Financial and Non-financial Information Transfer and Communication within Small and Medium Enterprises

Mengdi Liu, Beverley Lord and Keith Dixon

University of Canterbury, New Zealand

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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-sized electrical service company in Christchurch, New Zealand. The previous literature has established the importance and the main characteristics of small and medium enterprises, 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.

The Electrical Company has a flat structure which allows flexibility. The two owners understand the importance of financial management and use financial information extensively to ensure the business expenses are under control. The owners also gather and use 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 after the recent earthquakes.
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 SMEs. 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 research inquires into the characteristics and management style in an SME in Christchurch, New Zealand (NZ), called The Electrical Company in this paper, and compares the findings with previous studies. An examination of 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.

Although definitions of small or medium firm size can vary (Ministry of Economic Development, 2005), SMEs generally have a small share of the market, are legally independent, and ownership and control are held by a single individual or group of individuals (Perez-Sanchez et al. 2003). As they are often owned and operated by the same person and have few employees, they may lack the resources and competencies they need to prosper (Perez-Sanchez et al. 2003; Spillan & Parnell, 2006). Many previous studies (reviewed in the next section) have examined SME managers’ style and behaviour, 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. However SMEs that do keep financial records and reports tend to perform better than those that do not.

This research was carried out in a medium-sized electrical service providing company. The researcher used participant observation onsite over a ten month period, including detailed interviews with all the key employees and the two owners of the company. The researcher observed many ways in which both financial and non-financial information is used and communicated.

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

2. Prior Research

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

In NZ SMEs account for 40.7% of the economy’s total output and, especially due to the geographic size of NZ, SMEs have a better chance of survival than large
companies (Ministry of Economic Development, 2005). SMEs have a flat structure and usually are unstandardized, which allows more flexibility compared to large enterprises. For example, the owner-controller in Collier (2005) 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.

Several characteristics of SMEs create barriers and make expansion difficult. Kennedy and Tennent (2006) find a lack of marketing and management skills and a lack of formal planning. In particular, during the start-up phase, SME managers may underestimate the cost of operations and fail to manage cash flow. Payne et al. (2009) claim that most failed new entrant SMEs have a lack of understanding of the business environment and competition in their industry, making it hard for them to acquire a market share. Williams (2007) suggests that SMEs should implement planning and learning processes in order to cope with major change and challenges the SME faces and to improve competitive advantage (De Geus, 1988).

2.2 Management Style in SMEs

According to Jennings and Beaver (1997), SMEs’ performance and ability to survive largely depends on the owner-manager’s personal preferences, prejudices and attitudes towards decision-making for the business. Perez-Sanchez et al. (2003) also mention positive attitudes of managers/owners as well as clearly communicating the business strategy as success factors. Managers need both to have expertise in the market in which they operate, and also to be able to understand information about cost control and managing risks (Lester et al., 2008; O’Regan et al., 2005).
SMEs’ owners may not understand the need to recruit people with competitive knowledge and skills, and may not provide training or encourage growth (Laitinen, 2009; Kennedy & Tennent, 2006; Perez-Sanchez et al., 2003; Williams, 2007). This is because the owner-manager can find it hard to let go of decision-making and delegate responsibilities (Barber et al. 1989). For example, the owner in Collier (2005) used personalised spreadsheet models to control the company and did not employ any internal accountant to help out. This management style creates large barriers to workers collaborating and to expansion of the business (Ashkenas, 2000).

2.3 Accounting Usage in SMEs

The owner-manager of an SME may have little accounting knowledge and may keep accounting records only for tax purposes, as SMEs are not legally required to prepare full accounting reports (Dyt & Halabi, 2007; Greenhalgh, 2000). Kennedy and Tennent (2006, p. 55) find that owner-managers “do not always have the necessary business acumen and skills, especially financial management and people management skills to successfully manage their business”. This failure to keep adequate accounting records may limit access to capital for expansion or survival.

Contrary to these findings of a lack of accounting skills and use of financial information in SMEs, others find evidence that owner-managers do use accounting information to a certain extent. Greenhalgh (2000) describes how 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, because these new techniques require more time and technically competent personnel.
Although Dyt and Halabi (2007) find that not all small businesses produce accounting reports, if they do, profit and loss reports are considered to be more useful.

### 2.4 Information 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) call for more research to find out how SMEs gather and transfer their information to support their decision-making.

### 2.5 External Environmental Effects

The size of SMEs means that they have less control over what is going on around them, and have to adapt to the external environment. SMEs’ viability and performance are largely affected by the industry setting, competition, business climate and exploitable opportunities (Covin & Slevin, 1989). During economic downturns, many SMEs seek opportunities to restructure and reposition themselves for survival (Covin & Slevin, 1989; Lau et al. 2004). According to Kitching et al. (2009), most SMEs retrench in a recession, as owner-managers focus on short-term survival by reducing costs rather than by gaining more revenue. However, Lau et al. (2004) and Robson and Bennett (2000, p. 227) 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,
Experiencing business recovery after Hurricane Katrina in the United States, Runyan (2006, p. 23) finds that the barriers to recovery for SMEs after a natural disaster include “lack of access to capital; cash flow; communication; employees”. Runyan (2006) claims that many small businesses rely 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. They could not obtain sufficient funds through banks or the government, so they incurred large amounts of costly debt (Runyan, 2006).

In the last two years, Christchurch has been suffering ongoing seismic activity, including four earthquakes magnitude six and above in September 2010, and February, June and December 2011. The February event caused death and destruction in the Central Business District and eastern areas of the city. The Electrical Company’s response to the effects of these natural disasters is explored in this study and the findings contribute to this sparse literature.

### 2.6 Research Questions

The literature reviewed in this section has identified the main characteristics of SMEs, which are a lack of both structure and standardisation. Since many SMEs are owned and operated by the same person, management style and behaviour greatly affect their survivability. Lacking accounting knowledge and financial management skills, owner-managers are often reluctant to produce and use accounting information, which in turn could potentially affect their ability to raise capital. SMEs tend to 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.

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. Tenhunen et al. (2002) suggest more research on information transfer and use in SMEs. Therefore, this research, based in NZ, will look at 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-sized service
firm in a small country in comparison to the previous studies in larger countries?

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) uses Simons’ (1995) four levers of control to describe and explain the intertwined relationships between power and the control system used by the entrepreneur owner. However, Collier (2005, p. 324) “did not address informal control processes such as group norms, socialisation and culture”.

The findings of this study are explained using the theory of symbolic interaction. According to Denzin (2004, p. 82), “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”. Symbolic interaction 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). That is, in personal behaviour and interactions with each other, people make interpretations and act in response, thus creating the world they live in.

Preston (1986, p. 525) uses 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 he studied. Successive interactions and sharing of meanings create “shape to working arrangements and hence the social order”. Preston (1986) finds managers informed each other through informal interaction; and, also they kept personal records and gathered information through observation.

3. Research Method

The authors believe that facts are products of social interactions between the researchers and the participants (Klein & Myers, 1999), and that knowledge can be obtained through interactions between people and is based on people’s lived experience (Weber, 2004). The theory of symbolic interactionism seeks to understand how social structure is created (Chua, 1986; Berger & Luckman, 1966; Blumer, 1969; Denzin, 2004). Denzin (2004, p. 83) explains 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.” Therefore the researchers chose qualitative research methods: participant observation, interviews, and examination of the company’s documentation (Denzin, 2004).

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. The first author gained access to the Electrical Company through her part-time employment there. For ten months she carried out participant-observational research, examining and making sense of the financial and non-financial information communication and transfer processes within the company, and with its suppliers and customers. She worked alongside one of the partners, as his
personal assistant. He allowed her to observe his work, and how he informs himself and transfers information to others when he needs jobs done. The researcher was able to access how people in the business communicate with their customers, as she was partly responsible for the selling of generators. She worked with the project analyst to tender for and analyse the cost of projects, and so also has knowledge of how people in the company deal and communicate with their suppliers. The researcher 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, she noted down what she 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 her to understand the communication processes and how participants go about carrying out their duties.

The researcher asked unstructured questions when she was requested to do a job that she had not done before. She observed and asked about the purpose of the projects that were carried out, and their results. During casual conversations, such as at morning tea break and lunch time, she asked about the work experiences of the interviewees, and how and why they carry out their individual tasks. She 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. The researcher also talked to Partner B’s wife who looks over the accounts for the partners. The semi-structured interviews lasted from 15 to 45 minutes. They were recorded and transcribed.
Although the office in which the researcher worked is open-plan, it was sometimes difficult for her to understand other people’s roles and responsibilities. Therefore, she 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 (interview guides available on request). However, these prepared questions were used only as a guide to topics to cover. The interviews did not follow the interview guide in the exact order, but helped the researcher be more confident and better prepared for the interviews, while at the same time leaving opportunities to seek new ways of understanding the topic (Rubin and Rubin, 2004). The researcher also had access to all documentation used in the business, whether on paper, in the computers or on the walls.

The chosen research methods allowed the researcher to overcome common limitations of field research. As the researcher worked at the company, she already had considerable background information on the company’s nature and the social background (Klein & Myers, 1999). She was able to see whether the interviewees were affected by her presence and hiding their usual selves, and she did not have the awkwardness of getting to know interviewees and structuring new trust relationships (McKinnon, 1988). As the researcher was working alongside the partners and with the employees in the same office, she had an overall idea of their daily work process and personalities, lessening the chance of having biased opinions (McKinnon, 1998).

Using multiple methods and observations adds significant reliability to the findings of field research (McKinnon, 1988). McKinnon (1988, p. 44) 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”. As the researcher was able to use all these methods, the validity and
reliability of the study was increased.

4. Research Findings

In this section, firstly the Electrical Company is described. Then we give details of various formal and informal communications within the company and with its suppliers and clients.

4.1 Electrical Company Structure

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. These two 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.

When the two partners took over the Electrical Company, 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.
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. 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).

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 building outside of the Central Business District. 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 earthquakes in September 2010 and February 2011, the partners predicted a likelihood of power shortages in rural areas. Therefore, in April 2011, the partners decided to expand into providing generators. The company collaborated with one of the South Island’s largest farm supply stores to import and provide high quality generators throughout the South Island.

“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.

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.

Because they both own the company, the partners make decisions together.

“… we both make decisions that might affect staff, such as setting salaries and staff remuneration . . . 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 sticking to it” (Partner B).

4.2 Financial 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 Office Manager handles the invoices for purchases which arrive in the mail.

“Usually on the 20\textsuperscript{th} 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).

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

“… wages, rent, GST, PAYE, fuel and electricity are known costs. We can
predict these costs and prepare what we need for the next months … Also, we count the cash coming in on a daily basis, and we can always look at the current bank balance to check how much money we are 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. I believe the main failure of businesses is due to lack of capital and handling of cash flow” (Partner A).

“[Every day Partner A] will see the bank reconciliation … 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” (Office Manager).

The cash flow information is crucial for the company to determine its financial health and it enables the owners to make quick decisions.

Partner A, who has a Bachelors degree in Business Management and Business Communication, 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 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 for wages and expenses?’” (Partner A).

At the end of each month the Office Manager prepares monthly reports: the profit and loss account, trial balances and the cash flow statement. The wife of Partner B, who is a fully qualified Chartered Accountant, comes to the company each month and at year end to look at these reports and discuss with the partners the financial health of the company, which department has progressed and in what areas the business needs to
strengthen. The Electrical Company also has its own external accountant, from a small accounting firm, to do the company’s tax returns and PAYE.

4.3 Job Order Cost Accounting

A job order cost accounting system is used in determining the costs of the material and labour used in a particular job or project. The Project Estimator and the Service Manager estimate the materials and labour needed for each job from their experience, add the company’s profit margin and charge their customers based on their estimation.

The Service Manager organises most of the residential work for the electricians and a few large projects where the customers have specifically asked for him. Since the Electrical Company is well-known 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.

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.

“I organise what material will be needed for this job and issue this job to the most suitable, available staff. 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, approved by Partner B and tendered for. Four large contracting firms in the South Island are the main sources of commercial projects. The Project Estimator will set up
an 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, the researcher helps the Project Estimator to count light fittings on building plans and measure the lengths of the wires and conduits. She and the Project Estimator email the suppliers to get costs for the materials. The Project Estimator estimates the labour hours required.

“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 metres of wires” (Project Estimator).

The tender is based on material and labour costs plus the mark up rate. Partner B makes changes if necessary and approves to the tendering price.

The Electrical Company uses only two main suppliers of 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 time. The company itself keeps very little inventory.

“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).

The cost for generators is easier to calculate as the generators are ordered from a direct supplier, and are shipped from China. Partner B 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).

Partner B’s assistant contacts the generator supplier for the type of generator ordered by the customer and sends them a copy of the invoice for the delivery date and
address. Then, the assistant contacts the agent by phone or e-mails him to inform him of the shipping time. The Electrical Company charges the agent based on the generator’s price, including freight, GST and the profit margin, which is passed on to the customer by the agent. 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.

4.4 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 external accountant who has a large number of clients in the construction business.

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. “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” (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.

The Service Manager and the partners make a plan for all the projects during the year, on a Gantt chart, which allows them to allocate the right number of electricians to each project site and decide whether to hire new people if necessary.

“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).

Partner A asked the researcher to design 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).

As well as using non-financial information to control the company’s internal processes, the partners and the Service Manager also use their personal connections to gather new work and to retain current customers.

“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.

“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 … 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).

4.5 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.

“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 frequently 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 his assistant to mark up the profit and generate a selling price. The construction companies usually send out an email invitation to tender for a commercial project to all the electrical companies, and tenders are submitted by email.

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.

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. With the rapid change of technology in the past few years, the Project Estimator has been 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. At the start of 2012, all construction and electrical service companies joined an intranet system, called the Acconex. The construction companies upload their project site plans onto the intranet server and the electrical service companies can go online and download them to their computers without having 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 update the company’s web pages. They contracted an external web page design company. Partner A met with the web page consultants in person to discuss the features they wanted to include. The new company web pages outline the services the company provides in detail, include the
new electrical rebuild services for residential and commercial customers’ properties that have been affected by the earthquakes in Christchurch, and provide for online booking if needed.

“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).

4.6 Information Flows

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. This allows free flow of conversation, especially between employees and partners in the same service department. For example, the Project Estimator will have constant communication with Partner B, who is responsible for the commercial building services. The Office Manager, Service Manager, Front-Office Clerk and Partner A are the ones that have the most contact with residential customers. 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. Otherwise employees talk to each other casually during the day when there is more information required. Thus information can be quickly passed around people.

Everyone in the office has direct contact with the suppliers. The suppliers send their invoices to the Office Manager, who records the accounts payable at the end of each month.

The Construction companies inform 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 for its decision on which electrical service company gets the project.

5. Interpretive Analysis

In this section, the findings described in the previous section are firstly compared and contrasted with the characteristics of SMEs and the use and communication of both financial and non-financial information found in previous literature. Then the findings are interpreted through the lens of symbolic interactionism.

5.1 Characteristics of SMEs

The Electrical Company has the same characteristics and organisation structure as found 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 advice from external accountants, 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 that: “because NZ 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). However, the Electrical Company can only survive if it has a flexible structure and less levels of control compared to large companies. Partner A claimed: “That’s the best thing about small businesses … 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 one of the main
characteristics of small and medium enterprises are less structure and more flexibility.

In Collier (2005), 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 customers and obtain new work and projects.

Kennedy and Tennent (2006) 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. 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 contrasts with findings of Kennedy and Tennent (2006) and Payne et al. (2009), that SMEs have a lack of understanding of the business environment and competition in the same industry.

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 Board.

“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 criticised 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 NZ 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 in SMEs

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 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. The Front-Office Clerk and the Service Manager work together to plan the electricians’ daily work schedule to ensure a balanced work load for each electrician.

For business advice, the Electrical Company uses both an external accountant and
Partner B’s wife who is a chartered accountant. Also Partner A has a business degree.

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.

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.

5.3 Accounting Usage in SMEs

The partners of the Electrical Company have a daily focus on accounting records and financial 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.

The findings at the Electrical Company are consistent with Greenhalgh’s (2000) and Dyt and Halabi’s (2007) claims that managers of SMEs use more traditional management accounting techniques, such as profit and loss reports. However, in addition, the Electrical Company has just developed an activity-based costing system to estimate the service charges for their clients and evaluate the performance of electricians.

5.4 Information Systems and Communication within SMEs

The findings at the Electrical Company confirm those 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 meetings at 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 and friends, and from referrals by other business associates. The employees of the Electrical Company understand the fundamentals of relationship networking and maintaining 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, “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 alone are inadequate.

“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).

Rather than a tailor-made information system, the Electrical Company mainly uses the Microsoft Office system to process daily information; in particular, the Project Estimator uses Microsoft Excel to prepare tenders. MYOB, an off-the-shelf business management system, is also used. 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.

5.5 External Environment Effects

Since the Electrical Company is only a medium-sized company, it does not have power to control its market, but has to adapt to the external environment.
The partners’ actions on taking over 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. During the global recession the partners decided to “lay off” some of the staff and downsize the company. Later, 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 can enhance their competitiveness “given the dynamic external environment they face” (p. 277).

The several major earthquakes experienced in the 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 found 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, particularly for farms. The Electrical Company managed to obtain more work through partnering with a local farm service supplier to provide generators through them.

The NZ government also stepped in to help small and medium enterprises in the Canterbury region by subsidising the wages for the employees, which reduced the costs of the business owners. Partner A said: “I think the NZ 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 to “boost their business”.

5.6 Interpretation of Relationships

Preston (1986) used symbolic interactionism to interpret his findings about informal information communication processes. Although Preston’s (1986) study was of a large organisation, there are some similarities between his findings and ours in the Electrical Company. Preston (1986, p. 526) 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 and disseminate information through social gatherings, from reading newspapers and by keeping records of project plans on the Gantt chart. Both organisations rely on “word-of-mouth” as a source of information.
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, for example, when 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.

Symbolic interactionism can also be used to explain the Electrical Company’s organisational structure and planning. This contrasts with its use by Preston (1986, p. 525) who used symbolic interactionism to analyse “the process of informing within the perspective of the social order”. Blumer (1969, p. 17) 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”. This can be seen in the ownership and running 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. As mentioned earlier, Partner A said 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.
6. Conclusion

This study provides an in-depth understanding of the process of communicating financial and non-financial information within a medium-sized service enterprise in Christchurch, NZ, as called for by Dyt and Halabi (2007) and O'Regan et al. (2005). It is broader than most previous studies which were more prescriptive and only examined certain aspects of SMEs 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.

Although some characteristics of and management style in SMEs from previous literature are similar to the findings at the Electrical Company, however, contrary to past studies both partners understand the fundamentals of financial management of their business, and use external accountants for business advice. 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.

The owners of the Electrical Company make extensive use of informal communication of both financial and non-financial information. Basic, off-the-shelf information technology systems are used to help generate and transfer information.

Although the owners had to cut back staff and restructure the business to ensure survival during the 2008 economic downturn, they were able to take the opportunity to expand in their areas of expertise after the natural disaster of several major earthquakes.
Symbolic interactionism explains the 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. Thus the people in the Electrical Company are actively involved in their present environment and apply action to their definition of the present situation, rather than passively accepting it (Blumer, 1969).

Since SMEs in NZ 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 information communication and decision-making processes, the Electrical Company is a partnership-based business. 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 is 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. Further studies, spending a considerable time in the research sites, may find more about SMEs’ operations and how new business is acquired, through social contacts and meetings. Further research could be carried out in SMEs in Christchurch or other sites of natural disasters that have survived to see what precautions, plans and actions companies used in order to stay in business.
References


