



Editorial

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

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

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1. Introduction

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

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

2. Problems and challenges

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

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

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