Financial and Non-financial Information

Transfer and Communication within Small and Medium Enterprises

A dissertation submitted
by
Mengdi (Mandy) Liu
in partial completion of the requirements of
a Master of Commerce (ACIS) degree
University of Canterbury, New Zealand, 2012
Abstract

This participant-observation study explores the process of gathering and evaluating both financial and non-financial information and communication and transfer of that information within a medium-size Electrical Company in Christchurch, New Zealand. The previous literature has established the importance and the main characteristics of small and medium enterprises (SMEs), mainly studying manufacturing companies. However, there has been little research done in New Zealand on the overall communication process and the financial and non-financial information usage in a small-medium enterprise.

Face-to-face interviews were carried out with all the office employees and two partners, along with a ten month participant-observation in the Electrical Company in order to understand how financial and non-financial information is communicated and processed in an SME. Also, research in an SME that has overcome the 2008 economic depression and several major earthquakes allows a deep understanding of lessons learned and what is valued by the Electrical Company. The research has found characteristics of this SME similar to those that have been mentioned in previous literature. However, the partners of the Electrical Company understand the importance of financial management and use financial information extensively to ensure the business expenses are under control. Moreover, the partners use more than just financial information to manage the company. They gather non-financial information through talking to their accountant, their customers and people in the same industry and they keenly follow the news on the rebuilding of Christchurch.
Acknowledgements

I am sincerely thankful for my family that has supported me; I could never have completed this thesis without them. I would like to thank my supervisors, Associate Professor Beverley Lord and Dr Keith Dixon who have continuously encouraged me and guided me when I was not sure what I was doing. Beverley has been a kind supervisor and a dear friend who has given me useful suggestions whenever I need them. I really appreciated Keith who has continually guided me to think outside of the box and analyse critically.

I am grateful for the kind and lovely employees and partners of the Electrical Company that allowed me to carry out this research in their business and have given me their precious time to carry out this research.
# Contents

Abstract ........................................................................................................................................... 2  
Acknowledgements ....................................................................................................................... 3  
Contents .......................................................................................................................................... 4  
1. Introduction ..................................................................................................................................... 6  
   1.1 Definition of Small and Medium Enterprises ......................................................................... 6  
   1.2 Distinguishing characteristics of SMEs ................................................................................. 7  
   1.3 Summary of This Research .................................................................................................. 8  
2. Prior Research .............................................................................................................................. 9  
   2.1 Characteristics of SMEs ....................................................................................................... 10  
   2.2 Management Style and Behaviour in SMEs ....................................................................... 11  
   2.3 Accounting Usage in SMEs ............................................................................................... 13  
   2.4 Information Systems and Communication within SMEs .................................................... 14  
   2.5 External Environmental Effects .......................................................................................... 16  
      2.5.1 Business Environment ................................................................................................ 16  
      2.5.2 Natural Disasters ......................................................................................................... 17  
   2.6 Methods Used in Prior SME Research ............................................................................... 17  
   2.7 Theories used in Previous Literature ............................................................................... 19  
3. Research Questions .................................................................................................................. 22  
   3.1 Research Methodology and Methods .................................................................................. 23  
   3.2 Investigation at the Research Site: Electrical Company .................................................... 25  
   3.4 Limitation and Assumptions ............................................................................................... 29  
4. Research Findings – Descriptive Analysis .............................................................................. 31  
   4.1 Electrical Company Structure ............................................................................................ 31  
   4.3 Cost Information Used ........................................................................................................ 35  
   4.4 Job Order Cost Accounting ................................................................................................ 37  
      4.4.1 Material and Labour Costs .......................................................................................... 38  
      4.4.2 Generator Ordering ..................................................................................................... 41  
   4.5 Financial Information Used .................................................................................................. 42  
   4.6 Non-financial Information Used .......................................................................................... 45  
   4.7 Information Technology Used ............................................................................................. 48  
   4.8 Information Flow ................................................................................................................ 50  
      4.8.1 Information flow within the company ........................................................................ 50  
      4.8.2 Information flow with customers .............................................................................. 51  
      4.8.3 Information flow with suppliers ................................................................................. 51
5. Interpretive Analysis and Synthesis .................................................................53
   5.1 Characteristics of SMEs ...........................................................................53
   5.2 Management Style and Behaviour in SMEs ........................................56
   5.3 Accounting Usage in SMEs ....................................................................57
   5.4 Information Systems and Communication within SMEs .....................59
   5.5 External Environment Effects .................................................................61
      5.5.1 Business Environment .....................................................................61
      5.5.2 Natural Disasters ............................................................................61
   5.6 Relationships within the Electric Company and between It and ‘Others’...63
6. Conclusion .......................................................................................................66
   6.1 Contributions of this Research ...............................................................68
   6.2 Future Research .......................................................................................70
7. References .........................................................................................................72
Appendix: Interview Guide .................................................................................78
   Partner A ........................................................................................................78
   Partner B ........................................................................................................78
   Service Manager ............................................................................................79
   Tendering/project estimator ..........................................................................79
   Office Manager ..............................................................................................79
   Front office clerk ............................................................................................80
1. Introduction

Small and medium enterprises (SMEs) have been studied all around the globe in recent decades (see for example, Laitinen, 2008; Kennedy & Tennent, 2006; McMahon, 2001a, b; Spillan & Parnell, 2006; Williams, 2007). However, there have been few studies about the information and communication process in small businesses, especially in smaller countries, such as New Zealand. Since SMEs make up a large part of New Zealand’s economy, this is an ideal place to research information flow and business practices of small businesses. This is mirrored elsewhere, as exemplified by Chiao et al. (2006) and Perez-Sanchez et al. (2003), who report that the contribution of SMEs to the economies of both developing and developed countries has grown significantly. This research inquires into the characteristics and management behaviour in an SME in Christchurch, New Zealand, called The Electrical Company in the thesis, and compares the findings with previous studies. Moreover, looking into the information transfer and communication within an SME, and between it and its suppliers and customers, affords an in-depth understanding of both financial and non-financial information usage in the communication and decision-making process. Participant-observation is the method used. In this chapter, the study is introduced including definition of small and medium enterprises, and distinguishing characteristics of small and medium enterprises.

1.1 Definition of Small and Medium Enterprises

According to the Ministry of Economic Development of New Zealand, definitions of small and medium enterprises (SMEs) vary around the world. Firm size can be measured by number of employees, sales figures, assets and industrial classification (Ministry of Economic Development, 2005). This variation makes it difficult to make comparisons on the growth and contribution of SMEs to the economies in different countries, and to
compare studies of SMEs for research purposes. However, the Ministry of Economic Development claims there is general agreement about the basic characteristics of small firms in Organization of Economic Cooperation and Development (OECD) countries. The three most recognisable characteristics are having a small share of the market; being legally independent; and ownership and control being held by a single individual or group of individuals (Perez-Sanchez et al. 2003).

To further specify the uniqueness of SMEs, in the 1980s the New Zealand government established the criteria that small businesses have less than 20 employees (Devlin, 1984); are personally owned and managed; and are not part of a larger business or group of companies with access to managerial expertise. The owner/operator makes most management decisions, and does not have specialist staff at management level. Medium-sized enterprises have 20 to 49 employees and have similar characteristics to small enterprises (Ministry of Economic Development, 2005).

1.2 Distinguishing characteristics of SMEs

SMEs have distinguishing characteristics in comparison to large, multinational organisations. As they are often owned and operated by the same person and have few employees, they may lack the resources and competent skills they might need to prosper (Perez-Sanchez et al. 2003; Spillan & Parnell, 2006). Much of the previous literature has looked into the manager’s style and behaviour in SMEs, finding that single owner-managers tend to create barriers that prevent other workers from collaborating, and thus make it difficult to expand. The owner-managers are usually reluctant to relinquish control and let others make decisions. Studies have also found that, unlike large organisations, not all small businesses produce financial reports, as they have no legal obligation to do so (see for example, Laitinen, 2008;
Payne et al. 2009; Perez-Sanchez et al. 2003; Spillan & Parnell, 2006; Williams, 2007). This raises questions as to how the owner-managers assess the financial condition of their businesses. Researchers have found that SMEs that do keep financial records and reports have a tendency to perform better than those that do not (see for example, Collier, 2005; Dyt & Halabi, 2007; Greenhalgh, 2000; Jennings & Beaver, 1997).

1.3 Summary of This Research

This research is based in a medium size electrical service providing company in Christchurch, New Zealand. It has provided an opportunity for in-depth participant observation onsite over a ten month period, including detailed interviews with all the key employees and the two partners of the company.

The Electrical Company was established in the early 1960s and provides mainly electrical contracting services to the Canterbury region. The corporate philosophy is one of dedication to “high quality workmanship and building excellent customer relationships” (Company Profile, online). In 2006 the ownership of the Electrical Company passed to two men who have a lot of experience in the electrical contracting and servicing industry. One is responsible for the electrical contracting and customer relations side of the business, while the other does most of the installation and organising the ordering of heat-pumps. Electrical Company has now expanded its field of electrical services to include air-conditioning, renewable energy, data and security, and generators. The company has evolved its strategy into providing full “one-stop-shop” electrical and mechanical services to the clients’ requirements (Company Profile, online). Electrical Company has successfully finished various big projects over the years, such as wiring a major Christchurch hotel, a bank, a newspaper and a publishing business. However, due to the economic downturn worldwide in late 2008, the company made large cuts to its workforce and tried to deliver cost effective
prices to their customers. At present, the company has around twenty onsite electricians and seven office workers including both owners.

This research continued to explore the similarities and differences between the SMEs in New Zealand and the SMEs of other countries. Comparison with prior literature in the small and medium enterprises’ sector with the findings at the Electrical Company contributes to the under-researched area of service-providing SMEs. Using the theory of symbolic interactionism, this thesis explores the meaning of conversation and communication between people and the meanings they convey in their daily action.

The thesis starts by reviewing research on SMEs around the globe, leading to the research questions and methodology of this research. Then the Electrical Company’s structure and the flow of both financial and non-financial information is described in the section on research findings. The findings are then interpreted and analysed in the next section, comparing the previous literature with the findings at the Electrical Company. The thesis finishes with the contribution of this research and future research that could be carried out in the SME sector.

2. Prior Research

The previous literature reviewed in this section has identified the main characteristics of SMEs, which are lack of structure and standardisation. Since many SMEs are owned and operated by the same person, management style and behaviour greatly affect the survivability of SMEs. With lack of accounting knowledge and financial management skills, the owner-managers are usually reluctant to produce and use accounting information, which in turn could potentially affect their ability to raise capital. Prior research has also mentioned that SMEs use an unstructured information process and informal interactions when gathering information as they require timely information for effective decision
making. External environmental factors, such as the economy and natural disasters, have a major influence on SMEs as they may only be able to adapt to change by altering their business structure or reducing the number of employees.

There has been an increasing amount of research carried out around the globe looking at the business development of the SME sector in the past decade, since SMEs make a significant contribution to the world’s economy (see for example, Laitinen, 2008; Payne et al. 2009; Perez-Sanchez et al. 2003; Spillan & Parnell, 2006; Williams, 2007). Perhaps the first reference to the term SMEs is in the study by Clarke (1972). He explores the determinants of SMEs’ success and survivorship. Clarke (1972) suggests that small businesses should be in control of the owner, and that owner-managers should continue to improve their expertise. Since then, according to Williams (2007) and Lester et al. (2008), research in the SME sector can be divided into four categories: the characteristics of SMEs, the management style and life cycle of SMEs, the information systems and communication within SMEs, and the accounting usage of SMEs. These categories are used to order the literature reviewed in the rest of this section.

2.1 Characteristics of SMEs

According to the Ministry of Economic Development (2005), in New Zealand SMEs account for 40.7% of the economy’s total output and, especially due to the geographic size of New Zealand, SMEs have a better chance of survival than large companies. SMEs have less structure and usually a lack of standardisation, and this allows a more flexible production process in comparison to large enterprises and corporations. For example, in the longitudinal field study of Collier (2005), the owner-controller managed all financial aspects of the business on his own. As the owner was very busy, he created social meetings in his own home, pubs and restaurants with employees, suppliers and customers in order to have a free flow of
ideas between different parties for overcoming difficulties or meeting new market opportunities (Collier, 2005).

Several characteristics of SMEs are identified as creating barriers and making difficulties for their expansion. Kennedy and Tennent (2006) find the major causes of failure of SMEs involved in building services in Australia are a lack of marketing and management skills and a lack of formal planning. In particular, in many SMEs during the start-up phase, the managers underestimate the cost of operations and fail to manage cash flow. Furthermore, Payne et al. (2009) find that most failed new entrant SMEs have a lack of understanding of the business environment and competition in the same industry. This makes it hard for them to acquire a position in markets where there are already structured small businesses. To overcome these barriers, Williams (2007) suggests that SMEs should continue to plan and implement learning processes in order to cope with major change and challenges the SME faces. Carnall (2003) proposes modes of learning for organisations that are concerned with change: “learning by doing - an internal process of trial and error and experimentation; learning by use - learning from the external environment, including other supply chain members and competitors; and learning from failure - recognising that mistakes happen and that one can learn from the experience” (p. 26). Learning should be promoted and encouraged as it not only decreases SMEs’ failure rate, it also improves competitive advantage (De Geus, 1988; Williams, 2007).

2.2 Management Style and Behaviour in SMEs

Many researchers have suggested that SMEs’ survivability mainly relies on management behaviour and conditions of the environment that the SME operates in. According to Jennings and Beaver (1997), SMEs’ performance largely depends on the owner-manager’s personal preferences, prejudices and attitudes towards decision making for the business.
Perez-Sanchez et al. (2003) claim that SMEs’ success factors are: clearly communicating the business strategy, positive attitudes of managers/owners and learning growth of the business, all of which enable an SME to improve its chances of survival and be better prepared for the unpredictable future. The survey of Spillan and Parnell (2006) shows that SMEs recognise the importance of business performance, both internally and externally. This includes learning and innovation improvement, which has a substantial positive effect on a company’s performance.

The survey by Kennedy and Tennent (2006) compares the business practices and attitudes of small business managers in the urban and rural areas of Australia, finding larger failure rates in urban areas than in rural areas. However, businesses that have survived in the urban area have an estimated yearly turnover 50% higher than those in rural areas; and the businesses in urban areas have better management practices, such as planning, obtaining professional financial advice and controlling business activities (Kennedy & Tennent, 2006). Lester et al. (2008) find that in order for SMEs to survive and succeed, their managers should have expertise in the market in which they operate; and they also need to be able to understand information about cost control and managing risks. Furthermore, O’Regan et al. (2005) suggest that it is essential for managers to understand the business’s financial information and opportunities in the market place, which enable the business to achieve sustainable competitive advantage and higher performance.

Many studies identify that SMEs’ owners have severe difficulties in communicating their strategy to the employees, and in understanding the need to recruit people with competitive knowledge and skills; also there is a lack of training and encouragement of growth within the business (Laitinen, 2009; Kennedy & Tennent, 2006; Perez-Sanchez et al., 2003; Williams, 2007). Particularly, most small businesses are owned and operated by the same person, and the owner-manager can find it hard to let go of decision making and delegate responsibilities.
(Barber et al. 1989). In the multinational packaging equipment supplier that Collier (2005) studied, the single owner used personalised spreadsheet models to control the company and did not employ any internal accountant to help out. This management style and behaviour creates large barriers to workers collaborating and to expansion of the business (Ashkenas, 2000).

2.3 Accounting Usage in SMEs

Many small businesses are both owned and operated by the same person who may have little accounting knowledge. Most of these business owners keep accounting records only for tax purposes. They are not legally required to prepare full accounting reports for their SMEs. (Dyt & Halabi, 2007; Greenhalgh, 2000). Kennedy and Tennent (2006) explain that the reason for the owner-managers’ reluctance to produce or use accounting information is that these owners “do not always have the necessary business acumen and skills, especially financial management and people management skills to successfully manage their business” (p. 55). Kennedy and Tennent (2006) also found that small businesses often “fail to keep simple financial records or keep poor records, so that when they need capital to survive or expand they are unable to access capital from traditional lending sources as the business cannot demonstrate its financial viability” (p. 57). In Collier’s (2005) case study, the owner-operator used a professional firm for financial advice rather than employing an internal accountant for the company. He believed that an internal accountant “would be tempted to invent work for the company” (p. 328).

Contrary to the findings of these previous studies about a lack of competent accounting skills and use of financial information in SMEs, there is some evidence that owner-managers do use accounting information to a certain extent (Collier, 2005; Dyt & Halabi, 2007; Greenhalgh, 2000). Greenhalgh (2000) finds the manager of a small company was expanding
the use of budgets and product costing to plan costs and using turnover to determine the growth rate. The manager was using more traditional management accounting techniques, rather than adopting new management accounting systems, such as the balanced scorecard and activity-based costing. This was because these new techniques require more time and technically competent personnel. Moreover, Dyt and Halabi (2007) find that not all small businesses produce accounting reports, but if they do, profit and loss reports are considered to be more useful. This study raises a number of questions, such as, “if the business does not use accounting reports, how do the owners measure their business performance?” and “do the owners choose not to produce accounting reports because there is no perceived benefit?” (Dyt & Halabi, 2007, p. 6).

2.4 Information Systems and Communication within SMEs

According to Preston (1986), managers have to make fast responses during decision making. They therefore make use of extensive informal information as formal information is more likely to be out-of-date by the time it is available. Perez-Sanchez et al. (2003) also conclude that, since SMEs need rapid information for decision making in their daily activities, they often have “loose and informal working relationships” (p. 72) in comparison to large companies.

Tenhunen et al. (2002) claim that further research not only needs to understand what kind of activities SMEs should undertake in order to achieve their desired goal, but also there should be more research to find out how SMEs gather and transfer their information to support their decision making.

In a participant observation study in one of the production divisions of a large organisation in England, Preston (1986) finds that, although there were formal information systems providing reports to the factory, most of the factory managers tended to have an informal
interaction and conversational relationship, such as talking to each other directly, in order to gather information. Using social construction theory (Berger & Luckmann, 1966) and symbolic interactionism (Blumer, 1969), Preston (1986) demonstrates that the informal methods used by managers to process and understand information are “more appropriate as interpretations of information processes than the models typically adopted by information specialists” (p. 522). Moreover, Preston (1986) suggests that formal information should be merely a complement to any informal information, as the factory managers believe that the formal documents are untimely and inadequate to understand the full picture on the factory floor, whereas managers who are directly involved on the factory floor need immediate and detailed information to make the most accurate decisions. Although Preston’s (1986) study was not in the setting of a small business, other small business research resonates with his study, as small businesses lack standardisation, and have more unstructured information processes and informal interactions when it comes to information gathering (see for example, O’Regan et al. 2005; Perez-Sanchez, et al. 2003; Williams, 2007).

Cragg et al. (2002) also studies information systems in small firms in the United Kingdom, mainly looking at the technology development and implementation of SMEs. The researchers surveyed 256 small manufacturers and found the CEO’s commitment to and knowledge of information technology (IT) has a big influence on the company’s IT alignment. Cragg (2006) further suggests that adopting a new and tailor-made information system could raise the company’s competitiveness; and in order for small businesses to improve their business performance using IT, the business must “recruit, train and deploy appropriate staff and ensure technical, business and personal skills meet the needs of the organization” (p. 6).

Although previous studies have pointed out differences in information communication within SMEs compared to large organisations, there is a lack of research focused on how information is being communicated and processed in small businesses. This research seeks to
identify what type of financial and non-financial information flows among people in a medium-sized business, and how the information is used in the business, such as for decision making, performance evaluation and control.

2.5 External Environmental Effects

The size of small and medium enterprises means that they have less control over what is going on around them, and have to adapt to the external environment. Studies reviewed below have found that the main strategy SMEs undertake in an economic depression is retrenchment to survive in the short-term. There are only a few studies on the recovery of small business after major natural disasters. With the lack of financial statements prepared by the SMEs the owners had a difficult time in getting reimbursement and financial help for their businesses.

In the last two years Christchurch, New Zealand, has been suffering seismic activities, including four earthquakes magnitude six and above in September 2010, February 2011, June 2011 and December 2011. How these natural disasters have impacted SMEs will also be ascertained.

2.5.1 Business Environment

Covin and Slevin (1989) claim that “general economic conditions as well as fiscal and regulatory influences are commonly acknowledged as determinants of small firm creation and success” (p.75). SMEs’ viability and performance are largely affected by their surroundings such as the industry setting, competition, business climate and exploitable opportunities (Covin & Slevin, 1989). With economic downturns and recessions, many small and medium businesses seek opportunities to restructure and reposition themselves for survival (Covin & Slevin, 1989; Lau et al. 2004). According to Kitching et al. (2009), the
common strategy of most SMEs in recession is retrenchment as owner/managers focus their business on short-term survival, by reducing costs, rather than gaining more revenue. However, Lau et al. (2004) and Robson and Bennett (2000) suggest that SMEs should perceive recession as an opportunity rather than a threat as they could further enhance their “innovation, product and service quality, and their ability to create and maintain flexible, organizational structures, given the dynamic external environment they face” (p. 227).

2.5.2 Natural Disasters

In an interview study looking into the recovery of small businesses after a large disaster, Hurricane Katrina in the Gulf Coast of the United States, Runyan (2006) found the barriers to recovery for SMEs included “lack of access to capital; cash flow; communication; employees” (p. 23). Runyan (2006) claim that many small businesses relied on cash flow from day-to-day operational capital, so these businesses suffered from a shortage of money to continue and recover from this major crisis. Since many small businesses do not require preparation of financial statements, many of the business owners lacked financing options. Therefore, they could not obtain sufficient funds through banks or the government, leaving them incurring large amounts of costly debt (Runyan, 2006). Moreover, although some business owners had prepared disaster plans, their ability to minimise damages “may not have prevented the loss of inventory or damage to equipment (Runyan, 2006, p. 21).

The Electrical Company’s response to both economic and natural disaster effects was explored in this study and the findings contribute to this sparse literature.

2.6 Methods Used in Prior SME Research

Small businesses have been around since the civilisation of human beings, but research in this area has become popular in the last two decades (Chiao et al. 2006; Jennings & Beaver, 1997;
Due to the size and variety of industries that SMEs are involved in, many researchers carry out their research using quantitative methods, such as questionnaires, surveys and gathering data samples for analysis, particularly looking at small businesses’ use of financial information and management (see for example, Laitinen, 2008). However, several of these studies have suggested limitations of these methods, for example, McMahon (2001) finds little relationship between the business growth and financial information usage in manufacturing SMEs in Australia, and he believes that using a large sample size and statistical analysis can help to understand the patterns. Thomas and Evanson (1987) look at the relationship between financial ratio usage and the success rate of small pharmaceutical businesses in the United States of America (USA) using a mailed questionnaire. They find there is no substantial relationship between the two factors; rather, the small pharmacies’ survival is dependent on the environment they operate in. Thomas and Evanson (1987) acknowledge that using quantitative research has its limitations as the study relies on the owners’ interpretation of the questions and self-reported data, which makes it difficult to determine the accuracy of the data. Similar limitations are raised in several other studies using surveys and secondary data gathering. In particular, Payne et al. (2009) claim that “a secondary analyst has no ability to improve upon many of the uncertainties often associated with: sampling, question development, device design, pretesting and pilot testing are all beyond any control of the secondary research” (p. 436). Mintzberg (1979) also suggests that collecting “quantitative data from a distance without anecdote to support them, will always have difficulty explaining interesting relationships” (p. 587).

Although much research in SMEs has been carried out using quantitative methods, some have used qualitative methods, such as case studies, literature reviews and interviews looking into SMEs’ performance measurement systems (for example, Collier, 2005; Forsman, 2008; Tenhunen et al. 2002; Williams, 2007). Cocca and Alberti’s (2009) review of the literature
assesses the tools that SMEs need for developing their tailor-made performance measurement systems by comparing the measures suggested by previous literature. The researchers encourage others to apply the tools in real settings to test their possibilities. In his longitudinal field study Collier (2005) engages himself in the life cycle and growth stage of a multinational firm and compares the reality of the control system within the firm to previous literature. Myers and Newman (2007) also suggest that carrying out qualitative interviews in information system research could enhance the interviewer’s understanding of the actual process of information usage within the company and the interviewer could observe differing attitudes and ask for further examples when asking open-ended and flexible questions. Moreover, Cragg et al. (2002) suggest further studies could use different methods, such as case studies or field experiments, to examine the usefulness of IT implementation of SMEs. By using qualitative research methods, the researcher is able to closely observe interactions within the organisation and ask questions directly to the relevant people to clear up any vague or incomplete answers (Forsman, 2008; Tenhunen et al. 2002; Collier, 2005).

2.7 Theories used in Previous Literature

There has been very little explicit theory used in previous literature to explain the phenomena and interactions in SMEs. Mostly, researchers have implied use of instrumental theories based on neo-classical economics and rational systems approaches. However, there are some significant exceptions. In the study by Collier (2005), Simons’ (1995) four types of management control system, namely belief, boundary, diagnostic control and interactive control systems, were used to describe and explain the intertwined relationships between power and the control system used by the entrepreneur owner. However, Collier (2005) stated that “his study did not address informal control processes such as group norms, socialisation and culture” (p.324). Preston (1986) used social construction theory (Berger &
Luckmann, 1966) and symbolic interactionism (Blumer, 1969; Denzin, 2004) in his study. Berger and Luckmann (1966) devise social construction theory to explain the ways people think about and use categories to structure their experience and analysis of the world. An institution is formed when “any action that is repeated frequently becomes cast into a pattern” (p. 43), which becomes a habit of action and “may be performed again in the future in the same manner and with the same economical effort” (p.43). Berger and Luckmann (1966) also believed that society is produced by many and is “an objective reality” (p. 48) that requires legitimating and justification.

Denzin (2004) claims that “symbolic interaction refers to the underlying linguistic foundations of human group life, just as the word interaction refers to the fact that people do not act toward one another, but interact with each other” (p. 82). Mead was an early proponent of symbolic interactionism. He believed that humans associate through symbolic interaction, which involves interpretation and so the conveying of meaning to another person (Blumer, 1969). It is a formative and developing process in which “established patterns of group life exist and persist only through the continued use of the same schemes of interpretation” (Blumer, 1969, p. 67). Blumer (1969) gives the root assumptions of symbolic interactionism as:

- Human beings act toward things on the basis of the meanings that the things have for them;
- The meanings of things arise out of the process of social interaction;
- These meanings are handled in, and modified through, an interpretative process used by the person in dealing with the things he encounters;
- Human beings created the worlds of experience which they live (p. 2).

Therefore, in personal behaviour and interactions with each other, people make
interpretations and act in response.

In Preston’s (1986) research of one of the divisions in a large manufacturing company, he used symbolic interactionism to explain the relationship between individuals and the way they respond towards things, such as events, situations, problems and ideas, leading to the social order within the division. These “things in themselves have no inherent meaning, but rather, are socially derived through successive interactions” (p. 525). This interaction and sharing of meanings creates “shape to working arrangements and hence the social order” (p. 525). Preston (1986) found the process of informing of the managers was twofold. Firstly, they informed each other through informal interaction; and, secondly, they kept personal records and gathered information through observation.

Both theories explained the formation of human society and the way people interact with each other to make sense of their surroundings and actions. By using these two theories to analyse how humans interact and inform each other, I could understand and interpret what I saw at the Electrical Company, as the partners and employees use extensive interpersonal and informal communication processes to operate the business.
3. Research Questions

Previous research has been carried out in larger countries around the world, such as the United Kingdom, USA and Australia, which have quite different definitions of small and medium enterprises in comparison to New Zealand: as these countries are bigger in population size, their definition of small business sizes are also larger than New Zealand’s (O’Regan, et al. 2005; Dyt & Halabi, 2007). This research contributes to the under researched SME section by studying an SMES in a small country.

SMEs have several unique characteristics in comparison to large corporations, such as lack of expertise and formal training, which creates large barriers for them to survive and succeed (Kennedy & Tennent, 2006). Due to lack of resources and the owner also being the manager, SMEs’ growth is largely dependent on the skill of one particular person, which often is the reason that small businesses find it hard to compete with larger ones (Laitinen, 2009). Since there is no enforcement on SMEs to prepare full financial information on the business, the owner-managers rarely do so and, according to previous studies, the small business owners find profit and loss statements are more useful than balance sheets (Dyt & Halabi, 2007). SMEs do not have a formal structure like large companies as they have fewer employees and divisions, which enables them to transfer information more informally, such as through casual conversations (Preston, 1986). However, these findings have been only been confirmed in larger countries, whereas this research sought to confirm or contrast the findings in a small country.

Much of the literature has focused on manufacturing firms and there has been little research in the service and retailing industries when looking at the financial information usage of SMEs (Collier, 2005; McMahon, 2001a,b; 2001; Preston, 1986; Robson & Bennett, 2000). This research takes a step towards filling this gap by researching in the service sector.
Dyt and Halabi (2007) and O’Regan et al. (2005) have called for further research using in-depth face-to-face interviews and longitudinal studies that enable researchers to have better information access in order to carry out more insightful studies of SMEs in different countries and industries. Therefore, this research, based in New Zealand, will look at the information communication within a medium-sized service business. The research questions are:

- How do people communicate and inform themselves and each other in a medium-sized service firm?
- How is accounting information, financial and non-financial, being used for decision making?
- What obstacles are there to communication?
- What other types of information are communicated and which ones are given more importance?
- How has the environment, in particular the natural disaster of earthquakes, affected the company’s business?
- What similarities and differences are there between a medium-service firm in a smaller country in comparison to the previous studies in larger countries?

### 3.1 Research Methodology and Methods

My metatheoretical assumption about ontology is interpretivism, which holds that reality exists with both subjective and objective characteristics (Weber, 2004), and that facts are products of social interactions between the researcher and the participants (Klein & Myers, 1999). As I hold interpretivist and interactionist assumptions of the social world, I emphasise observation, awareness of linguistic cues, and paying close attention to details (Chua, 1986).
As an interpretivist and interactionist, I believe knowledge can be obtained through interactions between people and is based on people’s lived experience (Weber, 2004), and I use social construction and symbolic interactionism theories to understand how social structure is created (Chua, 1986; Berger & Luckman, 1966; Blumer, 1969; Denzin, 2004). Denzin (2004, p. 83) explained that, “interactionists prefer to write texts that remain close to the actual experiences of the people they are writing about and instead of asking ‘why’ questions, they ask ‘how’ questions.”

Because of my interpretivist and interactionist view, I have gained access and deeper knowledge through qualitative research, in order to explain the financial and non-financial information communication and transfer within a SME. According to Yin (1994), a case study is most appropriate for my research question, as case studies focus on contemporary events and are best suited for how and why research questions. Denzin (2004) also says that interactionists should use a qualitative approach, such as interviews and participant observation, to construct an in-depth research. I have conducted a case study of a particular medium-size service business using participant observation, unstructured interviews, and a few semi-structured interviews when there were vague areas I needed to clear up. I have also gathered supplementary evidence from the company’s documentation (Bryman & Bell, 2007).

Using symbolic interactionism, human interaction can be explained through interpretation of symbols, such as words and documentation, which enable the humans to create meaning and act upon the sense of meaning that was created through the process of forming, learning and transmitting (Preston, 1986).
3.2 Investigation at the Research Site: Electrical Company

I gained access to the Electrical Company through my part-time employment there. During the past ten months, I have carried out participant-observational research in the Electrical Company. I have closely examined and made sense of the financial and non-financial information communication and transfer process within the company, and with its suppliers and customers. I am working alongside one of the partners closely, as his personal assistant. He has allowed me to observe his work, and how he informs himself and transfers information to others when he needs jobs done. I have access to how people in the business communicate with its customers, as I am partially responsible for the selling of generators. I have worked with the project analyst to tender for and analyse the cost of projects, and so have knowledge of how the company deals and communicates with their suppliers. I have observed and asked questions of the employees in the office about their duties and how they carry out their work on a daily basis. At the end of each day, I noted down what I had seen and interesting matters that had happened during the day. Close observation of each person’s actions and behaviour within the company has allowed me to understand the communication process and how informants go about carrying out their duties. According to Rosen (1991), participant-observation means the researcher is fully involved in the day-to-day running of an organisation, which allows the researcher to understand an insider’s point of view through observing behaviour, listening to conversations and asking questions.

I have asked unstructured questions when I was requested to carry out a project or job that I have not done before. I observed and asked about the purpose of the projects that were carried out, and the results at the end of the projects. During casual conversations, such as at morning tea break and lunch time, I have asked about the work experiences of the
interviewees, and how and why they carry out their individual tasks. I noted the findings down after the conversations.

Semi-structured interviews were carried out with several of the members of the Electrical Company, namely, both owners of the company; the Service Manager, the Project Estimator, the Office Manager, and the Front-Office Clerk (see Table 1). I also talked to Partner B’s wife who looks over the accounts for the partners. I am Partner B’s assistant. The semi-structured interviews lasted from 15 to 45 minutes. They were recorded and transcribed.

**Table 1: Interviewees**

<table>
<thead>
<tr>
<th>Job Title</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner A</td>
<td>Heat-pump service and installation, cash flow handling</td>
</tr>
<tr>
<td>Partner B</td>
<td>Customer relations, commercial building service and consultant for generators.</td>
</tr>
<tr>
<td>Service Manager</td>
<td>Organising electricians’ daily tasks and training. Customer relations and commercial projects.</td>
</tr>
<tr>
<td>Project Estimator</td>
<td>Tendering projects, estimating job costs and purchasing materials</td>
</tr>
<tr>
<td>Office Manager</td>
<td>Invoicing, accounts receivables, payables and bank reconciliation.</td>
</tr>
<tr>
<td>Front-Office Clerk</td>
<td>Answering the phone, allocating jobs for the electricians and separating the mails</td>
</tr>
<tr>
<td>Partner B’s wife</td>
<td>Chartered Accountant and a consulting accountant for the company</td>
</tr>
<tr>
<td>Partner B’s assistant</td>
<td>Ordering generators, preparing meetings and contacting agents, suppliers and customers</td>
</tr>
</tbody>
</table>

Although the office I work in has an open-plan work area, it was difficult for me to understand the full picture of each person’s main responsibility and their role within the company. Therefore, I made a list of questions related to each person’s key responsibilities,
how they inform others and themselves, and also on the effects of the earthquakes (see Appendix for the interview guides). However, these prepared questions were used only as a guide to topics that I would like to cover. The interviews did not follow the interview guide in the exact order. Each person has different roles and responsibilities in the company. The questions were developed based on the interviewee’s position in the company and what I already knew of their role. For example, as I knew that the Office Manager is the key person processing the accounts receivable and payable for the company, and managing the company’s financial information, I asked specific questions about how she knows which accounts to pay at different times of the month, and any barriers she needs to overcome in order to process the accounts. For one of the partners who is responsible for dealing with clients and pulling in projects for the business, I asked questions that were more strategy-related as he is at a higher level and has a first-hand understanding of changes in the company’s strategy and what information the owners require to make strategic decisions. The interview guides helped me be more confident and better prepared for the interviews, but at the same time there were opportunities to seek new ways of understanding the topic (Rubin and Rubin, 2004).

According to Bryman and Bell (2007), the flexibility of the semi-structured interview process allows the interviewees to explain specific issues and events. I found this useful in my research. In particular I was able to gain insights into and individual perspectives on the effects of the earthquakes from people at different positions in the company. Semi-structured interviews allowed me to flexibly follow up on interesting ideas and allowed the participants to say what they thought was most important (Rubin and Rubin, 2004). The interview process gave me the chance to obtain specific examples of how financial and non-financial information is transferred within the company, eliciting a range of insights on this specific issue.
In each interview I started off by introducing the purpose of the research and made sure the interviewees understood that there would be no sensitive information revealed to the public. Then I asked the interviewees’ permission to tape-record the interview for me to transcribe and send to them later. I asked questions based on my interview guide at first and let the interviewees expand on the topics that were most relevant to them. It was obvious after the first interview, with the partner responsible for the heat-pump service, that each interviewee has his or her own key responsibilities in the company and there is a lot of collaboration with one another as resources within the company are often shared. Therefore I asked each interviewee questions related to how they performed their own duties and the information they require to carry out those duties. For example, the Contracting Department and the Building Electrical Services Department shares the electricians when carrying out a project. There is a schedule for each electrician to be on a job site at a specific time, which means both departments need information about the time schedule of each electrician to organise who they can schedule on the job and when. It was interesting to get them to talk about how information was passed on to each department and what information is most important for each department. By asking these questions and by daily participant observation, I could understand how information flows between each person and the external environment.

During the interview process, I jotted down notes that I thought would be interesting and significant for further questioning and investigation. It did take a while for some interviewees to get onto the topic that I am interested in and I often had to go back to the interviewees to further investigate some of the work processes that they had told me in the interviews. As the twenty-five electricians work off-site all day, I had to ask specific questions related to their role in the company.
3.4 Limitation and Assumptions

There are several limitations in conducting field research studies according to McKinnon (1988) and Klein and Myers (1999). To be able to carry out valid and reliable research, the researcher needs to have considerable background information on the company’s nature and social background (Klein & Myers, 1999). Observer-caused effects are when the observer’s presence alters the behaviour or conversations of the participants (McKinnon, 1988). Observer bias is another threat, that observers could selectively perceive and interpret what they are hearing and seeing, thus distorting reality. Lack of or limited access to data is another type of threat to the data’s validity and the reliability of the findings. If the observer can only be in the research setting for a short period of time, he or she could not possibly gather all the relevant information needed. Furthermore, the complexities and limitations of the human mind should not be ignored: participants may deliberately, or because of memory loss, mislead or deceive the researcher (McKinnon, 1988). The memory of people may also vary from person to person as different sets of biases shape their opinions (McKinnon, 1988). This point was also supported by Klein and Myers’ (1999) advice that the researcher should be cautious about accepting the participants’ expressions of events or stories, as there would possibly be differences in their interpretation.

These effects can be overcome by: maintaining good relationships with everyone while in the research field; the researcher spending a long period of time in the research setting; and using multiple methods and observations (McKinnon, 1988). Interpersonal behaviour of the researcher is one of the critical strategies to overcome threats to validity and reliability (McKinnon, 1988; Baxter & Chua, 1998). The researcher should be well prepared before conducting the data collection process, to allow the development of confidence, trust and respect between the researcher and the participants (McKinnon, 1988). A genuine interest
shown by the researcher may reduce the threat of observer-caused effects as the participants would be more relaxed (McKinnon, 1988).

Since I have worked in this company for a substantial amount of time, and I was working closely with the interviewees at the time of observation and interviews, I was able to see whether the interviewees were affected by my presence and hiding their usual selves. Also, due to the extended period I am spending in the company, I have a good understanding of the company’s position and its daily running. This allows contextualization (Klein & Myers, 1999), and reduces the social barriers and the awkwardness of getting to know the interviewee and structuring a new trust relationship (McKinnon, 1988).

The tactic of spending a long period of time in the organisation lessens the researchers’ chance of having biased opinions as they are more exposed to events and statements that could differ from the researchers’ preconceptions or judgment (McKinnon, 1988). As I am personally working alongside the partners and with the employees in the same office, I have an overall idea of their daily work process and personalities.

However, as I am a participant of the company, it is possible for me to be too narrowly focused on the subject or context itself and not take notice of people’s attitudes to it. I have used the semi-structured interview guide to make sure I cover the topic in sufficient depth and I tried to let the interviewees talk as widely as possible on the topic. Also, I have kept records of what has happened during each day and having transcripts of interviews enabled me to check if I have ignored any interesting or conflicting issues.

Using multiple methods and observations can compensate for limitations on time, as comparison of findings between different methods adds significant reliability to the results or outcomes gathered by the field research (McKinnon, 1988). McKinnon (1988) advises that “the combination of informant and respondent interviewing and document analysis with the
researcher’s own observation will serve to provide the comprehensive data set required” (p.44). I was able to use all these methods, as I was permitted to have access to all company documents, as long as I do not expose any sensitive information or the identity of the company. Therefore the validity and reliability of my study has been increased.

The result of this research project on information communication within an SME should not be generalised to other firms as the evidence is only based on one company in a particular market segment. Rather, this research is intended to add to the theoretical knowledge of how people keep each other informed and then carry out their tasks within a small service firm.

4. Research Findings – Descriptive Analysis

The research findings look at the overall structure of the medium-sized Electrical Company and the key employees of the company. Then it continues to explore and describe both formal and informal communication within the company and with its suppliers and clients.

4.1 Electrical Company Structure

When the two partners took over the Electrical Company from the original owner in 2006, the company provided four main electrical services, which were: housing design build, specialist projects tenders, contracting, and building electrical services. Each of the divisions had their own supervisor and in total there were 21 staff. The owner mainly looked after the finance and marketing side of the business and collaborated with the divisional supervisors to allocate work for the electricians as shown in Figure 1.

The two present business partners met working together in another local electrical service company. As they had expertise in providing electrical services, previous ownership of electrical companies and business connections, they decided to join forces and bought the Electrical Company, which one of the partners had worked in as an apprentice electrician
for two years. Unfortunately, the global and local economy took a downturn in 2008, so the partners decided to downsize the company and restructure the company’s service departments as, being a medium-sized enterprise, they had to adapt to the changes in the external environment.

“We are only a small country and operating a small business. We cannot control our external environment. There are many factors beyond our control; for example, the financial crisis that is going on, we cannot control it, we can only accept what is going on and try to respond to it as best we can” (Partner).

**Figure 1: Company Structure in Year 2007**

![Company Structure Diagram]

- **Owner/ Director**
- **Finance & Marketing**
- **Administration/Office Manager**
- **Housing Design Build**
  - **Supervisors**
- **Specialist Projects Tenders**
- **Contracting**
- **Building Electrical Services**
  - **Jobbing/ Servicing Commercial & Domestic**
  - **Automation/ Industrial Division**
  - **Data/Security Division**
  - **Multi skilled team with no division in work tasks**
The Electrical Company could not stay in the same business premises after the February 2011 earthquake as they were badly damaged and in the inaccessible red-zone, so the company moved to a new business building outside of the Central Business District (CBD). The company used to provide only electrical services, to residential properties and commercial buildings. After seeing the disruption to the urban power supply due to the large scale earthquakes in September 2010 and February 2011, the partners predicted the likelihood of power shortages in rural areas. Therefore, in April 2011, the partners decided to expand the generator-providing business. The company collaborated with one of the South Island’s largest farm supply stores to import and provide high quality generators to the South Island. I was employed as personal assistant to one of the partners to help him cater for the generator business through communicating with suppliers and customers.

“When [Partner A] and I took over the Electrical Company there were some redundancies when the economy was bad. We couldn’t afford that many workers. After the earthquakes, now we want to rebuild the company into the way it was, as the company is at a growing stage” (Partner B).

Hence, the company changed its direction to providing more specific services as demanded by the market and individual clients’ needs. It reduced its Housing Design Department and Security Division and added a Generator division. The current services provided are shown in Figure 2.

“Word-of-mouth is extremely important in Christchurch and we are different to other electrical companies because we maintain our standard to suit all our customers’ needs. We keep our uniforms, and vans clean and staff quality high, we be professional, it’s our reputation” (Service Manager).
Figure 2: Company Structure in Year 2012

Partners/Directors

Finance & Marketing (Partner A)

Administration/Office Manager

Generators (Partner B)

Contracting

Heat pumps (Partner A)

Building Electrical Services (Partner B)

Supervisor

Jobbing/Servicing Commercial & Domestic

Users’ Call Division

Multi skilled team of electricians with no division in work tasks
Although the company has changed some of its specialised electrical service areas, the running of project operations and methods of allocating resources have stayed the same. The team of certified electricians and apprentices are shared between departments and are “on-call” for when there are urgent jobs that needed to be carried out as demanded by the customers.

“We call - pick up the phone and dial - to see whoever is available and get them working. Although the boys are divided between each department, they can be shifted quickly when we need them to” (Partner A).

Being a partnership-based company, the partners have to make decisions together to achieve the best for the Electrical Company and it also eliminates the unwillingness to delegate decision-making responsibilities.

“Both [Partner B] and I like to let our people know that they are being valued and recognised. You can see that most of our communication is more informal and the management style is quite relaxed. Most importantly, we both make decisions that might affect staff, such as setting salaries and staff remuneration. Anything that will have an effect on our staff and business, we make decisions together. We like people to have fun and enjoy their time at work and build a trusting relationship between each other” (Partner A).

“As a partnership business, we will be together and bounce ideas off each other. Then we toss it about and if we both agree on something, then we do it and if we don’t agree, then we don’t do it. The key for us is being open about it and stick to it” (Partner B).

4.3 Cost Information Used

The most important financial information, according to the partners, is the cash flow statement, which is produced every day by the Office Manager. The partners use the cash
flow statement to make decisions, such as how much to invoice clients and when to make progress claims.

The invoices for purchases are still often sent by post to the Electrical Company’s old address from before the earthquake in 2010. The Front-Office Clerk collects that mail and brings it back to the Office Manager to sort out the payments. After the Office Manager receives the invoices, she puts them in order according to the due dates.

“Usually on the 20th of each month, I pay the smaller bills, under $500. Then I will also propose a list of people that I think should be paid for the partners to decide” (Office Manager).

One of the partners mainly deals with cost information, and he has a firm control over the cash flow of the company on a daily basis. “He is very responsible in managing the cash flows and really good at tightening day to day running of the business”, claimed the Office Manager.

The main regular costs of the Electrical Company needed to be set aside every month. These costs are usually predicted and influence decision making on the availability of cash.

“I will always know the regular costs, because wages, rent, GST, PAYE, fuel and electricity are known costs. We can predict these costs and prepare what we need for the next months, so this is what I mean by present information. Also, we count the cash coming in on a daily basis, and we can always look for the current bank balance to check how much money are we able to spend” (Partner A).

“[Partner A] will see the bank reconciliation every day that I’ve prepared and keep his eye on the cash flow, and I will also give him some suggestions as to whether we are a bit low in the account and who we should pay off quickly. So we have got it pretty clear as to how much money we have in the bank for cash flow” (Office Manager).
The cost information is crucial for the company to determine its financial health and it enables the owners to make up-to-date decisions.

“Because we are a small business, there is too much moving in the business, so we have to make decisions quick and that’s why cash is very important to us” (Partner).

The partner believes it is important for the owners to fully understand the importance of capital and cash flow management as these are the factors that will determine the survival of the business.

“[Partner B] and I would also look at the annual financial statements to see how each of our business sectors performed for the year. But, you have to remember that, for a business like our size, we take the cash flow statement most seriously as this is our ‘living and breathing’ essential element for us to operate on a daily basis. As a manager or owner, we really need to think about, how long can I go for if I run out of money to pay off wages and expenses?” (Partner A).

**4.4 Job Order Cost Accounting**

The job order cost accounting system is used in determining the costs of the material and labour used in a particular job or project and the cost of generators that are sold through the partnering agent, the farm supplies store. The Project Estimator and the Service Manager estimate the approximate time and labour needed for the job from their experience then include the company’s profit margin and charge their clients based on their estimation. The job cost for generators is easier as the generators are ordered from a direct supplier, and are being shipped from China. The Electrical Company charges the agent based on the generator’s individual price, including freight, GST and the profit margin, which then is passed on to the customer by the agent.
4.4.1 Material and Labour Costs

The electrical services provided by the Electrical Company can be divided into two main categories, which are residential and commercial buildings.

The Service Manager organises most of the residential work for the electricians and a few large projects where the clients have specifically asked for him. Since the Electrical Company is a well-known brand in the Canterbury area for its quality and professional service, residential work is usually received by phone calls to the Front-Office Clerk, who will note down the customer’s details and raise it on the job sheet for the Service Manager to allocate the available electricians to the job.

“I prepare the job sheets for the boys [electricians] and let them know their jobs for the day and they come back to me with the job sheets and I process that and enter it into the computer” (Front-Office Clerk).

The Service Manager is also responsible for preparing the right materials for the jobs that the electricians are heading for in the morning and then invoicing the time and material costs to the customers as shown in Figure 3.

Figure 3: Information flow between residential customers and the Electrical Company

“...I or the Front-Office Clerk will raise a new job sheet. I organise what material will be
needed for this job and issue this job to the most suitable, available staff list, then every
morning, the guys will come and get the job sheet from their tray and go to their job sites. I have done this job for about 20 years now and I’ve got enough experience to know what the market price is for what we do and how much we should charge” (Service Manager).

The larger commercial projects are usually estimated by the Project Estimator and approved by Partner B (Commercial building service). Four large contracting firms in the South Island are the main sources of projects for the Electrical Company. The contracting firms will present a planned commercial project and request all the electrical servicing firms to estimate the costs of that particular project, awarding the project to the lowest tender. The Project Estimator will set up a tendering Excel spreadsheet according to the specifications of the project, including material and labour costs and also the company’s mark-up rate. As the personal assistant of Partner B, I also help the Project Estimator to count light fittings on building plans and measure the lengths of the wires and conduits. I record the number and the types of light fittings onto the spreadsheet, and then email a copy of it to the lighting suppliers with a request for costs. The measurements of the wires and conduits are passed back to the Project Estimator, who will identify the types of wires and conduits for the project and contact the suppliers for the material costs. At the same time, the Project Estimator will estimate the labour hours for the number of light fittings and wiring needed to complete the project.

“I have done the practical work before, so I can have a quite good estimation of how long each of those jobs takes. For example, it takes about 45 minutes for an electrician to put in 15 meters of wires” (Project Estimator).

All the material and labour costs will be added together, with the company’s mark up rate, to form the full cost of the tender. The tender is then passed to Partner B to look through
and make changes to the mark up rate if required to meet the tendering price as shown in Figure 4.

“We will get a project from one of the contracting companies, and sometimes from people that I hang out with, to tender. The Project Estimator will get the plans and set up a spreadsheet for it and that’s where you come in and do all the counting and measuring of those light fittings and wires” (Partner B).

“I will finish these tender forms and pass them on to Partner B for him to check the costs and everything, to see whether we are close to the tendering price” (Project Estimator).

**Figure 4: Information flow with suppliers and the Electrical Company**

There are only two main suppliers that the Electrical Company uses for purchasing light fittings and one main supplier for the wires as these suppliers offer the best price for the Electrical Company and they have been dealing with the business for a long period of time. The company itself keeps very little inventory as the partners recognise that stock levels need to be kept low and everything should be obtained when there is a use for it.

“We keep very minimal stock levels as we have a more ‘just-in-time’ system, in which
what we need to use now is what will we purchase from our suppliers” (Partner A).

There is a set hourly rate for the electricians and apprentices in the Electrical Company. Both the Service Manager and the Project Estimator use personal expertise and experience when estimating the labour hours needed for a particular project as both of them have been electricians for about ten to fifteen years.

“I was working with my father back then for about 10, 12 years as an electrician and did a lot of light fittings, you know, those practical jobs at the time. So, I will roughly know how long it will take for an electrician to do a metre of wiring and so on” (Project Estimator).

“We have set up a spreadsheet with all the material and labour we will need for these projects … Usually they are quite similar except maybe the size and particular sort of material that might be different. Because we all have experience in wiring and have done those jobs before, we can predict which task would require how many people and what material, for example, 0.65hr for one meter of wiring” (Partner A).

4.4.2 Generator Ordering

Partner B of the Electrical Company is also responsible for the Generator Department. He will be contacted by the agent, the farm service supplier, to order a particular type of generator.

“By partnering up with the farm service supplier, we will get more exposure to the farmers in the South Island and it will help us to sell more generators” (Partner B).

The generator suppliers provide various types of generators for a stated price. As Partner B’s assistant, I am responsible to set a sale price for the various types of generators according to the mark up rate given by the partner. When the partner gets an order from the agent, I have to contact the generator supplier for the type of generator ordered by our
customer and send them a copy of the invoice for the delivery date and address. Then, I will contact the agent by phone or e-mail him to inform him of the shipping time and the status of the generator he has ordered as shown in Figure 5.

If the customer of the agent requires the Electrical Company to ship and install the generator at their place, extra labour costs will be charge according to the time and fuel spent on the order. The customers have to pay in advance the first instalment, which is 10% of the generator price including the shipping fee, and then pay the rest once the generator arrives at the destination as shown in Figure 6.

**Figure 5: Information flow between generator customers and the Electrical Company**

![Diagram](#)

### 4.5 Financial Information Used

The Electrical Company has its own accounts receivable and payable person, the Office Manager, to process and record the daily receipts and spending of the company. One of the partners has a Bachelors degree in Business Management and Business Communication, which enables him to keep the company’s cash flow and spending under control.

“I use timesheets for staff’s salary payouts and invoices that have been totalled-up within the month to keep track of the claims for our on-going or nearly finished projects. Also, I do some job costing analyses to see our costs and spending in the company. I
always look at the monthly reports prepared by our office manager. Mostly they are: profit and loss account, trial balances and cash flow statements” (Partner A).

The wife of the other Partner is a fully qualified Chartered Accountant, who comes to the company at the end of every month to look at the company’s monthly reports (the profit and loss account, trial balances and cash flow statements) and discuss with the partners the financial health of the company.

**Figure 6: Generator Ordering Process**

“IT gives a bit of insight for us” (Partner B).

The Electrical Company also has its own external accountant to do the company’s tax
returns and PAYE.

“My wife will come to the company every month to get some reports from the Office Manager and she will give us some opinions about our spending and things. We also have an outside accountant. He probably has about five people with him, but he is a small guy, not a big accounting firm” (Partner B).

Partner A looks through the monthly reports prepared by the Office Manager. In particular he believes it is important to look at the cash flow statement as the company’s spending mainly relies on the daily cash flow.

“We count the cash coming in on a daily basis, and we can always look for the current bank balance to check how much money are we able to spend. We make decisions based on the availability of cash rather than other information from other reports that could only be generated every month or year” (Partner A).

“I believe the main failure of businesses is due to lack of capital and handling of cash flow. It’s all about personal judgments; people have to ask themselves, what can I afford and what sort of cash resources do I have if there are potential risks?” (Partner A)

At the end of each financial year, the two partners and the wife of Partner B will sit down together and look at the annual income statement and balance sheet to see which department has progressed and in what areas the business needs to strengthen.

“My wife will also look through the income statements and balance sheet with us to help us look at some of our spending and income for the year and give us some suggestions as to what we could work on a bit more, for example, which department is making money and which one is losing” (Partner B).

“At end of the year the Partner B’s wife will take a look at our records, and then we will
sit down together and look where we have improved and whereabouts we’ve made a loss” (Partner A).

4.6 Non-financial Information Used

Due the size of the Electrical Company and the current environment in Christchurch, the company collects a variety of non-financial information through the news, the planning process, and people contacts so it can adapt to the continuously changing circumstances in the building industry. The partners believe “everything is information” and most of the information they receive about the business is non-financial and informal. The partners often receive information about the construction business, such as new projects coming up, through talking to people they know in the same business and through talking to their accountant who has a large number of clients operating in the construction business. This enables the partners to make relevant decisions quickly and accurately.

“[The accountant] also advises us on the legal issues and direction of where he sees the next 6 months going because he has a lot of clients and trades and rest homes, so he’s got a lot of building trades. He will get told by the builders whether there’s going to be any big work somewhere. He will pass on that information to us, which then we can paint the bigger picture for our company” (Partner B).

Within the company, non-financial information is communicated amongst the employees. The Office Manager discusses with the partners about old accounts that have been left in the file and raises a Query on Account form to sort out the payment, which allows the company to dispute any accounts they are not willing to accept from the creditors. “I search for the really old ones and send queries for the partners or I talk to the suppliers straight away to ask why it was not paid; then let them sort out whether they want to dispute the payments”, claimed the Office Manager.
The Front-office Clerk raises job sheets for each of the electricians in the morning, so the electrician will know exactly where they should be and at what time. This allows the Service Manager and the partners to allocate the available electricians when there is a need for urgent tasks to be done.

“I prepare the job sheets for the boys and let them know their jobs for the day and the boys come back to me with the job sheets and I process that and enter it into the computer” (Front-office Clerk).

“The electrician will go and do the job and fill-in a ‘job sheet’ [gives me a job sheet] and describe what he or she has done, then put the sheet back onto the [Front-office Clerk’s] tray in the office here. So, we will know exactly where they are” (Service Manager).

The Service Manager with the partners make a plan for all the projects during the year, called a Gantt chart\(^1\), which allows them to allocate the right number of electricians to each project site and decide whether to hire new people if necessary. In October to November 2011, the company recruited a few electricians as there were projects that needed to be finished before Christmas and the partners used the Gantt work plan to organise what was needed for the projects that were coming up.

“We have a Gantt work plan, come I’ll show you. [He went across the office and showed me the timetable of different projects’ working time.] By looking at this timeframe we can see which project is behind or faster than what we expected and then we know what to organise for the work to come” (Partner A).

\(^1\) A Gantt chart is “a type of bar chart, developed by Henry Gantt that illustrates a project schedule. Gantt charts illustrate the start and finish dates of the terminal elements and summary elements of a project. Terminal elements and summary elements comprise the work breakdown structure of the project”. (Wikipedia, 17 April 2012)
Recently, one Partner requested me to implement a job costing sheet to determine the time spent on each task by the electricians. The partner said he has recognised the “importance of activity-based costing” and believes that the job costing sheet will help the company to effectively manage its electricians and assign them to the right tasks.

“I think it will be good to keep track of how they perform and the time they spend on each task, so we can identify who can do what most effectively. I think what you’ve started will be very helpful for our job costing system in the future” (Partner A).

Other than using non-financial information to control the company’s internal process functions, the partners and the Service Manager also use their personal connections to gather new work and retain old customers for the Electrical Company.

“We have relationships with builders and clients, and the bulk of our work is coming from our mates and people we have worked with before. A lot of the work is done on the rugby field and a lot of other events that we go to” (Partner B).

“All these electricians I’ve come across in Christchurch, they all went to school together or play rugby and go to bars together. It’s a tight community and we cannot afford to tick anyone off” (Project Estimator).

The Electrical Company recognises the importance of relationship building and differentiating itself from other competitors by providing high service quality and protecting its company image.

“We are a quite well-known company — we have been around for about 50, 60 years we have done quite a bit of work around the South Island. When you work long enough, you’ll know that Christchurch is really small and if you do a good job, people will want you back and refer you to others and if you suck, then everyone knows it too. I also have to make sure all the guys keep their vans and vehicles tidy and clean as what they
drive around with is directly related to our company’s image” (Service Manager).

4.7 Information Technology Used

The Electrical Company uses the MYOB (Mind Your Own Business) accounting package for keeping records of accounts and inventory stocks. The Office Manager uses the internet to download the Company’s bank account information for bank reconciliation every morning, in order to monitor cash flows. The partner checks the balance and signs off.

“I would look to see who has to be paid, and prepare a proposed payment schedule, also a list of payees and amount for [Partner A] to approve. I will then go on to set up the internet banking for these payments on a particular date” (Office Manager).

The Electrical Company often uses e-mail to communicate with suppliers, as often the required information includes attachments such as graphs and contractors’ plans. The cost prices of generators are sent to Partner B through e-mail and the partner forwards it to me to mark up the profit and generate a selling price for our customers. The employees in the Electrical Company mainly use Microsoft Word and Excel to produce statements and prepare spreadsheets for costs, which are stored in the company’s shared hard-drive. They consider these systems to be easy to use and maintain. Everyone’s files are shared and can be accessed at any of the office computers so when information is needed for a particular event, it can be easily obtained without asking anyone else.

The construction companies usually send out an email invitation to tender for a commercial project to all the electrical companies. The Project Estimator or Partner B will get a copy of the tendering plan. The Project Estimators and I will estimate the amount of materials and labour needed for the tender. Partner B looks over it and approves it before it gets sent away by email to compete with other electrical service firms as shown in Figure 7.

In the past, the Project Estimator had to go to construction companies to get the full site
plans physically on paper and bring them back to the office to work out the project costs. With the rapid change of technology in the past few years, the Project Estimator then was able to go to the construction companies and obtain the plans on a USB drive and print out the useful ones after he got back to the office, which saved the company’s resources.

**Figure 7: Information flow between Construction Company and the Electrical Company**

“We used to have to photocopy all these big building plans and site maps and it was really time consuming. Now we all have this computerized project information and we just have to come here and plug in our USB and download it from their computer. It literally only takes about 2 minutes and we are good to go” (Project Estimator).

At the start of 2012, all construction and electrical service companies joined an intranet system, called the Acconex. The construction companies up-load their project site plans onto the intranet server and the electrical service companies can go online and download them to their computers. Thus someone from the company does not have to make trips to the construction companies. This new intranet system is managed by an external data internet firm. The operators send e-mails to alert the Electrical Company about any new project up for tender when the construction company updates its project files.

“This system will save a lot of petrol for us and we can share all the files online
instead of running around places to get the site plans. Now we can just go online to this system and get the latest project that we will tender for and this will speed up our whole tendering process” (Partner B).

At the end of 2011, the partners decided to further establish the structure of the company and update the company web page. This allows the existing and potential customers to fully understand the services the Electrical Company provides and use online booking if needed. The Electrical Company contracted an external web page design company and the Partner A met with the web page consultants in person to discuss the features they wanted to include in the new company web page. The new company web page outlines the services the company provides in detail and includes the new electrical rebuild services for residential and commercial customers’ properties that have been affected by the earthquakes in Christchurch.

“The website is going to make us stand out from the competitors and allows our customers to see exactly what we can do to provide quality services” (Partner A).

4.8 Information Flow

The figures in the previous pages show the various flows of information within the Electrical Company and between it and its customers and suppliers. With various electrical services being provided for each customer, information is communicated differently between key employees in the company.

4.8.1 Information flow within the company

There is both formal and informal communication within the company. Most of the time, the communication process is informal as there is an open-plan office and no individual offices in the Electrical Company’s building, which is designed for free flow of
conversation. There is more information passing between the employees and the partners that belonged to the same service department. For example, the Project Estimator will have constant communication with Partner B, who is responsible for the commercial building services. Other employees talk to each other casually during the day when there is more information required. It is a complicated communication relationship within the Electrical Company. However, it works as the information can be quickly passed between each person (as shown in figure 8).

4.8.2 Information flow with customers

The Office Manager, Service Manager, Front-Office Clerk and Partner A are the ones that have the most contact with residential customers as shown in figure 3. The customers make an appointment with the Front-Office Clerk or whoever is responsible for the particular electrical service needed. After the task has been performed, the Office Manager invoices the customer.

4.8.3 Information flow with suppliers

As shown in figure 4, the key employees in the Electrical Company all have direct contact with the suppliers. The Electrical Company uses the same electrical, lighting, heat-pump and generator suppliers for all departments as there are discounts when the company purchases in bulk. The suppliers send the invoice to the Office Manager, who records the accounts payable at the end of each month.

4.8.4 Information flow between construction companies and the Electrical Company

As shown in figure 7, the construction company informs Partner B about new projects to tender for. This project information gets passed on to the Project estimator and Partner B’s
assistant to break the project down for calculating the total costs. Then, the Project Estimator passes the tender back to the Construction Company to make decisions as to which electrical service company gets the project.

**Figure 8: Information flow within the Electrical Company**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>←→</td>
<td>A lot of direct contact and both formal and informal information transfer.</td>
</tr>
<tr>
<td>←</td>
<td>Only communicate when there is insufficient information.</td>
</tr>
<tr>
<td>←➥</td>
<td>Small amount of communication, usually informal conversations.</td>
</tr>
</tbody>
</table>
5. Interpretive Analysis and Synthesis

In this chapter, the findings of the participant-observation at the Electrical Company are firstly compared to the features and characteristics of SMEs found in previous literature. This includes consideration of the importance of both financial and non-financial information communication within the medium-size Electrical Company. This contrasts with previous literature.

Prior research identified the key features of owner-operated SMEs as lacking in duty delegation, formal planning, training, and financial management skills; and being easily influenced by the environment (Greenhalgh, 2000; Kennedy & Tennent, 2006; Perez-Sanchez et al., 2003). My findings are that the owner-operators of the Electrical Company have the knowledge to understand its financial position and tightly control the cash flow to ensure that it will cover their daily expenses. However, the medium-size Electrical Company is easily influenced by their external environment as found in previous literature. The partners had to restructure its service lines and lay-off electricians to survive the 2008 economic depression and the four major earthquakes in Canterbury in the past two years.

5.1 Characteristics of SMEs

This research shows that the Electrical Company has the same characteristics and organisation structure mentioned in prior research. However, the partners of the Electrical Company both have expertise in the industry they operate in and with Partner A’s business background and an external accountant, the partners are able to control and manage the business fully, which contrasts with the findings of previous research.

The Electrical Company has a flat organisational structure and the two business partners are
using their different expertise in the electrical field to provide various services to meet the market demand. The partners believe the company needs to be able to easily adjust to its external environment as New Zealand is a small country: “because New Zealand is not very big, it does not have the capability to take a lot of big businesses such as the US or China could, so I think smaller businesses are a better fit for this environment” (Partner A). The medium-size Electrical Company can only survive if it has a flexible structure and less levels of control compared to large corporations. Partner A claimed: “that’s the best thing about small businesses – because we are small, we are very flexible, and we can adapt to the constantly changing external environment”. This confirms the findings of Chiao et al. (2006) and Perez-Sanchez et al. (2003) that the main characteristics of small and medium enterprises are less structure and usually a lack of standardisation.

Collier (2005) found the owner-controller managed the business finances completely on his own and gathered work through social meetings with employees, suppliers and customers. These phenomena were also found in the Electrical Company, in which Partner A controls most of the financial aspects of the business and Partner B organises work and projects through personal contacts and social events. Through relationship building, social contacts, and understanding the importance of the client-supplier relationship, the Electrical Company emphasises its service quality and company image, which enables the Electrical Company to retain new work and projects.

“We look after them [clients] well, so if there is a problem, they could come to us. Because we are an old company, we can’t afford our names to be dragged through rubbish, so we need to say what we do and do what we say!” (Partner B).

My findings at the Electrical Company contrast with Kennedy and Tennent (2006). They claim that during the start-up phase of SMEs, the major causes of failure are lack of marketing and management skills and lack of formal planning. The partners of the
Electrical Company do have structured planning for the organisation: they organise each project’s progress using a Gantt chart. Also, one of the partners has a commerce degree, and helps the company staff to understand cash-flow and finance management. In particular, with Partner A’s educational background in business and with both partners having operated their own business before, they know how to sustain their market position and compete with other electrical service companies through differentiation by providing quality and efficient services. This is in contrast to Kennedy and Tennent’s (2006) findings and those of Payne et al. (2009), that SMEs have a lack of understanding of the business environment and competition in the same industry.

“We need to be more aware of what is it going around our business and how the market is doing overall to determine where we can improve as a business that wants to succeed and grow” (Partner A).

I found that the Electrical Company follows Canall’s (2003) and Williams’ (2007) suggestion, that SMEs should continue to plan and implement learning processes in order to cope with future change and challenges. The Electrical Company provides in-house training and support for the electricians of the company to update and learn new skills required by the Electrical Workers Registration Board².

“I am an authorized ETIT [an electrician organisation] trainer, so I have to organise the boys to go off their jobs and get trained to pass the unit standards and I have to assess them. As a qualified electrician, we have to make sure we know all the latest things about our job and it’s usually every year that the guys have to sit through some classes held by this organisation with the Polytechnic to get their qualification, otherwise they can’t continue working” (Service Manager).

Thus, some of the characteristics criticized in prior literature seem to be less apparent in the Electrical Company. Although the Electrical Company has a flat structure, the partners believe the flatter structure of the business is better suited for the New Zealand environment. The Electrical Company has formal planning for its work, and provides training. The partners understand the importance of financial control and gain competitive advantage through differentiation of their services.

5.2 Management Style and Behaviour in SMEs

The partner-owners of the Electrical Company and the Service Manager manage the project progress according to the company’s Gantt chart in order to claim the work-in-progress payments from the clients. For the residential electrical service work, the Front-Office Clerk and the Service Manager work together to plan the electricians’ daily work schedule to ensure a right amount of work load for each electrician. The Front-Office Clerk explained that “I enter all the labour and material used, load it into the computer and the Service Manager checks it off and then I pass it on to the Office Manager to process the invoice.” This is consistent with indications in previous literature that the performance of SMEs largely depends on the behaviour and attitudes of the owner-manager in decision making (Jennings & Beaver, 1997; Kennedy and Tennent, 2006).

Kennedy and Tennent (2006) suggest that the owners of SMEs have to plan, and maintain, firm control of business activities and to obtain financial advice from professionals in order for of the businesses to survive. The Electrical Company has an external accountant for business advice and, on top of that, Partner B’s wife is a chartered accountant who goes to the Company and helps out with the financial side of the business.

Through detailed planning and tight control over the finances, the Electrical Company survived through the economic downturn when the partners first acquired the company in
2008, which confirms the findings of Kennedy and Tennent (2006) that business practices and attitudes to business management affect the survivorship of SMEs.

Both of the partners of the Electrical Company have expertise in the electrical service industry as they were colleagues in the same company before they decided to take over the Electrical Company. Partner B explained that “We used to work together in the same local electrical company. We didn’t like the way they did business, so we left and started our own one”. Furthermore, the partner with the business degree understands the importance of cost control and risk management in the company’s daily running of the business.

The partners of the Electrical Company recognise that it is essential for them to fully understand the business’s financial information and have expertise in the market in which they operate, which confirms the findings of Lester et al. (2008) and O’Regan et al. (2005). Barber et al. (1989) and Collier (2005) found that the owner-managers of small businesses are unlikely and unwilling to delegate decision-making responsibilities to others. In contrast, the partners of the Electrical Company are willing to leave some of the decision-making to employees and only come together to make decisions when there are issues that will affect the wellbeing of the employees or those that involve spending over $5,000. The partners of the Electrical Company both have expertise in the market they operate in and control the business activities in a professional manner through collaboration with the external accountant and using their own judgments. This has enabled the company to overcome economy recession in 2008 and allowed the open flow of decision making in the best interests of the company.

5.3 Accounting Usage in SMEs

The partners of the Electrical Company have acknowledged the significance of keeping accounting records and financial information. This contrasts with findings in previous
literature that small business owners have little accounting knowledge, and a lack of the financial and accounting skills. At the Electrical Company, the partners are willing to produce and use accounting information. This contrasts with Kennedy and Tennent’s (2006) claim that small businesses fail to keep financial records as the owners “do not always have the necessary business acumen and skills” (p.55) to manage people and business. Partner A looks over the company’s bank reconciliation and account settlements prepared by the Office Manager on a daily basis, which allows him to fully control and be aware of the cash flow in order to make fast and effective financial decisions.

My findings at the Electrical Company are consistent with Greenhalgh’s (2000) and Dyt and Halabi’s (2007) claim that managers of SMEs use more traditional management accounting techniques, such as profit and loss reports. However, in addition to the traditional management accounting techniques, the Electrical Company uses activity-based costing to estimate the service charges for their clients and evaluating the performance of electricians. Both the Project Estimator and the Service Manager will use their past experience to predict the labour time and material costs for each specific task that would be carried out on the job site by the electricians and then quote the total price for the clients. During my participant-observation time in the company, Partner A and the Project Estimator asked me to set up a job costing spreadsheet to track the number of hours the electricians spend on the job site for each task, such as laying the wire and installing switchboards. Partner A said, “I think it will be good to keep track of how they perform and the time they spend on each task, so we can identify who can do what most effectively.”

I found that the staff and partners at the Electrical Company seem to have sufficient financial control and accounting skills to keep records of the financial health of the company. These findings contrast with previous studies that found a lack of competent management and accounting skills in SMEs. Moreover, the Electrical Company uses more
than just traditional management accounting: it has used a new management accounting system, a type of activity-based costing, to estimate and evaluate its work performance.

5.4 Information Systems and Communication within SMEs

The communication process within the Electrical Company is informal as the employees can talk to the partners straight away instead of setting up formal meeting times. Externally, the partners of the Electrical Company use their informal and personal relationships through sports clubs and casual gatherings to retain clients. As there are only five large construction companies that offers project work to medium-size electrical service companies, it is important for the Electrical Company to maintain a high standard of service in order to retain their clients.

My participant-observation in the Electrical Company confirms the findings of Tenhunen et al. (2002) and Perez-Sanchez et al. (2003) that smaller businesses require rapid information for decision making and they transfer information mostly through informal conversations and casual social events. The partners and the Service Manager of the Electrical Company gather work and projects through social contacts such as relationships with former clients, friends and referrals by other business associates. The employees of the Electrical Company understand the fundamentals of relationship networking and maintain the company’s quality service reputation, such as the Service Manager’s efforts to make sure all the company’s vehicles are clean and tidy.

Information transfer and communication is crucial for the Electrical Company as the partners believe “anything is information”. Because they are a small company, they have to keep up with the most up-to-date information as information from news and oral communication affects the business directly. Partner B claimed that “we get this extra news and insights from our contacts about what’s going on with other people in a similar industry.
Then, we can make conscious decisions on where we’re going to go”. Furthermore, Partner A believes that financial records are insufficient and untimely for making decisions, which confirms the finding of Preston (1986) that formal documents are inadequate to understand the full picture.

“I don’t think financial statements are adequate for economic crisis. They can’t inform us when the business will meet a bump or how it is going to perform next year as they are all historical information. We need to be more aware of what is going on around our business and how the market is doing overall to determine where we can improve as a business that wants to succeed and grow” (Partner).

The Electrical Company does not use any tailor-made information system. The company uses mainly the Microsoft Office system to process daily information; in particular, the Project Estimator uses Microsoft Excel to prepare clients’ tendering sheets. MYOB is an off-the-shelf business management system which is being used in the Electrical Company as it is easy to use and maintain. The company has simple work processes as it is a service providing company. Its focus is more on the service and craftsmanship of the electricians rather than gaining competitiveness in information technology. However, the Electrical Company has recently adopted a new intranet file sharing online system that allows the company to download new project files from the contractors when they become available for tender. This confirms the findings of Cragg et al. (2002) that companies’ IT alignment will improve their business performance.

The Electrical Company gathers work through informal conversations, social events and word-of-mouth from former clients. This allows the business to grow and maintain its differentiation competitiveness by providing quality services. By adopting new information technology systems the Electrical Company hopes to save time and money when it comes to tendering for new projects.
5.5 External Environment Effects

Since the Electrical Company is only a medium-size company, it does not have power to control its market, but has to adapt to the external environment, which confirms the findings of previous research. After taking over the Electrical Company, there were not enough jobs and the partners had to lay off some electricians in order for the business to survive. Later, after a series of major earthquakes in Christchurch, there has been a large demand for fixing and rebuilding of both commercial and residential buildings. Now, the partners have had to readjust their market position and number of employees to suit this situation.

5.5.1 Business Environment

My findings at the Electrical Company are in accord with Covin and Slevin (1989) and Lau et al. (2004) that during economic downturns SMEs usually adopt a strategy of restructuring and retrenchment for survival. Although the Electrical Company has been operating in the South Island region for more than 50 years, when the partners took over the company in 2008, there was a global recession and there was not enough work to go around in the industry. Therefore, the business partners of the Electrical Company decided to “lay off” some of the staff and downsize the company. After the retrenchment of staff, the partners changed some of the services the company was providing and expanded two departments, the generator providing and heat-pump installation services, to meet the market demand. This confirms the findings of Lau et al. (2004) and Robson and Bennett (2000) that SMES could further enhance their competitiveness “given the dynamic external environment they face” (p. 277).

5.5.2 Natural Disasters

The several major earthquakes experienced in the Canterbury region over the past two years
created both opportunities and barriers for the Electrical Company. Partner B claimed that,

“with the earthquakes, there are more jobs. If we are in a perfect world, the investors are coming back and ready to rebuild Christchurch. We will be looking at 15 years of work and ten-fold our income. But, with the uncertainty of whenever an earthquake hits, everything we do will be on hold until the council does the re-check of the soil and so on”.

Although the Electrical Company does rely on the cash flow from day-to-day operations as claimed by Runyan (2006), the partners planned and managed the funds for business operations carefully after the three big earthquakes in September 2010, and February and June 2011.

“We just have to make sure August, September, and October’s cash are up to it and we can take the hit for now. We also may delay a few claims over November and December, then take a bigger cheque in January to cover this period after Christmas. We just have to have enough cash and equity there to cover it” (Partner B).

Not only do the business partners recognise the importance of managing their operational funds, they also expanded their generator business as after the earthquakes there was a shortage of electricity in the Canterbury region, particularly for the farms in the rural areas. The Electrical Company managed to obtain more work through partnering up with a local farm service supplier to provide generators services through them.

The New Zealand government also stepped in to help small and medium enterprises in the Canterbury region by subsidizing the wages for the employees, which reduced the costs of the business owners. Partner A said: “I think the New Zealand government has helped the SMEs a lot after the earthquakes. It helped to pay wages and saved a lot of businesses from going under”. With financial planning and useful help from the government, the Electrical
Company was able to recover its business after the earthquakes and the partners hope that the rebuilding of Christchurch will continue and “boost their business”.

In comparison to the effects on the business environment and SMEs after a disaster found by Runyan (2006), the recovery of the Electrical Company from economy recession and the major earthquakes was fast and effective. The partners had a good understanding of how to restructure their business to meet the market demands after the earthquakes and tighten their financial capital to ensure the running of the daily business.

5.6 Relationships within the Electric Company and between It and ‘Others’

To interpret these relationships, I took a symbolic interaction approach. Preston (1986) took a similar approach and I report my results by making comparisons with his findings about company structure and informal information communication processes.

Preston (1986) conducted his study in a division of a large manufacturing organisation in England, the division itself having approximately 250 employees. The managers of the division not only had to look after the division, but also had to send information to the head office. Although a division may seem to be small in comparison to a large organisation, the size of the division is still big in the definition of SMEs.

The medium-size Electrical Company only has 32 staff, which includes the staff on site, and it provides services rather than products. However, there are some similarities between the two organisations. Preston (1986) found that “the process of informing was twofold” (p. 526), informing each other through interaction and through personal observation. Similarly, the two partners of the Electrical Company gather information through social gatherings, reading newspapers and by keeping records of project plans on the Gantt chart. Both
organisations tend to rely on “word-of-mouth” as a source of information (Preston, 1986, p. 526).

This pattern of interaction and information processing can be explained by one of the fundamental ideas behind symbolic interactionism, that human society “consists of people in association” and “such association exists necessarily in the form of people acting towards one another and thus engaging in social interaction” (Blumer, 1969, p. 10). Through such joint activity, people form their interpretations of symbols, such as language to action in this ongoing process of interaction. This could be seen where the Service Manager and Partner B mentioned the reputation of the Electrical Company has to be looked after by maintaining its service standards to meet market demand, as most of the company’s clients are old customers or in the same socialising group.

In the Electrical Company, symbolic interactionism can be used to explain the company’s organisational structure and planning. This contrasts with its use by Preston (1986) who used symbolic interactionism to analyse “the process of informing within the perspective of the social order” (p. 525). Blumer (1969) views human action as a joint or collective action where people “share common and pre-established meaning of what is expected in the action of the participants” (p. 17). This can be seen in the partnership structure of the Electrical Company which is a form of social joint action. Both of the partners engage in collective decision making and the business planning process. It was mentioned earlier by Partner A that they make decisions in the best interests of the company and their employees. Through interacting with one another and taking into account what others are doing and their situations, people are forced to direct their own action. This was evident when the partners had to lay-off some of the electricians when they took over the business due to the world-wide economic recession.

Symbolic interactionism can also be used to explain how the interaction between people
and the environment will have an effect on planning as “the actions of others enter to set what one plans to do, [and] may oppose or prevent such plans” (Blumer, 1969, p. 8). This can be seen at the Electrical Company after the major earthquakes that have happened in Christchurch. The partners saw a business opportunity and decided to add an extra generator department to their business, as the farmers in the South Island might not have enough electrical supply in winter due to earthquake damage. Blumer (1969) sees the human being as “a complex organism whose behavior is a response to factors playing on the organization of the organism” (p. 14).
6. Conclusion

This study provides an in-depth understanding of a medium-size service enterprise in Christchurch, New Zealand. Thus it takes the literature one step further towards filling the under-researched area of SMEs, as called for by Dyt and Halabi (2007) and O’Regan et al. (2005). This research describes and discusses the process of communicating financial and non-financial information within an SME in New Zealand. It contrasts with most previous studies which were more prescriptive and only examined certain aspects of small and medium businesses in larger countries. In addition, by carrying out participant-observation research in a region that has just experienced several large scale earthquakes, it takes a further step to fill the under-researched area on how SMEs could recover from natural disasters.

The various characteristics of and management style in small and medium enterprises from previous literature are similar to the findings of the Electrical Company. The Electrical Company has an open and flat organisational structure, which allows easy and fast flow of communication for decision making. The two business partners are the main decision makers of the company. Both of them have had their own business before and they understand the fundamentals of financial management of their business.

The Electrical Company has an external accountant for business advice, Partner A has a commerce background and the wife of one of the partners helps with accounting. The partners constantly check and manage the cash flow of the business to ensure its financial health. The finding contrasts with the previous studies of Collier (2005) and Kennedy and Tennent (2006) in which SMEs’ owners usually have a lack of understanding in business management.
The research confirmed the findings of Perez-Sanchez et al. (2003) and Preston (1986) that SMEs need rapid information for decision making to adapt to the external environment. The partners, employees, suppliers and clients have a relationship of informal interaction and conversations. The Electrical Company does produce formal financial information through an external accountant for tax purposes, but it also uses its income statements and balance sheet at the end of each year for revision of the business operation effectiveness. Cragg et al. (2002) claim that SMEs in the United Kingdom do not use extensive tailor-made information technology systems. It is the same in the Electrical Company. The Electrical Company uses only the basic Microsoft Office software packages and the off-the-shelf business management software, MYOB, for its daily business running. However, the partners did get the company’s internet webpage upgraded by a professional website page design company to help the company’s image. Furthermore, the contracting department also joined an intranet system with its contractors so the Electrical Company could obtain new projects without physically going to the construction companies.

As a medium-size business, the Electrical Company is greatly affected by its external environment, as found by Covin and Slevin (1989) and Kitching et al. (2009). The partners of the Electrical Company had to cut back staff and restructure the business to ensure survival during to the 2008 economic downturn. Additionally, after the natural disaster of several major earthquakes the business partners organised their insurance claim for work-in progress and cash flow to cover the costs at the time when they could not operate their business. With the New Zealand government’s financial assistance, the Electrical Company picked up work right after the earthquakes and further expanded its generator providing service to the entire South Island.

Taking a symbolic interactionist approach, this research explains the social activities and
interactions between the employees within the Electrical Company and with its suppliers and clients. Symbolic interactionism interprets human action based on the activities and their environment rather than focusing on the individual’s personality and behaviour. This theory explains behaviour of people in the Electrical Company as the partners acted directly and effectively to make structural decisions when their business was being affected by the earthquakes. The employees within the Electrical Company communicate and manage their individual tasks based on the actions of other, such as the electricians going to the right places at the right time according to the work-sheet prepared by the Front-office Clerk. According to Blumer (1969), humans are actively involved in their present environment and apply action to the definition of the present situation, rather than passively accepting it.

### 6.1 Contributions of this Research

One contribution of this research is to confirm that the characteristics and organizational structure of the medium-size Electrical Company in Christchurch, New Zealand is similar to what was found in previous literature. It has a flat organizational structure which enables easy communication between employees and it allows flexibility to transfer electricians to the right service departments when necessary.

In addition to comparisons to the findings of previous literature, my participant-observation research has uncovered the process of communication and information transfer inside the Electrical Company, and between the Electrical Company and its suppliers, clients and the agent for generator sales. Not only are there informal relationships between the employees within the Electrical Company, there are also a lot of informal relationships between the company and its suppliers, its clients and its partnering company. According to the partners, the Service Manager and the Project Estimator, personnel in the suppliers, clients and the partnering company all know each other through school and social and sporting contacts.
By providing a high-quality service and maintaining close relationships in the industry network, the Electrical Company is able to both get new projects and satisfy returning customers.

When this participant observation research first started, I was only working with Partner B and the Project Estimator to process the generator ordering service and prepare for the project tendering. The Electrical Company did not appear to have any consistent organisational working processes and the Office Manager only appeared to manage the accounts payables and receivables. On the surface, the Electrical Company seemed to match all the characteristics and lacks of previous literature. However, after spending a few more months working alongside the partners, getting more involved with other projects in the company and interviewing everyone in the office, I found that the management style and accounting usage of the Electrical Company are very different from prior research findings. One partner has a business degree and both of the partners have operated their own business before. Therefore, they know how to read and use financial information to determine their company's financial health. Since there are two owners in partnership, they are able to make decisions together, which enable them to avoid personal tunnel vision in judgments and to allocate responsibilities to others rather one person taking full control over the company. By using an external accountant and with the wife of one of the partner being a Chartered Accountant, the partners have expertise and help in controlling the company’s operation and expenses. The Electrical Company also uses Gantt charts for planning and managing the projects’ progress and to enable the partners to charge the clients the right amount for work-in-progress. Thus, in contrast to findings in the previous literature that the owner-operators of SMEs lack management skills and have little accounting knowledge to operate their business, the partners of Electrical Company have thorough formal planning for the services they provide and fully utilise their electrical and
management expertise to operate their business.

This research further uncovered some of the difficulties faced by the partners and the way they have dealt with the impacts of the past two years’ major earthquakes. Being an electrical company, its services have increased in demand after the earthquakes as there was a lot of electrical system damage and the houses and buildings need repair and rebuild. The company has recovered its business in a very short amount of time after the earthquakes. The partners acknowledge that the New Zealand government has helped by paying the employees’ wages in order for the company to stay in business during the time when they could not carry out any services.

The interactions and communication process within the Electrical Company can be explained by using symbolic interactionism. The partners of the Electrical Company act accordingly to their business environment. They saw and exploited a business opportunity in providing generators to the South Island farmers, partnering with one the largest farm service providing companies in the South Island to market and sell the generators through for extra business income. By having a financial plan and carefully managing the operational funds, the Electrical Company was able to overcome the natural disasters and still continue to operate.

6.2. Future Research

This research has described the process and use of financial information in a medium-size Electrical Company, and confirms some of the findings in previous literature that SMEs have a flat organisational structure that allows easy, informal communication and control. Since SMEs New Zealand are under-researched further research could be carried out in other similar sized service companies in order to see whether they also have informal
communication processes with their suppliers and customers. Although this research has identified some of the information communication and decision making processes, it is a partnership-based business, in which the partners make business decisions together. Further research could be carried out in a service providing SME that is owned and operated by the same person, in order to confirm or refute the findings of Spillan and Parnell (2006) and Collier (2005) that owner-operators are reluctant to relinquish control and let others make decisions.

There are a lot of informal relationships and communication going on in the research site, and there is still more to find out about how SMEs acquire business through social contacts and meetings. Further participant observation studies, spending a considerable time in the research sites may find more specific details about SMEs’ operations and how new business is acquired.

Further research could be carried out in SMEs in Christchurch or other sites of natural disasters that have survived to see what precautions and plans companies used in order to stay in business.
7. References


Appendix: Interview Guide

Partner A

- Tell me a bit about your job
- What do you use to keep track of what is going on in the company?
- What information do you usually use to determine how the business is going?
- Do you think these financial statements are useful? If so, in what way?
- How do you ask the electricians to work if there are some shortages in one place?
- How do we charge our clients for the jobs we do?
- Could you please tell me about how you and your business partner make decisions on whether to accept or decline a new project?
- Could you tell me a bit about whether the earthquakes have had any effects on your business?
- What do you see as information for your business?

Partner B

- Tell me a bit about your job
- What do you use to keep track of what is going on in the company?
- Could you tell me a bit about whether the earthquakes have had any effect on your business?
- What do you see as information for your business?
- What about the projects that we are doing right now? How did we get them?
- What do you look for when you employ people?

- Could you please tell me about how you and your business partner make decisions?

**Service Manager**

- Tell me a bit about your job

- How does the company get their customers?

- Since there are a number of different jobs, how do you know which electrician to allocate which job and how do you allocate it?

- How do you quote the prices for the jobs?

- How do you charge larger project jobs you have done?

- How do you provide training to the electricians?

**Tendering/project estimator**

- Tell me a bit about your job

- How long have you been working in the electrician industry?

- How do you quote the prices for the projects?

**Office Manager**

- Tell me a bit about your job

- How do you know what job to do on a particular day?

- What are your responsibilities?

- How do you process the payments each month?
- Have you ever dealt with any late payments? What will happen to the company?

- Could you please tell me the process of paying the bills?

**Front office clerk**

- Tell me a bit about your job

- How do you know what job to do on a particular day?

- What are your responsibilities?

- How do you tell an electrician if there is a job coming up?

- What records do you keep of who you talked to when a job has been allocated?

- Where do you keep them?

- How do the electricians inform you of the hours that they have worked?

- What happens if they cannot make it to the job site?

- Did the earthquakes affect the business or the way you do business? If so, how have they affected you?