyphonic debate", *Critical Perspectives on Accounting,* vol. 19, no. 6, pp. 915-919.

Schizas, E., Jarvis, R. & Daskalakis, N. 2012, *SMEs and their Advisers: Measuring Trust and Confidence*, ACCA report no. 127, Chartered Association of Certified Accountants, London.

Schultz, R.L. & Slevin, D.P. (eds) 1975, *Implementing operations research - management science*, Elsevier, New York.

Seligman, L. 2006, "Sensemaking throughout adoption and the innovation-decision process", *European Journal of Innovation Management,* vol. 9, no. 1, pp. 108-120.

Shank, J.K. & Govindarajan, V. 1993, *Strategic Cost Management: The New Tool for Competitive Advantage,* Free Press, New York.

Shapiro, D., Sheppard, B.H. & Cheraskin, L. 1992, "Business on a handshake", *Negotiation Journal,* vol. 8, pp. 365-377.

Sharifi, S. & Zhang, M. 2009, "Sense-making and recipes: examples from selected small firms", *International Journal of Entrepreneurial Behaviour & Research,* vol. 15, no. 6, pp. 555-570.

Shields, M.D. 1995, "An empirical analysis of firms' implementation experiences with Activity-based Costing", *Journal of Management Accounting Research,* vol. 7, Fall, pp. 148-166.

Sian, S. & Roberts, C. 2009, "UK small owner-managed businesses", *Journal of Small Business and Enterprise Development,* vol. 16, no. 2, pp. 289-305.

Silverman, D. 2005, *Doing qualitative rsearch,* 2nd edn, Sage, London.

Simons, R. 1990, "The role of management control systems in creating competitive advantage: New perspectives", *Accounting, Organizations and Society,* vol. 15, no. 1-2, pp. 127-143.

Slagmulder, R. 1997, "Using management control systems to achieve alignment between strategic investment decisions and strategy", *Management Accounting Research,* vol. 8, pp. 103-139.

Smith, M. 2011, *Research methods in accounting,* 2nd edn, Sage, London.

Solomon, J.F. & Solomon, A. 2006, "Private social, ethical and environmental disclosure", *Accounting, Auditing and Accountability Journal,* vol. 19, no. 4, pp. 564-591.

Steinthorsson, R.S. & Söderholm, A. 2002, "Strategic management as multi-contextual sensemaking in intermediate organizations", *Scandinavian Journal of Management,* vol. 18, pp. 233-248.

Strauss, A. 1987, *Qualitative analysis for social scientists,* Cambridge University Press, New York.

Strauss, A. & Corbin, J. 1998, *Basics of Qualitative Research,* 2nd edn, Sage Publications, Thousand Oaks, CA.

Strauss, A.L. & Corbin, J. 1994, "Grounded theory methodology" in *Handbook of qualitative research*, eds. N.K. Denzin & Y.S. Lincoln, Sage, London, , pp. 273-285.

Swieringa, R.J. & Weick, K.R. 1987, "Management accounting and action", *Accounting, Organizations and Society,* vol. 12, no. 3, pp. 293-308.

Tan, J. 2010, "Grounded theory in practice: issues and discussion for new qualitative researchers", *Journal of Documentation,* vol. 66, no. 1, pp. 93-112.

Taylor, S. 1999, "Making sense of revolutionary change: difference in members' stories", *Journal of Organizational Change,* vol. 12, no. 6, pp. 524-539.

Thiel, C.E., Bagdasarov, Z., Harkrider, L., Johnson, J.F. & Mumford, M.D. 2012, "Leader ethical decision-making in organizations: strategies for sensemaking", *Journal of Business Ethics,* vol. 107, pp. 49-64.

Thomas, J.B., Watts Sussman, S. & Henderson, J.C. 2001, "Understanding "strategic learning": linking organizational learning, knowledge management and sensemaking", *Organization Science,* vol. 12, no. 3, pp. 331-345.

Tillmann, K. & Goddard, A. 2008, "Strategic management accounting and sense-making in a multinational company", *Management Accounting Research,* vol. 19, pp. 80-102.

Tomkins, C. 2001, "Interdependencies, trust and information in relationships", *Accounting, Organizations and Society,* vol. 26, pp. 161-191.

Tomkins, C. & Groves, R. 1983, "The everyday accountant and researching his reality", *Accounting, Organizations and Society,* vol. 8, no. 4, pp. 361-374.

Tricker, R.I. 1979, "Research in accounting - purpose, process and potential", *Accounting and Business Research,* vol. 10, Winter, pp. 3-15.

Vancil, R.F. 1979, *Decentralisation - managerial ambiguity by design,* Dow Jones-Irwin, Homewood, Il.

Velez, M.L., Sanchez, J.M. & Alvarez-Dardet, C. 2008, "Management control systems as inter-organizational trust builders in evolving relationships: evidence from a longitudinal case study", *Accounting, Organizations and Society,* vol. 33, no. 7/8, pp. 968-994.

Vosselman, E. & van der Meer-Kooistra, J. 2009, "Accounting for control and trust building in interfirm transactional relationships", *Accounting, Organizations and Society,* vol. 34, no. 2, pp. 267-283.

Webb, E.J. 1996, "Trust and crisis" in *Trust in Organizations—Frontiers of Theory and Research*, eds. R.M. Kramer & T.R. Tyler, Sage Publications, Beverly Hills, pp. 288-301.

Weick, K.R., Sutcliffe, K.M. & Obstfeld, D. 2005, "Organizing and the process of sensemaking", *Organization Science,* vol. 16, no. 4, pp. 409-451.

Weick, K.R. 1993, "The collapse of sensemaking in organization: the Mann Gulch disaster", *Administrative Science Quarterly,* vol. 38, pp. 628-652.

Weick, K.R. 1995, *Sensemaking in Organizations,* Sage, Thousand Oaks, CA.

Westley, F. 1990, "Middle managers and strategy: The microdynamics of inclusion", *Strategic Management Journal,* vol. 11, pp. 337-351.

Williams, J.J. & Seaman, A.E. 2002, "Management accounting systems change and departmental performance: the influence of managerial information and task uncertainty", *Management Accounting Research,* vol. 13, pp. 419-445.

Wilson, R.M.S. 1995, "Strategic management accounting" in *Issues in Management Accounting*, eds. D. Ashton, T. Hopper & R.W. Scapens, 2nd edn, Prentice Hall Europe, Harlow, Essex, .

Wouters, M. & Verdaasdonk, P. 2002, "Supporting Management Decisions with Ex ante Accounting Information", *European Management Journal,* vol. 20, no. 1, pp. 82-94.

Zucker, L.G. 1986, "Production of trust: Institutional sources of economic structure,1840-1920." in *Research in Organizational Behavior (Vol 8)*, eds. B.M. Staw & L.L. Cummings, JAI Press edn, Greenwich, CT, , pp. 53-111.