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## Role of Accountants in Developing and Using Management Accounting Systems (MAS) of SMEs in Pakistan: A Qualitative Approach

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### Abstract

Accountants play a critical role in SMEs by giving strategic advices in accounting and finance matters. They are considered significant resources in the uplifting performance of SMEs because employing accountants may assist in addressing SME constraints. In this regard, this research aims to explore the role of accountants in developing and using management accounting systems in SMEs to ensure the sustainable survival of SMEs in Pakistan. A qualitative research design was incorporated, and data were gathered from 16 semi-structured interviews. Furthermore, some observations and documentary evidence were collected for data triangulation purposes. Thematic analysis was performed for qualitative data analysis. Findings have revealed that SME owners have employed accountants for strategic advice purposes. Furthermore, accountants have portrayed dynamic capabilities in the context of developing and using management accounting systems in SMEs. These accountants' dynamic capabilities have ensured the sustainable survivability of SMEs. This is one of the earlier studies in the context of Pakistani SMEs where accountants were involved in developing and using management accounting systems by portraying dynamic capabilities.

**Keywords:** SMEs, Dynamic Capabilities, Qualitative Research Design, Sustainable Survivability, Management Accounting Systems

### Introduction

Small and medium-sized enterprises (SMEs) are significant in uplifting economic growth and development (Vanstraelen & Schelleman, 2017), particularly in developing countries where SMEs are prone to economic survival concerns (Hyder & Lussier, 2016). Pakistan is also a significant developing economy where SMEs confront the same predicament (Fatima & Bilal, 2019). More than 90% of the businesses in Pakistan are SMEs (SMEDA, 2019); however, these firms confront resource constraints that impede the SMEs' growth (Fatima & Bilal, 2020).

Given these resource constraints, recent scholarship (Weigel & Hiebl, 2022) has emphasized the role of employing accountants because some resource constraints can be overcome by the presence of these accountants in SMEs (Carey & Tanewski, 2016). Previously, scholars (e.g. Perry et al., 2010; Blackburn et al., 2018; Stoian et al., 2018) have acknowledged the accountant's role as a significant adviser in SMEs. Nevertheless, the specificity of SMEs to employ accountants is still ignored and requires further investigation (Weigel & Hiebl, 2022; Vanstraelen & Schelleman, 2017).

In general accounting scholarship, the role of accountants has been transformed from merely providing reporting services to more advisory roles (Wolf et al., 2020). Nevertheless, the main task of accountants is to provide reporting services in the capacity of external accountants (Tan et al., 2016; Sian & Roberts, 2009). Most recent studies have focused on using accounting software for reporting purposes that were previously performed by accountants manually (Ma et al., 2021; Abdi et al., 2021). Apart from producing reports, accountants play a critical role in managerial decision-making (Wolf et al., 2020) that can enhance the competitive advantage of SMEs. Other studies (Paananen et al., 2016; Dyer & Ross, 2007) indicated that accountants assist SMEs in getting access to finance.

It is evident from the literature (Hiebl et al., 2015; Doron et al., 2019) that accountants have assumed different roles in the context of SMEs, such as chief financial officers, management accountants, finance managers and public accountants. All these experts usually manage the accounting systems of small firms; therefore, in the SME context, these can be termed as accountants (Weigel & Hiebl, 2022). In recent years, developing and using management accounting systems (MAS) in the context of SMEs have received enormous scholarly attention (Pelz, 2019; Cleary et al., 2022; Ma et al., 2022). Previous studies have paid less attention to the specificity of MAS in the context of SMEs which persuaded scholars to gain more insights. As accountants have a critical role in giving advice on accounting matters (e.g. developing and using MAS) to SME owners, their role in developing and using MAS could be more critical and require further exposition (e.g. Weigel and Hiebl, 2022). Based on these recent gaps, this research aims to explore the role of accountants in developing and using MAS in Pakistani SMEs, where literature has scantily addressed how MAS is developed and used and how accountants play a role in MAS development. This study aims to address the following research question.

***RQ: How accountants play role in developing and using MAS in SMEs of Pakistan?***

This study has contributed in three ways by addressing the above research question. Firstly, it has explored the perception of SME owners and accountants regarding the role of accountants in developing MAS under the theoretical underpinnings of dynamic capabilities theory. Secondly, this study elucidated the role of accountants in portraying sensing, seizing and transforming capabilities to develop MAS for ensuing sustainable survival. Lastly, it has underlined the advisory role of accountants in developing MAS beyond just concentrating on booking keeping and financial accounting activities. Overall, the motivation to address this research question is to accentuate SMEs' sustainable survival concern by unveiling the accountants' advisory role.

## Literature Review

### Management Accounting Systems in SMEs

Lopez and Hiebl (2015) have argued that research has overlooked the peculiarities of management accounting in SMEs for a long time. They analyzed 73 journal publications published between 1985 and 2012 on management accounting in SMEs to reach this conclusion. First, the few papers analyzed throughout the review period lend credence to the notion that research on management accounting in SMEs is limited. Second, their analysis uncovers intriguing themes, such as SMEs employing less MAS compared to larger firms; within SMEs, medium enterprises are likely to employ more contemporary management accounting systems than smaller ones, and SMEs tend to use MAS more creatively due to resource constraints. In a recent review, Pelz (2019) concluded that management accounting is valuable for SMEs because it enables management to cope with the inevitable obstacles of expansion. Arguing on the usage of MAS by SMEs, previous scholarship has paid less attention to it, as Armitage, Webb and Glynn (2016) argued. Even Lasyoud and Alsharari (2017) have corroborated that plenty of studies related to the design and usage of MAS are in larger organizations, but literature is scant in the SMEs context; therefore, these enterprises provide a significant context for an in-depth understanding of MAS (Cleary et al., 2022).

In the previous literature, there are some dichotomies regarding the suitability of MAS in SMEs. For instance, MAS can endanger the innovative capability of SMEs (Davila et al., 2009). However, this argument has been disregarded, and it has been proclaimed that MAS can enhance the innovative capability of SMEs (Chenhall & Moers, 2015). Some recent scholarship has also substantiated that MAS can enhance innovativeness in SMEs (e.g. Hamadi & Fournès, 2023; Pedroso & Gomes., 2020). Some other scholars have argued that planning (function of MAS) is not suitable for SMEs due to involving high cost (Honig & Samuelsson, 2014; Sarasvathy, 2001; Bhid'e, 2000; Gumpert, 2003). However, other recent studies (e.g. Latif et al., 2023; Kuttner et al., 2022; Greene & Hopp, 2017) have precluded this view that planning is not suitable for SMEs. Despite this paradox, most studies have acknowledged that MAS are significant for SMEs and can enhance the SMEs' survival (Kuttner et al., 2022; Cleary et al., 2022; Latif et al., 2023). Therefore, it can be reasoned that MAS provide significant information for planning and decision-making purposes in SMEs to develop more resources and remove impediments to performance.

### Accountants and MAS in SMEs

Recently, accounting scholarship has emphasized exploring accountants' role in SMEs (Weigel & Hiebl, 2022). Predominantly, previous scholarship on SME accountants has emphasized providing reporting services to SMEs (Tan et al., 2016; Berry et al., 2006; Sian & Roberts, 2009). These reporting services performed by accountants are now shifted towards accounting software that assists SME owners in developing financial reports (Ma et al., 2021). Some scholars have associated the role of accountants in improving the quality of managerial decision-making where accountants merely substantiate the already taken decision leading to question the achievement of competitive advantage (Wolf et al., 2020; Lewis & Walker, 2013; Goretzki et al., 2013). Some studies argue that employing accountants assists in access to finance because financial institutions such as banks may show trust in those SMEs where there is an accountant (Paananen, Renders & Blomkvist, 2016; Dyer & Ross, 2007).

Various other studies have identified the advisory role of accountants as giving business and non-business advice to SME owners (Blackburn et al., 2018; Perry et al., 2010; Berry et al., 2006; Stone, 2015). In this regard, the most recent study (De Bruyckere et al., 2020) has

revealed that business advice develops a high level of mutual understanding between accountants and SME owners. Gordini (2016) has argued that accountant as advisors add value to SMEs by bringing more professionalism. In addition, accountants also provide legal advice, such as succession issues in family SMEs (Blackburn et al., 2018) and human resource decisions (Sarens et al., 2015). Arguably, accountants are considered a significant resource for SMEs in order to develop more resources.

Despite the significance of accountants' role, previous scholarship has scantily addressed the more advanced role of accountants, such as in developing and using MAS in SMEs to bring change in these firms (e.g. Weigel & Hiebl, 2022; Tipu, 2022). As argued earlier, there is an emerging tendency to explore MAS in the context of SMEs where scholarship is scant (Cleary et al., 2022; Latif et al., 2023). In this emerging trend, the accountant's role in developing MAS is critical and requires further investigation (Weigel & Hiebl, 2022).

### **Dynamic Capabilities (DC) theory**

We have incorporated the dynamic capabilities approach as a theoretical lens for exploring the role of accountants in developing and using MAS in SMEs. "A dynamic capability is the capacity of an organization to purposefully create, extend or modify its resource base" (Helfat et al., 2009, p. 4). DC is rooted in a resource-based view (RBV) (Barney, 1991). Three types of dynamic capabilities are classified as sensing, seizing and transforming (Teece, 2018). Sensing capability explains the ability to identify and assess market opportunities and threats; seizing capability reflects the ability to deploy resources to capture opportunities and giving response to threats; transforming capability circles around resource reconfiguration. These capabilities are context-specific and a source of competitive advantage (Teece, 2012). Nevertheless, some firms will be more proficient in executing these capabilities than others (Teece, 2022).

The relevancy of DC theory from the perspective of MAS is evident. MAS can be regarded as a capability of the firms (Peters et al., 2019). Drury (2018) has argued that MAS are critical for firms in providing information for taking the strategic decision to capitalize on opportunities, developing controls for addressing threats and designing products and services. Arguably, these are the aspects of DC theory reflecting the relevancy of DC in the MAS of firms. Recent scholarship has also emphasized focusing on exploring MAS in the context of SMEs based on the theoretical underpinnings of DC (Tipu, 2022; Latif et al., 2023). Furthermore, the role of accountants in developing and using MAS in SMEs is scantily addressed, as argued earlier. Therefore, based on these assertions, it is plausible to explore the role of accountants in developing and using MAS in SMEs.

### **Research Methodology**

A qualitative research design has been selected for the current research that postulates that the results of an investigation are context-dependent (Bell, Bryman & Harley, 2022). This research design is plausible when the emphasis is on exploring the phenomenon of interest (Saunders et al., 2019). The purpose of this design is not the generalizations of the findings; rather, the emphasis is to interpret findings in the context (Creswell & Creswell, 2017). The current emphasis of this research is to explore the role of accountants in developing and using MAS in SMEs, which justifies adopting a qualitative research design.

Qualitative data was collected via semi-structured interviews with SMEs' key participants (owners and accountants). Details of interviews can be found in the table. An interview protocol was developed for conducting semi-structured interviews by adopting an interview



protocol refinement framework (Castillo-Montoya, 2016). Initially, interview questions were developed based on the research question of this study. The feedback was taken from three experts to ensure the credibility of the interview protocol. Panel members suggested some changes and duly incorporated them. Purposive sampling was adopted to select relevant participants for interviews. This sampling strategy is justified when the intent is to select information-rich participants to provide relevant information (Saunders et al., 2019). Based on this, only those SMEs were selected where SME owners appointed full-time accountants who assisted in developing MAS. Preliminary questions were asked of SME owners, i.e. *“Have you employed a full-time accountant in your firm?”*, *“Do accountants assist in developing MAS in your firm?”*. For getting access to SMEs, personal contacts were used to select SMEs from Sialkot (a city in Pakistan) that requires scholarly attention owing to survival concerns (Business Recorder, 2020). A total of 16 interviews were conducted, of which 6 were SME owners and 10 were accountants. After 16 interviews, no new information or theme emerged, and it was the point of saturation where interviews were stopped (Saunders et al., 2019). All interviews were recorded and transcribed in Urdu and translated into English by the language expert. The interview time ranged from 45 to 65 minutes. Apart from interviews, some observational data and documents were investigated for data triangulation purposes (Creswell & Poth, 2018).

Thematic analysis (TA) was incorporated for analyzing the qualitative data. TA is a comprehensive qualitative data analysis technique comprising six phases (Braun & Clarke, 2006). In phase one, initial insights were taken from the data and transcription was added to the qualitative data analysis software Atlas.ti 22. In phase two, initial codes were generated from the data by carefully analyzing different data segments. In phase three, themes were searched by joining similar codes generated in phase two. In the fourth phase, themes were reviewed in detail. In phase five, names were given to themes, and in phase six, themes were explained with participants’ stances keeping in view the study’s intent.

Qualitative reliability and validity concerns have also been addressed in this research. For qualitative reliability, inter-coder agreement (Silverman, 2015) was obtained in which two independent coders were selected. They independently coded the qualitative data and developed themes. Minor inconsistencies were revealed and addressed with mutual understanding. For qualitative validity, respondent validation was adopted in which transcriptions were sent back to participants to seek corroboration (Bell et al., 2022; Saunders et al., 2019).

Sr. No.	Interviewees	Duration	Experience (Years)	Industry
1	Owner 1	47:50	10	Surgical
2	Owner 2	45:43	12	Surgical
3	Owner 3	49:45	9	Sports
4	Owner 4	56:56	13	Leather
5	Owner 5	51:40	10	Surgical
6	Owner 6	49:41	9	Leather
7	Accountant 1	57:31	9	Surgical
8	Accountant 2	61:41	8	Surgical
9	Accountant 3	49:40	9	Sports
10	Accountant 4	47:12	10	Leather
11	Accountant 5	60:29	15	Surgical
12	Accountant 6	46:14	17	Leather
13	Accountant 7	47:40	6	Surgical
14	Accountant 8	48:32	13	Surgical
15	Accountant 9	45:10	10	Sports
16	Accountant 10	59:05	9	Sports

## Findings

### **Strategic Advices in developing MACS**

Most SME owners have advocated employing accountants in SMEs to assist in developing accounting systems. Developing accounting systems may require a team of IT and accounting personnel, and hiring accountants may support the development of accounting systems that can add value to SMEs.

*“I recruited an accountant with a master's degree in accounting, and he and IT experts developed an accounting system for my firm. Now my decision-making ability has been enhanced” (Owner 1)*

*“Recently, we have developed an ERP system for our firm, and the accountant has given valuable pieces of advice in developing this system” (Owner 4)*

One of the owners asserted that his accountant advised developing a mobile application for inventory controls. In developing this application, the owner took the services of an IT person.

*“In 2021, we faced some inventory losses due to poor record-keeping. My accountant advised me to develop a simple mobile application for inventory so that a layperson could understand it after some training. I hired an IT firm and developed a team of three persons (an accountant, an IT person and myself). Now, our inventory problems have been resolved to a greater extent” (Owner 6)*

Even the accountant of this firm corroborated and told.

*I advised the owner to develop a mobile application, and he endorsed my idea (Accountant 8)*

The above excerpts indicated that owners intended to employ accountants for advice purposes.

### ***Accountants Sensing Capabilities***

Most accountants have demonstrated that after their recruitment in SMEs, they have tried to give business advice to owners based on their market assessments and market knowledge. Accountants had not only just accounting knowledge, but they also possessed product knowledge and were constantly involved in capturing market information. The most significant advice was the internal and external business assessment, as exhibited by participants.

*“When I joined this firm, the owner discussed developing a strong inventory system. I told him to focus on developing real-time inventory tracking. Before joining this firm, I worked in another factory where I assisted owners in assessing the need to manage and track inventory” (Accountant 4).*

*“I have witnessed that competitors started using benchmarking exercises to enhance performance. I also discussed it with my owner, and he gave a positive gesture towards it” (Accountant 7).*

The above excerpts indicated that accountants were involved in assessing internal and external business situations. They told owners to focus on developing management accounting systems such as inventory systems and benchmarking. Furthermore, accountants were involved in continuous conversations with owners and their contact outside the firm in order to better judge competitors for advising strategic actions. Accountants asserted

*“I always discuss with my friends regarding market assessment” (Accountant 9).*

*“I monitor the market through a conversation with the owner and some other persons outside the firm” (Accountant 2)*

This indicated the sensing capability of accountants in which they are involved in monitoring market information to advise owners.

### ***Accountants Seizing Capabilities***

Accountants also demonstrated their seizing ability by advising business owners to capitalize on market opportunities. Most accountants develop capital budgeting decisions for making long-term decisions to capitalize on opportunities. It was found that there was no adequate capital budgeting decision mechanism prior to the long-term investment opportunities. The accountants and owners discussed developing this system to maximize market prospects. This signaled the development of a management accounting system based on accountants' seizing abilities. Accountants revealed

*“I told the owner to purchase a new machine for production, and based on this opportunity, I calculated the net present value for taking this decision” (Accountant 5)*



*“There was no investment appraisal technique, but I advised the owner to take such decisions based on some suitable capital budgeting method” (Accountant 10)*

As indicated by accountants, the market opportunities were in the form of enhancing operational capabilities by purchasing new machines in firms. SMEs usually require to enhance their operational capabilities, but due to a lack of capital, these firms are unable to seize the market opportunities. However, in current research, accountants revealed that owners showed trust in them to prepare for taking the opportunity of long-term investments. Furthermore, customers' orders also prompted owners to take accountants' advice in managing costs.

*“The CEO discussed with the production manager to prepare production samples, but there was no proper mechanism to develop an estimated cost. I advised the owner and production manager to develop an estimated cost sheet” (Accountant 8)*

*“Our customer place customized orders, due to which cost is increased sometimes. I developed comparative costing sheets so that costs may be controlled” (Accountant 2)*

*Based on the above excerpts, it can be argued that accountants indicated their seizing capabilities by developing management accounting systems in order to seize the available market opportunity.*

### **Accountants Transforming Capabilities**

Accountants' opinions revealed that they were also involved in transforming existing resources after seeing growth in the firm. Owners took customer feedback and based on feedback, product offerings were changed to enhance customer satisfaction. It was revealed that accountants having professional certifications such as CMA and ACCA have more roles in product innovations than those having just a master degree. In this regard, owners asserted

*“In my firm, I hire ACMA, and he is more innovative in terms of product costing and product development. Previously, I hired a simple master, but he was not much innovative” (Owner 3)*

*“I always prefer professionally qualified accountants because they are more capable of giving the best advice rather others” (Owner 1)*

Accountants revealed

*“I am involved in designing the product because I know that every design has a costing element, so my owner always involves me in taking product decisions” (Accountant 5)*

*“I shared with the owner about my experience in cost management of new products in my previous firm. The owner discussed and took advice from me about cost management that led to changes in product features while keeping cost in consideration” (Accountant 9)*

In transforming organizations' resources, accountants had a crucial role to play in the context of cost management, as demonstrated by the excerpts above. The cost factor is related to new product offerings or changes to existing product offerings. The plausible explanation is that SME owners are typically cost-conscious and strive to avoid costs that may influence product offerings. Even for this reason, business owners employ professionally qualified accountants, as they are more adept at cost management than accountants with only a master's degree. Professional accountants may place a great emphasis on establishing and using management accounting systems (e.g. cost management) in light of the fact that firms' product characteristics and offerings may be subject to change due to this aspect.

### ***Sustainable Survival***

As previously explained, accountants' dynamic capabilities have changed their firms. These organizational changes put SMEs towards sustainable survival. To ensure SMEs' sustainable survival, accountants developed and used different management accounting systems, particularly emphasizing cost management. They calculated the return on capital, which was higher than in earlier years. As accountants reported

*"After managing cost, I calculated ROI, which was 5% more than in previous years and I hope it will be higher in the coming years" (Accountant 2)*

*"After managing cost and operating cycle, our cash flow position has been more robust compared to previous years. We have enhanced our liquidity position" (Accountant 7)*

Even SMEs were able to address customer needs effectively. As owners indicated

*"Our customers are happier now because we also suggest to them an innovation in products due to which they give more value to our opinions" (Owner 5)*

*"In my firm, product quality has been enhanced along with managing cost. Now I am getting repeated orders from customers" (Owner 3)*

The above excerpts indicated that SMEs' financial strength had been improved. Liquidity and cash flow position was improved compared to previous years. Arguably, this reflected the accountant's dynamic capabilities in sustaining firms. Moreover, SMEs were able to enhance customers' orientation by offering high-quality products. Owners have increased their ties with customers and prioritize their demands as well.

*"I always focus on maintaining good relations with customers" (Owner 4)*

Based on the above assertions, it can be argued that accountants in SMEs portray dynamic capabilities. These capabilities have enhanced sustainable survival, which is critical for SMEs to achieve and sustain in the market for a long period.

### **Discussion**

Based on the theoretical underpinnings of dynamic capabilities theory, this research endeavored to uncover the role of accountants in developing and using MAS in SMEs. SME owners have deemed the strategic need of accountants due to which their recruitment was

processed. SME owners indicated that accountants with substantial experience and knowledge could provide strategic advice for the SMEs' success. However, previous literature has also indicated that accountants provide advice in several business and non-business related matters (e.g. Blackburn et al., 2018; Stone, 2015). Based on these assertions, our findings have indicated that accountants can also provide advice for developing and using MAS, which can be considered a critical business decision. SME owners revealed their trust in employing accountants and involving in developing and using MAS. Arguably, SME owners did not make any mistake in employing accountants because wrongfully trust on accountants can jeopardize the firm's performance (Niemi et al., 2012). Findings have also revealed that SMEs employed accountants to accomplish more specific needs of developing and using MAS, which prompted owners to hire just those accountants having relevant qualifications and exposure. For fulfilling this specificity, it is rare that owners employ accountants, as indicated in a recent review (Weigel & Hiebl, 2022). However, based on this rarity assertion, it can be argued that accountants can be recruited for fulfilling specific needs such as developing and using MAS, as indicated in this research.

Furthermore, accountants have portrayed their dynamic capabilities in developing and using MAS in SMEs. Findings indicated that accountants had revealed firms' sensing, seizing and transforming capabilities. In the literature, scholars have emphasized focusing on dynamic capabilities for understanding the development and usage of dynamic capabilities in SMEs (e.g. Tipu, 2022; Latif et al., 2023). In this regard, the role of accountants is critical, and findings have indicated that accountants portray dynamic capabilities to develop MAS and use these systems in SMEs. MAS is considered critical for decisions, and accountants assume a critical role in this regard (Munir et al., 2022). Consistent with these arguments, accountants in the current study were involved in developing and using MAS, and in this process, dynamic capabilities were evidently present. MAS is also considered a firm's capability (Peters et al., 2019), which provide information for analyzing market opportunities and taking strategic decisions on product and services (Drury, 2018). Our findings also revealed that accountants were involved in analyzing market information, searching for opportunities for developing costing systems (MAS) and transforming firms' resources by taking decisions related to product innovations. Arguably, these are the reflection of accountants' dynamic capabilities in developing and using MAS.

Lastly, the dynamic capabilities in designing MAS paved the way to ensure the sustainable survival of SMEs. Mazuri et al (2021) have revealed that MAS ensure the SMEs' survivability. In developing and using MAS, dynamic capabilities are evident, and arguably, dynamic capabilities can ensure the sustainable survival of firms (Rashid & Ratten, 2020). Consistent with these assertions, our findings revealed that accountants' dynamic capabilities ensured SMEs' sustainable survival, which is deemed a significant dilemma for such firms.

## **Conclusion**

In conclusion, our research has addressed the recent calls to explore the role of accountants in developing and using MAS in SMEs under the dynamic capability approach as a theoretical lens (Weigel & Hiebl, 2022; Tipu, 2022; Latif et al., 2022). Our research has theoretically advanced the understanding in clarifying the role of accountants in giving strategic advice to SME owners that are scantily addressed in the literature. Therefore, the advisory role of accountants has been clarified. Furthermore, accountants' dynamic capabilities have been

explored in developing and using MAS. This indicated accountants' potentiality in sensing, seizing and transforming capabilities in order to develop and use MAS. Lastly, accountants' dynamic capabilities in terms of MAS have ensured the sustainable survival of firms. In a practical sense, this research has indicated that it is imperative to employ accountants in an advisory role so that MAS can be developed to enhance the survival probability of SMEs.

Although this research has significant theoretical and practical implications, but there are certain limitations. This research is based on qualitative design having inherent limitations; therefore, future studies can focus on incorporating quantitative designs as well. Furthermore, in our study, only SME owners and accountants have been selected as a sample; nonetheless, future researchers could select other subordinates to deepen further the insights regarding developing and using MAS.

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