



The Importance of Mutual Understanding Between External Accountants and Owner–Managers of SMEs

Stefanie De Bruyckere , University College Ghent – HoGent

Frederik Verplancke, Ghent University – UGent

Patricia Everaert , Ghent University – UGent

Gerrit Sarens, Université Catholique de Louvain – UCL

Carine Coppens, University College Ghent – HoGent

This study investigates the perspective of the owner–manager of a small or medium-sized enterprise (SME) on the importance of mutual understanding with an external accountant. Mutual understanding means that the owner–manager understands what the accountant is saying and feels understood by the accountant. The results, based on 310 completed surveys of Belgian owner–managers, show that owner–managers who have a high level of mutual understanding use the advice of their external accountant more extensively. This is in turn positively linked to the financial health of an SME. Furthermore, several drivers that enable the establishment of a high level of mutual understanding are explored. Owner–managers with a high level of mutual understanding consider their accountant as a strategic partner, experience a high level of proactive behaviour with them, have a higher frequency of formal contact, and perceive informal contact as important. External accountants should consider these opportunities in their client management and training of internal staff. Education of clients and openness also seem very important, as the level of a client’s accounting knowledge, the number of accounting topics owner–managers deal with, and transparency towards the accountant are significantly positively related to mutual understanding.

According to resource-based theory, owner–managers of small and medium-sized enterprises (SMEs) often lack internal resources to face various economic challenges and therefore rely on external service providers (Bennett and Robson 2003, 2005; Blackburn and Jarvis 2010; Yusoff 2006). An accountant seems to be one of the most important of these (Bennett and Robson 1999, 2000; Blackburn and Jarvis 2010). Most SMEs use an external accountant for statutory services, in order to meet mandatory requirements (Marriott and Marriott 2000). However, more and more owner–managers seek ‘business advice’, which transcends the legal obligations of preparing annual accounts and submitting tax files (Døving and Gooderham 2008). Accountants are able to offer tailor-made advice and assist their SME clients in running their business. They are no longer ‘bean counters’ who merely produce figures and annual accounts, but become real ‘sparring partners’ for owner–managers of SMEs. Through offering advice, an accountant is thus able to make a difference and add value to the (financial) performance of a company (ACCA 2012).

The (potential) impact of business advice from an external accountant on the performance of companies has been explored in previous research (Barbera and Hasso 2013; Berry et al. 2006; Kamyabi and Devi 2011; Robson and Bennett 2000). Several studies show a positive relationship between business advice and financial performance (Barbera and Hasso 2013; Berry et al. 2006; Kamyabi and Devi 2011), while others conclude that no unequivocal conclusion can be drawn concerning this relationship (Bennett and Robson 2000; Blackburn and Jarvis 2010; Devi and Samujh 2010; Kirby and King 1997). The question remains how external accountants can optimise their service provision and subsequently their (potential) impact on a company’s performance.

Previous research has analysed how the benefits of external accountants can be maximised, by pointing to

Correspondence: Stefanie De Bruyckere, Campus Schoonmeersen, Building B, University College Ghent – HoGent, Valentin Vaerwyckweg 1, 9000 Ghent, Belgium. Tel. +32 485/95.70.81; email: stefanie.debruyckere@hogent.be
Accepted for publication 11 April 2018.

the importance of an effective collaboration. Barbera and Hasso (2013) show that embedding the accountant within the SME and fostering a close client–advisor relationship has a positive impact on sales growth and company survival. In a similar vein, Kirby and King (1997) argue that in order to cooperate in an effective way, both the owner–manager and the external accountant have to clarify their expectations towards each other, on all levels of the relationship. Preliminary interviews with owner–managers of Belgian SMEs (see further) show that they found it important to understand what the accountant was talking about, but did not always feel understood by the accountant in terms of their needs for business advice. This study elaborates on the importance of effective communication between owner–managers of SMEs and external accountants by introducing the concept of mutual understanding. Mutual understanding has been investigated in an information technology (IT) service context, as well as in a doctor–patient context. A patient should feel understood by their doctor and has to share all relevant information about their perceived problem(s), in order to enable the doctor to monitor the health situation. Therefore, the objective of a conversation between a patient and a doctor is to achieve a level of mutual understanding that has the potential to lead to new possible actions (e.g., therapy), which are expected to ameliorate the health situation (Hantho et al. 2002). Similarly, the basic knowledge and understanding of mutual expectations, desires and needs between the Chief Executive Officer (CEO) and Chief Information Officer (CIO) (or IT service provider) have been found to be essential for effective long-term service provision and for a firm’s success (Johnson and Lederer 2010). Similar effects have been found in other service provision contexts (Cornelius and Boos 2003; Hantho et al. 2002; Mohr and Bitner 1991; Tan 1994) and are underpinned by the concept of cognitive similarity in social psychology literature. By way of analogy, an external accountant has to monitor the financial health of an SME. Effective communication processes, which enable owner–managers and external accountants to clearly share information that is understood by both parties, can lead to the desired business advice and to better decision making by the owner–manager, resulting in the improved financial health of an SME. Therefore, the purpose of this paper is to analyse whether a high level of mutual understanding results in a greater usage of the accountant to fulfil business advice needs, and accordingly positively affects a company’s financial health.

The contribution of this article is fivefold. First, it adds to existing literature, as it provides evidence of a significant and positive relationship between the use of business advice and the performance of an SME. Previous studies measure the ‘performance of companies’ in terms of sales growth (Barbera and Hasso 2013; Berry et al. 2006), changes in employment, changes in turnover,

changes in profitability per employee (Robson and Bennett 2000), or in terms of company survival (Barbera and Hasso 2013). This study captures the financial health of a company by means of a multidimensional measurement, which has been proven to successfully predict the survival of Belgian companies. Second, this study contributes to the accounting literature by introducing the concept of mutual understanding into the relationship between an external accountant and an SME. It is identified as an important characteristic for effective collaboration, and adds to earlier identified characteristics of a good client–accountant relationship, such as trust, empathy, and loyalty (Barbera and Hasso 2013; Bennett and Robson 2005; Blackburn et al. 2010; Carter et al. 2013; Devi and Samujh 2010; Sarens and Everaert 2010). Third, the empirical results show that a high level of mutual understanding is positively related to a high usage of business advice provided by an external accountant, which is in turn positively related to the financial health of a company. Fourth, different drivers are identified to distinguish between high and low mutual understanding, helping both owner–managers and accountants to know which elements contribute to effective communication and collaboration. Lastly, a robust measurement scale has been developed to capture the specificities of mutual understanding in an accounting context. In a sense, we add to the general service literature, where the concept of mutual understanding has been used before (in areas such as IT, marketing, and healthcare); however, previous research has not always included full disclosure on the measurement scale.

Literature Review and Hypotheses Development

Resource-based view

Firms operate in highly competitive and dynamic environments. In order to distinguish themselves from their competitors, they seek strategies that enable them to create competitive advantage and ensure their survival (Barney 1991; Teece et al. 1997). However, developing and implementing strategies to realise a competitive advantage requires several resources, including physical capital resources (e.g., technology and equipment), organisational capital resources (e.g., formal reporting structure, formal and informal planning) and human capital resources (e.g., the experience and intelligence of individual workers) (Barney 1991). Human capital resources are intangible, often relatively difficult for competitors to imitate and thereby most likely to provide a competitive advantage (Barney 1991). Because of the rapidly evolving economic environment in which firms operate, they need to apply resources and skills that change at an equal pace in order to sustain their

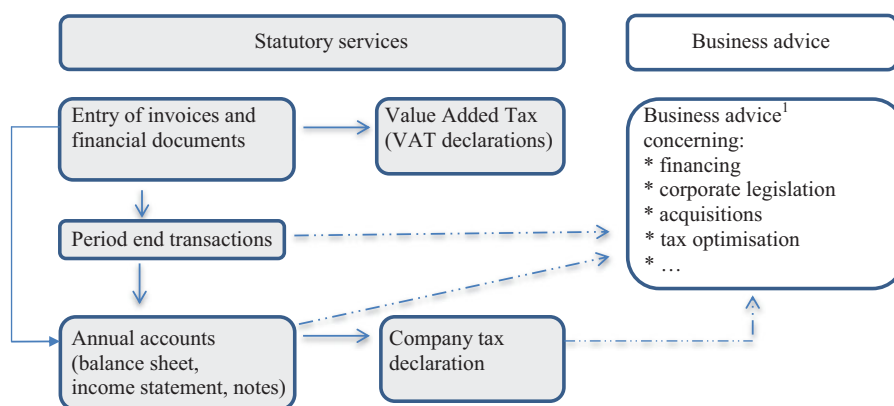


Figure 1 Establishing mutual understanding in an accounting context [Colour figure can be viewed at wileyonlinelibrary.com]

competitive advantage (Fiol 2001). Therefore, firms need employees with the necessary (firm-specific) skills, but often also a broad network of interim workers, service providers, or other resources to respond quickly to market changes (Carey and Tanewski 2016). Barney et al. (2001: 631) state that ‘firms in a rapidly changing market are more nimble, more able to change quickly, and more alert to changes in their competitive environment, and will be able to adapt to changing market conditions more rapidly than competitors and thus gain competitive advantage’.

SMEs are often founded and managed by individual entrepreneurs. In order to create a competitive advantage, manage their business goals, and ensure survival, owner–managers of SMEs need a range of knowledge, competencies and skills (Halabi et al. 2010; Kamyabi and Devi 2012; Kirby and King 1997). However, it is almost impossible for an individual to excel in every domain of entrepreneurship and have all the necessary resources to hand (Halabi et al. 2010; Yusoff 2006).

Resource-based theory argues that due to the limited in-house resources of SMEs, they must rely on external advisors such as accountants, bankers and lawyers who guide them in managing their business (Alvarez and Busenitz 2001; Barbera and Hasso 2013; Bennett and Robson 2005; Carey and Tanewski 2016; Kamyabi and Devi 2011; Yusoff 2006). External accountants are the service providers most frequently consulted by SMEs dealing with resource constraints (Bennett and Robson 1999; Berry et al. 2006; Kirby and King 1997; Scott and Irwin 2009). In particular, owner–managers of SMEs depend on an external accountant to gain access to the specialised knowledge and skills needed to tackle several accounting and tax-related challenges (Blackburn and Jarvis 2010; Everaert et al. 2007; Yusoff 2006). Most SMEs use an external accountant in order to meet legal requirements (Marriott and Marriott 2000). In the Belgian context, these services comprise the entry of invoices and financial documents, period end accounting, the preparation of annual accounts, and submitting

different types of tax declarations to government agencies, including VAT, company tax, and personal income tax (Everaert et al. 2010; Sarens et al. 2015).

However, the so-called ‘traditional’ role of the external accountant – in which statutory tasks are covered – is shifting towards a business advisor role (Blackburn and Jarvis 2010; Carey and Tanewski 2016; Sarens et al. 2015). Owner–managers of SMEs operate in a constantly changing business environment, in which they need an external accountant as a partner; someone with specialist knowledge and competencies who is able to assist owner–managers in running their business. According to the resource-based view, an external accountant capable of responding to the ever-changing needs of the owner–manager creates complementarity and added value for an SME (Barney 1991; Barney et al. 2001; Carey and Tanewski 2016). Accordingly, an external accountant is able to help achieve and support the competitive advantage and consequently the survival of their SME clients (Carey and Tanewski 2016). In particular, the accountant provides tailor-made advice on financial issues, such as calculating the returns for a new investment project, exploring financing alternatives and suggesting how to benefit from tax optimisation (see Figure 1). Tailor-made advice supports owner–managers in their decision making, in order to ensure the financial health of the company. It is in this relationship between the accountant (delivering business advice) and the owner–manager (seeking business advice) that mutual understanding becomes important.

Mutual understanding and business advice from an accountant

Mutual understanding is a situation that arises from effective communication processes between two parties and results in the achievement of a mutual goal (Churchman and Schainblatt 1965; Tan 1994). Tan (1994) further explains that in an IT context, in order to realise their mutual goals the partners (company and

IT service provider) should be able to comprehend what the other party is trying to do and why. Therefore, cognitive similarity is needed, which implies that they have to understand each other's role, behaviour and expectations (Cornelius and Boos 2003; Hantho et al. 2002; Mohr and Bitner 1991; Rommetveit 1974; Tan 1994). Cognitive similarity means that people share common codes or rules in their communication, which enables them to decode each other's messages accurately (Runkel 1956; Tan 1994) so that misinterpretation and misinformation can be avoided (Tan 1994). When mutual understanding is established, it enables both parties to share information accurately and completely as the basis for making decisions (Tan 1994). If we translate this to the accounting context (i.e., effective communication between an owner–manager of an SME and an external accountant), a high level of mutual understanding means first, that they understand each other, and, second, that they know what to expect from each other (in terms of services provided as well as pricing issues).

In particular, the first element means that the owner–manager understands what the accountant is saying and feels understood by the accountant. Both parties have to transfer information to each other, in order to pursue the same goal (Bennett and Robson 2003; Reynolds et al. 2006). When the financial information is translated into the annual accounts, the task of an accountant is often – wrongly – considered as ‘finished’. The annual accounts show the impact of decisions made by the owner–manager, but in order to gain added value from these accounts, the owner–manager has to understand and interpret the content of them (Halabi et al. 2010). Therefore, an accountant has to be able to explain complicated matters in a transparent and accessible manner, similar to the doctor in a doctor–patient relationship.

The second element of mutual understanding means that the owner–manager and accountant know what to expect from each other. Kirby and King (1997) found an expectation gap between the owner–manager of a company and its external accountant, suggesting that they should work together as peers or partners. This gap needs to disappear in order to reveal the full potential of the accounting services (Kirby and King 1997). Therefore, accountants should inform their clients about the business advice (i.e., non-mandatory services) they can offer (Devi and Samujh 2010). Many owner–managers are not aware of the full range of services their accountant is able to provide (Gooderham et al. 2004; Carey and Tanewski 2016). However, the owner–manager should also be willing to share all necessary information. Dyer and Ross (2007) state that an advisor has to be sensitive to the needs of a client, whereas openness on behalf of the client is also indispensable. Hence, owner–managers have to clarify their needs in order to develop a high level of mutual understanding. Lastly, Kirby and King (1997: 301) state that ‘owner–managers use advice when

they consider it to be appropriate and when it is at a reasonable cost’. Misunderstandings concerning the cost of business advice should be avoided.

In sum, a high level of mutual understanding is established when both parties comprehend each other and the expectation gap has disappeared. We expect that owner–managers who experience a high level of mutual understanding with their external accountant will seek more business advice from them. This leads to the following hypothesis:

- H1: Owner–managers who perceive a high level of mutual understanding with their accountant will more extensively use business advice from their accountant.

Business advice from the accountant and financial health of the SME

Accountants are going beyond their traditional role of fulfilling regulatory requirements to provide more and more customised business advice (Blackburn and Jarvis 2010; Carey and Tanewski 2016; Sarens et al. 2015). When translating complex business information into clear tailor-made advice, accountants support their SME clients to interpret the figures for the company and assist them in making decisions that should lead to the realisation of their mutual goal: good financial health (Blackburn and Jarvis 2010; Carey and Tanewski 2016; Devi and Samujh 2010). Evidence concerning the relationship between the use of an accountant for business advice and the financial performance of an SME is, however, mixed (Strike 2012). On the one hand, previous research shows no clear evidence concerning the relationship between the two (Bennett and Robson 2000; Blackburn and Jarvis 2010; Devi and Samujh 2010; Kirby and King 1997). On the other hand, several studies indicate that the degree in which an owner–manager uses an external accountant for business advice has a positive influence on the financial performance of an SME (Barbera and Hasso 2013; Berry et al. 2006; Carey 2015; Kamyabi and Devi 2011). Barbera and Hasso (2013) discussed the concept of ‘embeddedness’ in relation to potential performance benefits for SMEs. Embeddedness was measured as the frequency of seeking business information from an external accountant, and the results show a positive impact on sales growth and survival. Consistent with this previous research (Barbera and Hasso 2013; Berry et al. 2006; Kamyabi and Devi 2011), and taking the increasing importance of business advice in the service package of the accountant into consideration, we expect a positive link between business advice and financial health.

- H2: The extent of business advice from an external accountant is positively linked to the financial health of an SME.

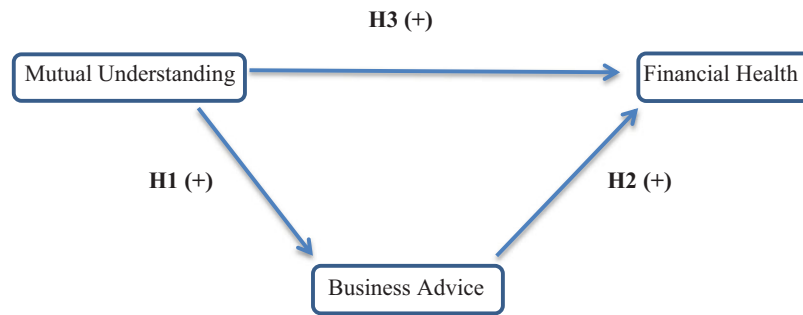


Figure 2 Overview of the hypotheses and expected sign [Colour figure can be viewed at wileyonlinelibrary.com]

Mutual understanding and financial health

Previous research in the service provision industry shows that mutual understanding is essential in order to cooperate effectively and realise a mutual goal (Cornelius and Boos 2003; Hantho et al. 2002; Mohr and Bitner 1991; Tan 1994). A basic knowledge and understanding of mutual expectations, desires, and needs is crucial for effective long-term service provision (Johnson and Lederer 2010).

The relationship between mutual understanding in an accounting context and the financial health of the SME has not yet been studied. Similar to doctors in the medical context and CIOs in the IT context, external accountants often need to explain complicated and confidential matters in an accessible way. Furthermore, external accountants need to take the personal values and motivations of the owner–manager of an SME into account. Their entrepreneurial vision often plays an important role in the corporate mission and goals they pursue (Blackburn et al. 2010; Dyer and Ross 2008). For example, not every owner–manager wants to maximise profits and/or revenues. Therefore, it is crucial to cooperate with an accountant who listens and understands and respects the owner–manager’s personal values and entrepreneurial vision (Deakins et al. 2001; Bulukin et al. 2005). Monitoring the prevailing financial situation is fundamental to making the correct management decisions and guaranteeing the continuation of the company. During their ongoing relationship, owner–managers of SMEs and external accountants work towards a mutual objective: the financial health of the company. In order to ensure good corporate financial health, both parties need to understand each other and know what to expect. Therefore, we expect a positive correlation between mutual understanding and the financial health of an SME.

H3: The higher the level of mutual understanding, the better the financial health of the SME.

In sum, we expect that mutual understanding will be positively linked to the provision of business advice.

Owner–managers and external accountants with a high level of mutual understanding are expected to cooperate more intensely (H1). Furthermore, we analyse the relationship between the provision of business advice and the financial health of the SME. We expect that tailor-made business advice adds value for the owner–manager and will therefore be positively linked to the financial health of the SME (H2). In addition, the link between mutual understanding and the financial health of the SME is studied (H3). Figure 2 shows an overview of the hypotheses.

Methodology

Definition of an SME

In previous research, varying definitions have been used to describe an SME, but they all tend to use the same three metrics: employment, turnover, and total assets (Blackburn and Jarvis 2010). We use the criteria formulated in Belgian Corporation Law at the time of the study (art. 15 W.VenB.). A company is considered as an SME: (1) if it does not exceed more than one of the following criteria – 50 FTE employees, 7 300 000 euro annual turnover, 3 650 000 euro total assets; and (2) does not have more than 100 FTE employees. Furthermore, since financial performance data is used, unlimited liability companies (no mandatory publication of annual accounts) as well as start-ups (no publication of financial data within the first two years) are excluded.

Data collection

Preliminary interviews

First, preliminary interviews were held with three owner–managers of SMEs and three external accountants to translate the concept of mutual understanding in an accounting context and identify drivers for the establishment of mutual understanding. For reasons of professional ethics, it was not possible to interview the owner–managers and their external accountant in a one-to-one

setting. Owner–managers indicated that they would not be prepared to answer questions in an open and transparent manner if they had to provide the identity of their external accountant. The external accountants in turn also refused to cooperate with the research if they had to reveal the names or specific data of their SME clients. Furthermore, information concerning the identity of external accountants is not publicly available in Belgium. Because of these confidential and ethical barriers and the explorative purpose of the interviews, a random selection of owner–managers and external accountants was interviewed. All had 10–15 years' experience in their current function. The interviews each lasted approximately one-and-a-half hours and took place at the premises of the relevant SME or accounting office. Broadly, we asked the owner–managers three main questions.

1. How would you describe your cooperation with your external accountant?
2. Which aspects of your cooperation with your external accountant are important to you when evaluating service provision?
3. How could your external accountant optimise service provision in order to maximise the added value for your company?

We asked the accountants three main questions.

1. How would you describe your approach in providing business advice to an SME client?
2. Which aspects are important to you in order to ensure successful cooperation with an SME client?
3. How do you try to optimise your service provision in order to maximise the added value for your SME clients?

Two researchers administered the interviews simultaneously. Afterwards, the interviews were transcribed and analysed. Insights from the preliminary interviews were used to develop the measurement scale for mutual understanding. In certain situations, a low level of mutual understanding was identified, while others indicated a high level. Based on these interviews, several drivers for the establishment of mutual understanding were derived and included in the survey (see Section 5, Additional analysis).

Online survey

The hypotheses were tested using an online survey for owner–managers. This means that the findings are a reflection of their perspective. It was not possible to investigate pairings of owner–managers and accountants for the reasons already stated. The questionnaire was developed in cooperation with representatives of Belgian business organisations (UNIZO and Agentschap Ondernemen) and representatives from the Belgian

Institute for Accountants and Tax Consultants. Intensive consultations with these parties and interviews with seven owner–managers of SMEs (different from those in the preliminary interviews) guaranteed a thorough understanding of the interests, needs, and views of them regarding an external accountant. Additionally, the questionnaire was pretested with four (again, different) owner–managers to make sure all the questions were clear and easy to answer. Personal email addresses of owner–managers were purchased from Bisnode by randomly selecting 5000 SMEs complying with the selection criteria. Bisnode has the largest reference database of companies in Belgium. The questionnaire was administered by Qualtrics and sent at the beginning of May 2014 to the email address of each owner–manager. Two reminders were sent after respectively four weeks and six weeks. At the end of June 2014, the questionnaire was closed. In total, 347 owner–managers completed the questionnaire, resulting in a response rate of 6.94%, similar to previous studies in this field (Everaert et al. 2010; Sarens and Everaert 2010). The data show that 89% of the respondents (N = 310) used an external accountant. The respondents provided their VAT number in the survey, enabling us to link the responses to the financial statements for the SMEs.

Measurement scale

Mutual understanding

The measurement scale for mutual understanding is based on work by Cornelius and Boos (2003), who measured mutual understanding between clients and service providers in an IT context. Preliminary interviews with owner–managers of SMEs and external accountants provided support to translate the relevant five items to the accounting context (Table 1, Panel A).

First, it is important for owner–managers to be aware of the range of (potential) services an accountant is able to offer in order for effective communication to be possible: 'During a first meeting we explain to our clients what services are suitable for their situation, we illustrate how we work . . . We hope that clients contact us if they have further questions concerning additional topics' (Accountant 3). This awareness might however be (partially) absent with some owner–managers: 'I do not know which services I need . . . It is the accountant's job to support me and provide accurate advice when needed' (Owner–manager 1).

Second, the expectation gap needs to disappear: 'During a first meeting we explain . . . what we expect from our client. Clients know in advance what they can expect from our services' (Accountant 3). 'We are aware of the fact that our clients do not always know very thoroughly what we do. So it is important to tell them what we will do, when we will do this and what they have to do'

Table 1 Variable measurement

Panel A: Mutual understanding, relative use, financial health, size, and age			
Variable name	Measurement scale		
Mutual_Understanding	Means based on the following items (<i>1 = totally not; 5 = very well</i>):		Factor loadings
	1. To what extent are you aware of the range of (potential) services offered by your accountant?		0.649
	2. To what extent do you clarify your expectations towards your accountant?		0.646
	3. To what extent do you understand the explanation of the figures by your accountant?		0.635
	4. To what extent do you feel understood by your accountant?		0.818
	5. To what extent do you feel heard by your accountant?		0.628
	6. To what extent are you aware of the costs/fees your accountant charges?		0.758
	7. To what extent are you aware of the invoice terms your accountant applies? (rate/hour, rate/service, etc.)		0.692
Business_Advice	Calculated as a percentage based on a list of 21 business advice needs (see appendix): Business advice received from accountant/business advice needed by SME		
Financial_Health	Multidimensional score model Ooghe and Van Wymeersch (2006), based on Annual Accounts 2013, downloaded from Bel-first Database Bureau Vandijk Financial Health = $0.2324 + 4.3178 * X_1 - 11.6782 * X_2 + 3.1676 * X_3 - 1.6200 * X_4 - 0.8353 * X_5$ $X_1 = (\text{Accumulated profits or losses} + \text{Retained earnings})/(\text{Equity} + \text{Liabilities})$ → Can positively and negatively influence financial health, depending on past profits or losses respectively $X_2 = (\text{Overdue taxes and Social security charges})/\text{Short-term liabilities}$ → Negatively influences financial health. Because of severe financial punishments if you do not pay obligations to the government: this is a strong indicator of financial distress in a company. $X_3 = \text{Cash}/\text{Currents assets}$ → Positively influences financial health. Cash is generated by successful companies and cash creates a buffer against fallbacks $X_4 = (\text{Inventories and Contracts in progress})/\text{Current working assets}$ → Negatively influences financial health. An increase in inventories is often an indicator of reduced sales and inventories are often overvalued $X_5 = \text{Short-term financial debts}/\text{Short-term liabilities}$ → Negatively influences financial health. Larger short-term obligations increase the risk of financial distress in a company. The higher the multidimensional score, the better the financial performance		
Size_SME	Total number of employees (survey)		
Age_SME	Number of years the company has operated (Annual Accounts 2013, downloaded from Bel-first Database Bureau Vandijk)		
Panel B: Drivers of mutual understanding (additional analysis)			
Variable name	Measurement	Scale	Scale explanation
Mutual_Understanding_HL	Mean split on Mutual_Understanding: see Panel A	0/1	0 = low mutual understanding; 1 = high mutual understanding
Accounting_Knowledge	How would you rate your own accounting knowledge?	1–5	1 = very poor; 5 = very good
Strategic_Partner	To what extent do you agree with the following . . . ° 1 = I contact my external accountant in order to fulfil legal obligations; versus 5 = My external accountant is a partner, who thinks strategically in order to help me in making policy decisions	1–5	1 = legal obligation; 5 = strategic partner
Proactive_Accountant	To what extent do you agree with the following . . . ° 1 = I contact my external accountant when changes in tax legislation could have an impact on my situation; versus 5 = My external accountant contacts me when recent changes in tax legislation could have an impact on my company	1–5	1 = low proactive behaviour; 5 = high proactive behaviour
Transp_Towards_Accountant	To what extent do you agree with the following . . . ° 1 = I only hand in information and documents my external accountant specifically requested; versus 5 = I spontaneously hand in all documents and information my external accountant might need.	1–5	1 = little transparency; 5 = very transparent

(Continued)

Table 1 Continued

Panel B: Drivers of mutual understanding (additional analysis)			
Variable name	Measurement	Scale	Scale explanation
No_Important_KPis	Which KPIs are very important to you in a discussion with your accountant?	0–25	KPIs such as investments, cash management, financial needs (see Appendix for 25 topics provided)
No_Topics_Self	Which topics do you deal with yourself?	0–11	Topics such as turnover, supplier debts (see Appendix)
Importance_Tools	How important are tools to analyse the financial performance of the company?	1–5	1 = not important; 5 = very important
Frequency_Contact	How often do you discuss the figures of the company with your accountant, in normal circumstances?	0/1	Number rescaled to 0 = fewer than three formal discussions per year; 1 = at least three formal discussions per year
Informal_Contact	How important are informal meetings with your accountant?	1–5	1 = not important; 5 = very important
Relationship_Friendship	To what extent do you agree with the following . . . ° 1 = My relationship with my external accountant is purely professional; versus 5 = My relationship with my external accountant is based on friendship.	1–5	1 = professional; 5 = friendship
Length_Cooperation	How many years have you worked together with your current accountant?	1–5	1 = less than 1 year; 2 = 1–2 years; 3 = 3–5 years; 4 = 6–10 years; 5 = more than 10 years

°full sentence: To what extent do you agree with the following statement concerning your relationship with your external accountant?

(Accountant 2). ‘It is difficult to actually tell my accountant what I expect . . . I hope that he will carry out all the regulatory requirements adequately and help me to make good decisions, based on the resulting figures. I think this is what an accountant does; these are more implicit expectations’ (Owner–manager 3).

Third, some owner–managers pointed out that they would appreciate more explanation and clarification about their company’s figures in order to make well-grounded decisions: ‘When I see my figures . . . I do not understand them in detail. But during our discussion, my accountant translates them, which enables me to comprehend the consequences of my decisions. I understand the big picture, but my accountant has to guide me through the (specialised) financial issues of my business’ (Owner–manager 2).

‘I would actually like to have more explanation of the figures for the company. I do not understand the implication of every topic in the financial statement. A thorough explanation might improve my understanding of the financial situation. The figures are the basis to make crucial decisions, decisions that may have far-reaching consequences’ (Owner–manager 1). Accountants also pointed out that this is very important:

We have to explain the figures and educate them, in order to enable them to make the right decisions. When you repeat the key performance indicators every meeting, clients will be able to interpret and control for these figures on their own. I often use metaphors to explain the figures and the financial situation in a clear manner. The best accountant is not the one who knows the accounting

principles most thoroughly. The best accountant is the one who is able to explain these principles clearly to clients (Accountant 2).

Fourth, mutual understanding is more than just understanding what the accountant is saying. The owner–manager must also feel understood; that is, the feeling that the accountant shows interest in the owner–manager taking operational and strategic decisions: ‘An accountant has to understand me as an owner–manager, my strategic vision, and should guide me through the different life cycles of my company. He or she should really understand what I am aiming for’ (Owner–manager 1).

A fifth item comprises the importance of feeling heard by the external accountant. It is essential for the accountant to actually listen to their clients: ‘A good external accountant cannot perceive his client as a number. An accountant should visit the company, should listen, which creates an opportunity to discuss the daily activities and future plans on a regularly basis’ (Owner–manager 1). ‘Clients often call me to tell they have made an investment . . . afterwards . . . They should call me in advance and say, I am planning an investment, will I be able to incorporate this into my financial statement? I try to educate all my clients in this respect . . . They have to learn and understand what is needed to cooperate in an effective way. If you can manage to do that, you prove a great deal to your client and yourself’ (Accountant 2).

During the preliminary interviews, as well as during the discussions with representatives of the Belgian Institute for Accountants and Tax Consultants, accountants

also stated that misunderstandings frequently occur concerning the cost of business advice. Some accountants work on an all-in fee, including a given number of hours of business advice, whereas others charge the client each time the owner–manager wants to know something that is outside the scope of the mandatory tasks.

In the past, we noted that clients were not aware of the price, they did not know what an accountant actually did and they did not know when they would receive an invoice for the services provided (in other words, they were not aware of the invoice terms). Therefore, now we always put together an assignment letter at the beginning of our collaboration, to clearly communicate our range of services, our prices, and invoice terms (Accountant 2).

We always budget our price for the client. The price depends on the tasks we will perform and services we will provide during the following year. Every year, we make and evaluate a written agreement and adjust our price if necessary. Accordingly, our clients know exactly what tasks we will fulfil and how much this will cost (Accountant 3).

As we aim to capture all relevant items to measure mutual understanding in an accounting context, we included these two items on pricing and invoice terms in the analysis. A summary of the items is given in Table 1, Panel A.

Respondents were asked to score the seven items of mutual understanding on a 5-point Likert scale. A principal component analysis (PCA) was conducted on these seven items. Factor analysis provided one factor, with factor loadings all above 0.6 (see Table 1, Panel A). A Kaiser-Meyer-Olkin (0.788) and Barlett's test (0.000) illustrate that the data are adequate for factor analysis. The analysis shows a Cronbach's Alpha of 0.81, which is in line with the original scale (Cronbach's Alpha of 0.84) designed by Cornelius and Boos (2003). The Cronbach's Alpha did not improve when deleting an item. The average of the seven items was calculated per respondent to obtain a measurement for Mutual Understanding (1–5 scale). In order to distinguish low and high levels of mutual understanding (Mutual Understanding.LH) we performed a mean split (mean = 3.83).

Business advice provided by an accountant

The relative usage of an accountant for business advice captures the extent to which the company asks an accountant for business advice. First, we listed 21 examples of business advice (based on the preliminary interviews), and asked the respondents which pieces of advice they needed in 2013. Examples include advice related to investments, financing, cost accounting, risk management, company law changes and tax declaration (see Appendix). Then, for each of these, we asked whether they had sought advice from their accountant or from

another advisor. Accordingly, we were able to calculate the relative use of the accountant (%) by dividing the number of pieces of advice from the accountant by the total need for business advice.

Financial health

Financial health is measured by a multidimensional score, which contains elements of profitability, liquidity, and solvency of the firm (Ooghe et al. 1999; Balcaen and Ooghe 2004; Ooghe and Van Wymeersch 2006; Ooghe et al. 2009). The formula is shown in Table 1, Panel A. The higher the value, the better the financial health of the company. The measurement is comparable to the internationally well-known Altman Z-score (Altman 1968) but has, however, been developed within the Belgian economic environment. The main characteristic of the Belgian environment is that all limited liability companies are required to submit their annual accounts to the National Bank of Belgium, using exactly the same format. This standard format includes detailed information about the company's balance sheet, income statement, and social capital. This allows us to calculate the multidimensional score and compare the different firms in our database with regard to their financial health.

Previous research concerning the prediction of financial distress of companies in Belgium has validated this measurement (Balcaen and Ooghe 2004; Ooghe and Van Wymeersch 2006; Ooghe et al. 1995, 1999, 2009). Ooghe and Van Wymeersch (2006) conclude that their financial distress model can be used as an efficient screening device. Therefore, this multidimensional measurement is a good proxy to assess the financial health of the Belgian companies included in this study (Ooghe and Van Wymeersch 2006). Details on the composition of the measurement are provided in Table 1, Panel A.

The financial information used to calculate the multidimensional score is found in the annual accounts of 2013. The annual accounts were downloaded from the Bel-first database of Bureau Vandijk.

Control variables: Size and age

Size was measured as the number of full-time equivalent employees (survey). Age refers to the age of the company, as found in the Bureau Vandijk Bel-first database.

Results

Descriptive statistics

The descriptive statistics are shown in Table 2. The mean for mutual understanding is 3.83 on a 1–5 scale. On average, owner–managers use an accountant for business advice for 63% of their needs. The respondents have on

Table 2 Descriptive statistics

Panel A: Hypotheses testing					
	N	Min.	Max.	Mean	SD
Mutual_Understanding	310	2.14	5.00	3.83	0.59
Business_Advice	310	0.00	1.00	0.63	0.33
Financial_Health	310	-22.00	6.43	1.28	2.54
Size_SME	310	0.00	175	13.73	19.63
Age_SME	310	2.00	64.00	19.63	11.03
Panel B: Additional analysis					
	N	Min.	Max.	Mean	SD
Accounting_Knowledge	310	1.00	5.00	3.30	0.85
Strategic_Partner	310	1.00	5.00	3.14	1.31
Proactive_Accountant	310	1.00	5.00	3.99	1.17
Transp_Towards_Accountant	310	1.00	5.00	3.98	1.22
No_Important_KPis	310	0.00	25.00	10.65	5.50
No_Topics_Self	310	0.00	11.00	7.23	2.17
Importance_Tools	310	1.00	5.00	3.99	1.12
Informal_Contact	310	1.00	5.00	1.85	1.13
Relationship_Friendship	310	1.00	5.00	2.88	1.20
Panel C: Frequency table					
	N	%	Cum. %		
Length_Cooperation					
1 = less than 1 year	10	3	3		
2 = 1-2 years	18	6	9		
3 = 3-5 years	36	12	21		
4 = 6-10 years	63	20	41		
5 = more than 10 years	183	59	100		
Total	310	100			
Frequency_Contact					
1 = not	7	2	2		
2 = once per year	90	29	31		
3 = twice per year	97	32	63		
4 = three to four times per year	72	23	86		
5 = five to 12 times per year	28	9	95		
6 = more than 12 times per year	7	2	97		
7 = less than once per year	9	3	100		
Total	310	100			
Mutual_Understanding_LH					
0 = low	127	41	41		
1 = high	183	59	100		
Total	310	100			

average a financial health of 1.28, employ approximately 13 people and have existed for between two and 64 years, with an average of 19.63 years.

Table 3 shows the correlations. In Panel A, mutual understanding is significantly and positively correlated with business advice provided by an accountant. Business advice is significantly and positively correlated with the financial health of the company.

Hypotheses testing

The results of the different *regression analyses* (ordinary least squares: OLS) are shown in Table 4. Because of heteroscedasticity, OLS with robust standard errors was applied (White 1980). Hypothesis 1 is supported by the data, as mutual understanding is significantly and positively related to the use of an accountant for business advice ($p = .001$). This finding suggests that

Table 3 Correlations

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Panel A: Hypotheses testing																
1. Mutual_Understanding	1															
2. Business_Advice	.175**	1														
3. Financial_Health	.084	.181**	1													
4. Size_SME	.219**	-.045	-.072	1												
5. Age_SME	.073	-.088	.019	.136*	1											
Panel B: Additional analysis																
6. Accounting_Knowledge	.321**	-.097	.007	.148**	.069	1										
7. Strategic_Partner	.186**	.063	-.002	.092	-.027	-.038	1									
8. Proactive_Accountant	.276**	-.006	.048	-.008	.070	-.052	.427**	1								
9. Transp_Towards_Accountant	.138*	-.004	.026	.034	-.131*	-.033	.201**	.221**	1							
10. No_Important_KPis	-.051	-.076	-.044	.152**	-.075	-.135*	.248**	.035	.061	1						
11. No_Topics_Self	.170**	-.127*	-.120*	.225**	.123*	.174**	.051	.046	.027	.113*	1					
12. Importance_Tools	-.003	.008	-.011	.067	-.142*	-.102	.094	.012	.094	.254**	-.045	1				
13. Frequency_Contact	.264**	.037	-.033	.130*	-.005	-.036	.270**	.194**	.176**	.190**	.203**	.203**	1			
14. Informal_Contact	.169**	.007	-.058	.037	.020	.063	.126*	-.026	-.016	.137*	.153**	.153**	-.002	1		
15. Relationship_Friendship	.128*	-.072	.075	.081	.057	-.049	.231**	.156**	.140*	.004	-.040	-.035	-.010	.182**	1	
16. Length_Cooperation	.019	.004	.133*	.041	.200**	.121*	-.013	.051	-.004	-.109	.083	-.099	-.131*	-.029	.069	1

Table 4 Hypotheses testing^a

VARIABLES	(1) Model 1 Dependent variable: Business_Advice ^b	(2) Model 2 Dependent variable: Financial_Health	(3) Model 3 Dependent variable: Financial_Health
Mutual_Understanding	0.114*** (3.425)		0.277 (0.976)
Size_SME	-0.030 (-1.300)	-0.211 (-1.372)	-0.253 (-1.500)
Age_SME	-0.051* (-1.751)	0.195 (0.493)	0.177 (0.437)
Business_Advice		1.395** (2.464)	1.297** (2.238)
Constant	0.402*** (2.834)	0.308 (0.202)	-0.547 (-0.365)
Observations	305	305	305
Adjusted R-squared	0.040	0.029	0.029
F-test	5.159	3.123	2.425
Prob > F	0.00172	0.0262	0.0482

Non-standard coefficients are displayed, robust t-statistics in parentheses.

*** $p < .01$, ** $p < .05$, * $p < .1$.

^aThe models were tested using OLS regressions with Huber-Eicker-White standard errors, because of heteroscedasticity.

^bWe came to the same conclusions, using a Tobit regression.

owner-managers with a high level of mutual understanding seek more business advice from an accountant.

In terms of the relationship between business advice and the financial health of the company, the regression analysis in model 2 confirms Hypothesis 2, showing a positive and significant relationship between business advice and financial health ($p = .014$). In other words, when owner-managers rely more intensely on their accountant for business advice, they realise better corporate financial health.

We found no evidence to support Hypothesis 3, which means that the data do not show a direct relationship between mutual understanding and financial health. The results of the full model, where both the impact of mutual understanding and business advice on financial health are tested, show that business advice still has an effect on the financial health of the company ($p = .026$). Mutual understanding, however, has no direct impact. Considering all the models, the results indicate that mutual understanding is positively linked with the use of business advice provided by an external accountant. Owner-managers with high mutual understanding tend to use more business advice from their accountant, which in turn results in better financial health.

In addition, we tested for a mediation effect of business advice using the bootstrap procedure as suggested by Preacher and Hayes (2008), see Table 5. Two direct effects were found: mutual understanding has a significant direct effect on business advice ($p = .0004$), and business advice has a significant direct effect on financial health ($p = .0042$). The results of the mediation analysis confirm the mediating role of business advice in the relationship between mutual understanding and financial health (LCI = .036; UCI = .361). In other words,

Table 5 Bootstrap results for indirect effects (mediator business advice)

Financial_Health (Dependent variable)	Effect	Lower CI	Upper CI	
Mutual_Understanding (Independent variable)	.1487	.0362	.3613	Indirect effect

mutual understanding between an external accountant and an owner-manager indirectly influences the financial health of the SME, through the provision of business advice delivered by the external accountant.

To conclude, as high mutual understanding leads to a more intense use of business advice and ultimately to better financial health, it is important for both owner-managers and accountants to establish mutual understanding.

Additional Analysis

Identification of drivers of mutual understanding

As the results show that mutual understanding is important in an accounting context, it is also interesting to explore why some owner-managers of SMEs experience a high level of mutual understanding with their accountant, while others experience low mutual understanding. Preliminary interviews with both owner-managers and external accountants provided information to identify drivers of mutual understanding. These are classified into three categories: personal drivers, subject of cooperation and setting of cooperation. This classification is based on the work of Hantho et al. (2002), who studied mutual understanding in a medical context.

Personal drivers

Several personal characteristics seem important regarding cooperation between an owner–manager and an external accountant. First, some owner–managers do not have sufficient accounting knowledge and may not be able to interpret financial statements and monitor the figures. Therefore, it is important that the accountant explains and discusses the financial situation thoroughly, in a clear and accessible manner. In the context of business advice, a low level of accounting knowledge of the owner–manager might hinder the establishment of mutual understanding. For example, Accountant 1 noted that ‘some clients are capable of monitoring and interpreting their figures, but we cannot expect this from every client. It is important to adjust our approach to the level of the client’.

Second, the extent to which owner–managers perceive their accountant as a strategic partner – as a coach they involve in every step they take – might have an influence on the establishment of mutual understanding. An owner–manager who perceives the accountant solely as someone fulfilling legal obligations will not be able to gain the full potential of the relationship. The owner–manager has to tell the accountant about future plans and upcoming investments. ‘Clients do not always involve us in every strategic decision they make. Often we have to tell our clients “if you had told us this in advance, we could have advised you to pay attention to this and that aspect” . . . It is the responsibility of the client to inform us about situations we are not aware of’ (Accountant 3).

Third, anticipating potential threats, identifying opportunities, or in general acting in a proactive way is necessary for an accountant, and might characterise a high mutual understanding with the owner–manager. ‘When a change in the legislation might have an impact for clients, we will contact them personally and schedule an appointment to talk about this and to discuss different possibilities and/or opportunities’ (Accountant 2). ‘Someone who thinks proactively . . . An accountant who notifies me in advance, that is very important! Afterwards, if the figures are known, an accountant should not say “your figures are bad”. The figures are there, in fact, at that moment everyone knows it is bad. If I had known that before, I might have taken a different decision’ (Owner–manager 1).

Fourth, preliminary interviews clarified that accountants also expect a high level of transparency from owner–managers. If owner–managers hide information from their accountant, the latter cannot execute his or her tasks in an appropriate way, which can hinder the development of mutual understanding.

We are never sure about having a complete overview of the financial situation of our clients . . . Some clients have difficulties in sharing all the relevant information.

For example, real estate. Some clients think that the government does not know the existence of this real estate and the fact that they own it. They also refuse to communicate that information to us, as their external accountant, because they are afraid they will have to pay additional taxes. But then the government – which has a full overview of all real estate and its owners – contacts us to notify that our tax declarations are not correct. Then we have to contact our clients and only then they tell us that they bought a new apartment for example (Accountant 1).

Subject

There is a lot of variation in how owner–managers keep track of the financial situation of their company. Some find a long list of key performance indicators (KPIs) important in discussions with their accountant, while others keep track of a list of KPIs themselves. For some it is also important to use tools to keep track of their financial situation throughout the year. It is not clear whether these differences in the way the financial situation is monitored are linked to differences in mutual understanding. However, we found a certain drive with some accountants to educate their client in terms of financial literacy, as a way to increase understanding of the company’s financial situation:

During every meeting, key performance indicators are discussed with the client; turnover, costs, the evolution of items on the balance sheet such as stock, VAT, the position of the bank account . . . These key performance indicators are determined together with the client, during our first meeting. For each client, I discuss the same thing every meeting; tailor-made indicators. In this respect, we create a personalised dashboard for our clients, which enables them to understand and interpret their figures. During these meetings, it is very important to discuss future plans, in order to anticipate threats and identify opportunities. We also produce an Excel sheet with pre-programmed formulas for our clients. This enables them to deal with their figures whenever they want to. They can make comparisons with previous years, estimate their profit/loss (Accountant 2).

We created a tool for our clients to monitor their figures themselves. As a result, we are able to focus on the interpretation and explanation of the figures for our clients (Accountant 3).

Setting

Several aspects concerning the setting of the cooperation seem important for it to be effective. First, in terms of frequency of contact, owner–managers remarked in the interviews that they perceive regular contact with their accountant as important. An accountant has to be aware of changes in the company, but also of personal

matters that could have an impact on the business. A high frequency of formal contact is therefore of great importance. However, the importance of informal contacts was also considered as creating an opportunity for owner–managers to empathise with their advisor and build a meaningful long-term relationship. For example, owner–manager 1 stated:

Initially, I did not discuss the figures with my external accountant. We met once a year, when I had to put my signature on the financial statement produced, and that was it. Then I asked him to meet quarterly, to monitor the evolution of the figures. Furthermore, I think it is important that the accountant visits the company at least once a year. In doing so, he can visualise the figures by observing the real business activity.

Accountants confirmed the importance of these meetings: ‘Frequent contact is very important in our profession. You have to meet your clients four to five times per year to listen to them and discuss the figures. It is important to empathise with your client’ (Accountant 2). ‘We expect our clients to meet us at least twice a year to discuss their figures. These meetings take about two hours. This is necessary to steer our clients, to know about their future plans, to be able to provide strategic advice’ (Accountant 3).

The question remains whether friendship and the length of the relationship between an owner–manager of the SME and their accountant differ between those who experience a low versus a high mutual understanding. The following quote suggests a positive relationship:

I have already known my external accountant for a very long time. We met in high school and became friends. Actually, I visit his office only once a year to fulfil all legal obligations and put my signature on several official documents. In addition to that, I meet my accountant – and friend – every month. We have a drink in a bar, or meet in a restaurant for lunch. During those meetings we always discuss my company. Sometimes very briefly, but he is definitely engaged with my company (Owner–manager 2).

The identified drivers of mutual understanding in an accounting context were measured by single items and operationalised by the survey (details are provided in Table 1, Panel B).

Results drivers of mutual understanding

Descriptive statistics

The descriptive statistics are shown in Table 2, Panel B. The respondents rate their own accounting knowledge on average at 3.30, but do not clearly elucidate whether the accountant should be considered as merely fulfilling legal obligations or as a strategic partner (mean = 3.14). The accountant is considered on average as proactive

(mean = 3.99) and the respondents tend to act in a relatively transparent way towards their accountant (mean = 3.98). On average, 10 topics (out of 25) are found to be important in discussions with the accountant (standard deviation = 5.50). Tools to analyse the financial performance of the company are considered as important (mean = 3.99). Respondents deal with seven topics (out of 11) themselves. The relationship between the owner–managers and their external accountant is considered as more professional than based on friendship (mean = 2.88). Furthermore, a large proportion of the respondents (59%) had cooperated for more than 10 years with their current accountant.

Table 3, Panel B shows that mutual understanding is significantly and positively correlated with the perception of the accountant as a strategic partner, their proactive behaviour, the frequency of formal contact, and the importance of informal contact. This indicates that the more the external accountant is engaged with the company, the higher the level of perceived mutual understanding. In addition, the accounting knowledge of owner–managers, the number of topics they deal with themselves, and their transparency towards the external accountant are significantly and positively correlated with mutual understanding.

Test results

The results of the *t*-test (see Table 6) reveal that perceived accounting knowledge is greater for the high mutual understanding group than for the low one ($p = .000$). In addition, owner–managers with a high level of mutual understanding consider their accountant more as a strategic partner (mean = 3.32), whereas owner–managers in the low mutual understanding group consider their accountant more as someone who merely fulfils legal obligations (mean = 2.88; $p = .003$). A significant difference is also found for the experienced proactive behaviour of the accountant. Owner–managers with a high level of mutual understanding experience higher proactive behaviour by their accountant (mean = 4.17; $p = .001$) than owner–managers in the low mutual understanding group (mean = 3.72). Similarly, owner–managers with a high level of mutual understanding spontaneously share all information with their accountant (mean = 4.12; $p = .018$), which is significantly lower in the low mutual understanding group (mean = 3.79). This finding confirms the statements from the preliminary interviews; that transparency is absolutely necessary to cooperate in an effective way.

At the level of the subject, the statistical analysis shows that the number of important KPIs discussed with the accountant and the importance of tools to analyse the financial performance are not significantly different between the high and the low mutual understanding group.

Table 6 Test results *t*-test additional analysis

	Low Mutual_Understanding		High Mutual_Understanding		<i>p</i> -value
	N	Mean	N	Mean	
<i>Person</i>					
Accounting_Knowledge_OM	127	3.04	183	3.48	.000
Strategic_Partner	127	2.88	183	3.32	.003
Proactive_Accountant	127	3.72	183	4.17	.001
Transp_Towards_Accountant	127	3.79	183	4.12	.018
<i>Subject</i>					
No_Important_KPis	127	10.91	183	10.46	.481
No_Topics_Self	127	6.90	183	7.46	.025
Importance_Tools	127	3.97	183	4.00	.808
<i>Setting</i>					
Frequency_Contact [†]	127	0.20	183	0.44	.000
Informal_Contact	127	1.70	183	1.96	.049
Relationship_Friendship	127	2.82	183	2.93	.426
Length_Cooperation [‡]	127	4.17	183	4.33	.056

[†]Categorical variable (Chi-square used as test statistics).

[‡]Categorical variable (Mann-Whitney used as test statistics).

The owner–manager needs a sufficient and true understanding of the explanation of the figures by the accountant. Explaining the figures for the company, with the support of tools ‘as such’ makes no significant difference to the establishment of mutual understanding. By contrast, owner–managers with a high level of mutual understanding keep track of more KPIs (mean = 7.46; $p = .025$) than those with a low level of mutual understanding (mean = 6.90).

With regard to the setting of the cooperation, the results of the *t*-test show that owner–managers in the high mutual understanding group report a significantly higher frequency of formal contact than in the low mutual understanding group ($p = .000$). In addition, for the high level of mutual understanding group, informal contacts are considered more important (mean = 1.96; $p = .049$) than for the low mutual understanding group (mean = 1.70). It is interesting – and not expected from the preliminary interviews – that the extent to which the relationship is based on friendship is not significantly different between the high and low mutual understanding group. In addition, the length of the cooperation is not significantly related to mutual understanding. A high level of mutual understanding does not automatically appear with long-term cooperation.

Discussion and Conclusion

This study explores the importance of mutual understanding between the owner–manager of an SME and an external accountant. In an accounting context, mutual understanding means first that the owner–manager and the accountant understand each other. The owner–manager should feel understood by the accountant, and the accountant has to show an interest in the

owner–manager as the manager of a business, taking operational and strategic decisions. Second, the two parties need to know what to expect from each other in order to work together as partners.

The concept of mutual understanding is expected to further increase in importance, as the service provision of external accountants is changing substantially due to digitalisation. Providing tailor-made advice that adds value to the company gains importance. Understanding each other at all levels of the relationship will therefore be more important than ever. The findings reveal several opportunities and implications for accounting practice.

When mutual understanding is established, the owner–manager is more inclined to use business advice from the accountant. If the owner–manager feels understood by the accountant and the accountant understands the needs of the owner–manager, more business advice is bought from the accountant for all sorts of non-mandatory tasks in the broad areas of finance and taxation. Furthermore, in line with previous research, more intensive use of business advice from an accountant leads to better corporate financial health (Barbera and Hasso 2013; Berry et al. 2006; Carey 2015; Kamyabi and Devi 2011). In sum, the results indicate that mutual understanding indirectly influences the financial health of the SME, through the provision of business advice. When owner–managers feel understood by the accountant and understand what the accountant is suggesting, they tend to rely more intensely on the accountant’s advice. Consequently, owner–managers seem to be better capable of monitoring the SME and make better decisions, leading to a positive effect on the company’s financial health. This finding emphasises the importance of establishing mutual understanding in an accounting context. Owner–managers of SMEs and external

accountants that establish mutual understanding are better able of reaching their mutual goal: ensuring good corporate financial health.

As mutual understanding is proven to be important, several drivers of mutual understanding were analysed. We found evidence that owner–managers with high mutual understanding consider their accountant as a strategic partner, instead of someone just helping with legal obligations. When owner–managers of SMEs and accountants perceive each other as peers, and work together as partners, a high level of mutual understanding can be established. SMEs might consequently be inclined to use more business advice as they consider the accountant someone who is capable of adding value to the company. When high mutual understanding is established, SMEs also seem to share spontaneously all potentially relevant information. Openness is a necessity to avoid miscommunication and ameliorate cooperation. In this respect, accountants should also increase their clients' awareness of the full range of services they can offer, including the corresponding costs and invoice terms. High mutual understanding actually enables accountants to act proactively and guide the SME accurately through different milestones and life cycles. External accountants might need to actively adjust their client management and increase the awareness of clients with regard to the importance of transparency and an intense cooperation based on mutual understanding.

Furthermore, owner–managers with high mutual understanding perceive having greater accounting knowledge compared with the low mutual understanding group. These owner–managers also deal with more KPIs themselves. This finding emphasises the importance of accessible explanations of the figures and KPIs towards the owner–managers, which creates a true understanding of their business. Previous research also stresses the importance of understanding and interpreting accounting reports and advice provided by accountants in order to take advantage of that valuable information (Halabi et al. 2010). In order to establish high mutual understanding, owner–managers should be empowered to work actively with their accountant and realise good corporate financial health. The use of tools to explain the figures 'as such' makes no significant difference in the establishment of mutual understanding. The following quote (mentioned by an accountant during the preliminary interviews) illustrates this:

We contribute to the performance of the company, as we suggest possibilities, we give advice concerning accounting and tax matters. But at the end, it is still the owner–manager who has to make the final decisions. In many cases, the owner–manager is unfortunately too little aware of accounting and tax principles. The added value does not consist of the mere production of the financial statements, but of the interpretation of the figures (Accountant 1).

Owner–managers in the high mutual understanding group emphasise the importance of informal contacts and a high frequency of formal contact. The extent to which the relationship is based on friendship is, however, not significantly different between owner–managers with high versus low mutual understanding. This means that owner–managers with high mutual understanding do not necessarily have a relationship based on friendship. In addition, a high level of mutual understanding will not automatically appear with long-term cooperation. Even when the relationship is established over a long time, it is still important to communicate effectively. Mutual understanding is therefore a continuous process.

When considering the findings as a whole, this study points to the importance of mutual understanding between owner–managers of SMEs and external accountants, and opens avenues for further research. First, longitudinal research could further explore the elements that contribute to the establishment of mutual understanding in an ongoing cooperation between external accountants and owner–managers of SMEs. Second, the specific relationship between an owner–manager and an accountant could be investigated in detail, measuring mutual understanding from both sides in a one-to-one setting. This study includes preliminary interviews with both owner–managers of SMEs and external accountants to translate mutual understanding in an accounting context and identify drivers of mutual understanding. However, we were not able to execute our study in a one-to-one setting. In the Belgian context, it is not possible to identify the specific accountant for each respondent, since this information is not publicly available. In addition, owner–managers were not prepared to share valuable information concerning their cooperation with their accountant if they had to reveal names or other personal information. Third, it would be interesting to analyse whether mutual understanding is also of importance in the relationship between owner–managers of SMEs and other service providers, such as bankers, lawyers and entrepreneurial organisations.

Endnote

The role of trust in relation to mutual understanding, business advice and financial health was also analysed, in order to ensure the robustness of the results. When 'trust' was incorporated into the OLS analysis, the results remained the same. The data provide evidence that trust is not significantly related to the use of business advice, or to the financial health of the company. Trust is a characteristic that has been studied in previous research and is (based on these results) obviously different from the concept of mutual understanding. We

wanted to underline this difference in this endnote to highlight the added value of these results to the existing literature.

Acknowledgements

The authors gratefully acknowledge the support of the Fund for Applied Research of the University College Ghent.

References

- Altman, E. 1968, 'Financial Ratios, Discriminant Analysis and the Prediction of Corporate Bankruptcy', *The Journal of Finance*, 23 (4): 589–609.
- Alvarez, S. and Busenitz, L. 2001, 'The Entrepreneurship of Resource-based Theory', *Journal of Management*, 6: 755–75.
- Association of Chartered Certified Accountants (ACCA) 2012, '100 Drivers of Change for the Global Accountancy Profession'. Available at: <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/futures/pol-af-doc.pdf>, accessed 5 February 2014.
- Balcaen, S. and Ooghe, H. 2004, '35 Years of Studies on Business Failure: An Overview of the Classic Statistical Methodologies and their Related Problems', Working Paper, Ghent University and Vlerick Management School.
- Barbera, F. and Hasso, T. 2013, 'Do We Need to Use an Accountant? The Sales Growth and Survival Benefits to Family SMEs', *Family Business Review*, 26 (3): 271–92.
- Barney, J. 1991, 'Firm Resources and Sustained Competitive Advantage', *Journal of Management*, 17 (1): 99–120.
- Barney, J., Wright, M. and Ketchen, D.J. 2001, 'The Resource-based View of the Firm: Ten Years after 1991', *Journal of Management*, 27: 625–41.
- Bennett, R.J. and Robson, P.J.A. 1999, 'The Use of External Business Advice by SMEs in Britain', *Entrepreneurship and Regional Development*, 11 (2): 155–80.
- Bennett, R.J. and Robson, P.J.A. 2000, 'SME Growth: The Relationship with Business Advice and External Collaboration', *Small Business Economics*, 15 (3): 193–208.
- Bennett, R.J. and Robson, P.J.A. 2003, 'Changing Use of External Business Advice and Government Supports by SMEs in the 1990s', *Regional Studies*, 37 (8): 795–811.
- Bennett, R.J. and Robson, P.J.A. 2005, 'The Advisor–SME Client Relationship: Impact, Satisfaction and Commitment', *Small Business Economics*, 25 (3): 255–71.
- Bennett, R.J. and Smith, C. 2002, 'The Influence of Location and Distance on the Supply of Business Advice', *Environment and Planning A*, 34 (2): 251–70.
- Berry, J.A., Sweeting, R. and Goto, J. 2006, 'The Effect of Business Advisers on the Performance of SMEs', *Journal of Small Business and Enterprise Development*, 13 (1): 33–47.
- Blackburn, R. and Jarvis, R. 2010, 'The Role of Small and Medium Practices in Providing Business Support to Small- and Medium-sized Enterprises', Information Paper, International Federation of Accountants. Available at: <http://www.ifac.org/sites/default/files/publications/files/the-role-of-small-and-medium.pdf>, accessed 7 January 2014.
- Blackburn, R., Carey, P. and Tanewski, G.A. 2010, 'Business Advice to SMEs: Professional Competence, Trust and Ethics', Research Report No. 19, ACCA.
- Bulukin, K.C., Gooderham, P.N. and Lund, J. 2005, 'Educating Small Firm Accountants in Counselling SME Client', Working Paper No. 46/05, Samfunns-OG Naeringslivsforskning av.
- Carey, P. 2015, 'External Accountants' Business Advice and SME Performance', *Pacific Accounting Review*, 27 (2): 166–88.
- Carey, P. and Tanewski, G. 2016, 'The Provision of Business Advice to SMEs by External Accountants', *Managerial Auditing Journal*, 31 (3): 290–313.
- Carter, A.J., Burrirt, R.L. and Pisaniello, J.D. 2013, 'Accountants as Emotional Wellbeing Counsellors in Rural Areas', *Australian Accounting Review*, 23 (2): 151–62.
- Churchman, C.W. and Schainblatt, A.H. 1965, 'The Researcher and the Manager: A Dialectic of Implementation', *Management/Science*, 11 (4): 69–87.
- Cornelius, C. and Boos, M. 2003, 'Enhancing Mutual Understanding in Synchronous Computer-mediated Communication by Training: Trade-offs in Judgmental Tasks', *Communication Research*, 30 (2): 147–77.
- Deakins, D., Logan, D. and Steele, L. 2001, *The Financial Management of the Small Enterprise*, Research Report, ACCA.
- Devi, S.S. and Samujh, H.R. 2010, *Accountants as Providers of Support and Advice to SMEs in Malaysia*, Research Report No. 118, ACCA.
- Døving, E., Gooderham, P.N., Morrison, A. and Nordhaug, O. 2004, 'Small Firm Accountants as Business Advisers: Accounting for the Differences in their Provision of Business Advisory Services in Norway and Scotland' Working Paper No. 11, Samfunns-OG Naeringslivsforskning av.
- Døving, E. and Gooderham, P.N. 2008, 'Dynamic Capabilities as Antecedents of the Scope of Related Diversification: The Case of Small Firm Accountancy Practices', *Strategic Management Journal*, 29 (8): 841–57.
- Dyer, L.M. and Ross, C.A. 2007, 'Advising the Small Business Client', *International Small Business Journal*, 25 (2): 130–51.
- Dyer, L.M. and Ross, C.A. 2008, 'Seeking Advice in a Dynamic and Complex Business Environment: Impact on the Success of Small Firms', *Journal of Developmental Entrepreneurship*, 13 (2): 133–49.
- Everaert, P., Sarens, G. and Rommel, J. 2007, 'Sourcing Strategy of Belgian SMEs: Empirical Evidence for the Accounting Services', *Production Planning and Control*, 18 (8): 716–25.
- Everaert, P., Sarens, G. and Rommel, J. 2010, 'Using Transaction Cost Economics to Explain Outsourcing of Accounting', *Small Business Economics*, 35 (1): 93–112.

- Fiol, M. 2001, 'Revisiting an Identity-based View of Sustainable Competitive Advantage', *Journal of Management*, 6: 691–9.
- Gooderham, N., Tobiassen, A., Døving, E. and Nordhaug, O. 2004, 'Accountants as Sources of Business Advice for Small Firms', *International Small Business Journal*, 22 (1): 5–22.
- Halabi, A.K., Barrett, R. and Dyt, R. 2010, 'Understanding Financial Information Used to Assess Small Firm Performance. An Australian Qualitative Study', *Qualitative Research in Accounting & Management*, 7 (2): 163–79.
- Hantho, A., Jensen, L. and Malterud, K. 2002, 'Mutual Understanding: A Communication Model for General Practice', *Scandinavian Journal of Primary Health Care*, 20: 244–51.
- Johnson, A.M. and Lederer, A.L. 2010, 'CEO/CIO Mutual Understanding, Strategic Alignment, and the Contribution of IS to the Organization', *Information & Management*, 47: 138–49.
- Kamyabi, Y. and Devi, S. 2011, 'An Empirical Investigation of Accounting Outsourcing in Iranian SMEs: Transaction Cost Economics and Resource-based Views', *International Journal of Business and Management*, 6 (3): 81–94.
- Kamyabi, Y. and Devi, S. 2012, 'The Impact of Advisory Services on Iranian SME Performance: An Empirical Investigation of the Role of Professional Accountants', *South African Journal of Business Management*, 432: 61–72.
- Kirby, D.A. and King, S.H. 1997, 'Accountants and Small Firm Development: Filling the Expectation Gap', *The Service Industries Journal*, 17 (2): 294–304.
- Liyanarachchi, G.A. and Adler, R. 2011, 'Accountants' Whistleblowing Intentions: The Impact of Retaliation, Age and Gender', *Australian Accounting Review*, 21 (2): 167–82.
- Marriott, N. and Marriott, P. 2000, 'Professional Accountants and the Development of a Management Accounting Service for the Small Firm: Barriers and Possibilities', *Management Accounting Research*, 11: 475–92.
- Mohr, L.A. and Bitner M.J. 1991, 'Mutual Understanding Between Customers and Employees in Service Encounters', *Advances in Consumer Research*, 18: 611–7.
- Ooghe, H., Joos, P. and De Bourdeaudhuij, C. 1995, 'Financial Distress Models in Belgium: The Results of a Decade of Empirical Research', *The International Journal of Accounting*, 30: 245–74.
- Ooghe, H., Claus, H., Sierens, N. and Camerlynck, J. 1999, 'International Comparison of Failure Prediction Models from Different Countries: An Empirical Analysis', Working Paper, University of Ghent.
- Ooghe, H. and Van Wymeersch, C. 2006, *Handboek Financiële Analyse Van De Onderneming*, Intersentia, Antwerpen.
- Ooghe, H., Spaenjers, C. and Vandermoere, P. 2009, 'Business Failure Prediction: Simple-intuitive Models Versus Statistical Models', *The IUP Journal of Business Strategy*, 4 (3): 8–44.
- Preacher, K.J., Rucker, D.D. and Hayes, A.F. 2007, 'Addressing Moderated Mediation Hypotheses: Theory, Methods, and Prescriptions', *Multivariate Behavioral Research*, 42 (1): 185–227.
- Preacher, K.J. and Hayes, A.F. 2008, 'Asymptotic and Resampling Strategies for Assessing and Comparing Indirect Effects in Multiple Mediator Models', *Behavior Research Methods*, 40 (3): 879–91.
- Reynolds, J.D., Reynolds, P. and Lancaster, G. 2006, 'Entrepreneurship and the Small to Medium-sized Enterprise. A Divergent/Convergent Paradox in Thinking Patterns Between Advisers and SME Owner-managers', *Management Decision*, 44 (5): 581–97.
- Rommetveit, R. 1974, *On Message Structure: A Framework for the Study of Language and Communication*, John Wiley and Sons, London.
- Robson, P. and Bennett, R. 2000, 'SME Growth: The Relationship with Business Advice and External Collaboration', *Small Business Economics*, 15 (3): 193–208.
- Runkel, P.J. 1956, 'Cognitive Similarity in Facilitating Communication', *Sociometry*, 19: 178–80.
- Sarens, G. and Everaert, P. 2010, 'Determinants of the Loyalty Between SMEs and Accountants', Working Paper, University of Ghent.
- Sarens, G., Everaert, P., Verplancke, F. and De Beelde, I. 2015, 'Diversification of External Accountants Serving Small and Medium-sized Enterprises: Evidence from Belgium', *Australian Accounting Review*, 25 (2): 155–74.
- Scott, J.M. and Irwin, D. 2009, 'Discouraged Advisees? The Influence of Gender, Ethnicity, and Education in the Use of Advice and Finance by UK SMEs', *Environment and Planning C: Government and Policy*, 27 (2): 230–45.
- Strike, V. 2012, 'Advising the Family Firm: Reviewing the Past to Build the Future', *Family Business Review*, 1–22.
- Tan, M. 1994, 'Establishing Mutual Understanding in Systems Design: An Empirical Study', *Journal of Management Information Systems*, 10 (4): 159–82.
- Teece, D.J., Pisano, G. and Shuen, A. 1997, 'Dynamic Capabilities and Strategic Management', *Strategic Management Journal*, 18 (7): 509–33.
- White, H. 1980, 'A Heteroskedasticity-consistent Covariance Matrix Estimator and a Direct Test for Heteroskedasticity', *Econometrica*, 48 (4): 817–38.
- Yusoff, N.M.H. 2006, 'Supporting the Development of SMEs: Bridging the Services Gap', *Accountants Today*, 19 (8): 12–4.

Appendix

Business advice concerning . . .	Important KPIs discussed with the accountant	Topics owner–manager deals with
1. corporate legislation	1. analysis of the cash flow	1. analysis of the cash flow
2. cost accounting	2. balance of the bank account	2. balance of the bank account
3. business transfers	3. budgeting wage for accountant	3. current account owner–manager
4. company in distress	4. cash management	4. customer claims
5. corporate social responsibility	5. current account of the owner–manager	5. inventory management
6. financing	6. customer claims, supplier debts	6. overall cost structure
7. inheritance and succession	7. depreciation, amortisations (linear, decreasing method, etc.)	7. profit or loss account
8. pension planning	8. inventory management	8. ratios
9. risk management	9. distribution of profits	9. supplier debts
10. staffing	10. financing needs	10. turnover
11. subsidies	11. impairments	11. other
12. the organisation of business (e.g., automation)	12. discussion of financial health of the company	
13. purchase of software or hardware	13. continuity of the company (restructuring, divestments . . .)	
14. internal control systems	14. prognosis figures of the company for the next fiscal year	
15. administrative tasks	15. investments	
16. changes in legislation and impact on company	16. obligations to the tax authorities	
17. internal audit	17. need for capital	
18. legal affairs (e.g., contracts)	18. overall cost structure	
19. marketing	19. provisions	
20. personal tax declaration	20. ratios	
21. strategic advice	21. revaluations	
	22. strategic vision	
	23. tax deductible expenses	
	24. tax optimisation	
	25. turnover	