The transition of leadership via accounting practices: the case of a Chinese entrepreneurial firm

Abstract

Purpose – Accounting changes that take place in the context of different leadership styles, especially in SMEs, require further investigation. This paper aims to explore how accounting enhances monitoring and control for legalistic leaders and how accounting changes facilitate leadership transition to resolve accounting issues and emotional conflicts within entrepreneurial firms.

Design/methodology/approach – This paper adopts a case study in a Chinese entrepreneurial firm to explore the relationship between accounting changes and leadership behaviours rooted in the traditional Chinese philosophies.

Findings – Legalistic leaders enhance monitoring and control, through the flow and interpretation of accounting information, in order to retain power. However, rule-based accounting order, with rewards and punishment, may create emotional conflicts. The difficulties of implementing accounting changes facilitate legalistic leaders to embrace transformational leadership to resolve trust, emotional conflicts and accounting issues.

Originality/value – This paper provides insights into the transition of leadership styles in the process of implementing accounting changes in the Chinese context, which contributes to future comparative leadership and accounting practices with Western philosophies.

Keywords – Legalistic leadership, Transformational leadership, Accounting information, SaaS ERP system, Emotional conflicts

Paper type – Case study

1. Introduction

There are approximately 52 million SMEs in China in 2022, contributing around 50% of tax revenue and 60% of GDP to the Chinese economy (OECD, 2024). According to the National Bureau of Statistics of China (NBSC), micro or entrepreneurial enterprises are classified as having fewer than 10 employees in the retail industry and fewer than 20 employees in manufacturing industries (NBSC, 2017). Chinese SMEs, including entrepreneurial firms, therefore not only play a key role in economy growth but also contribute to an increasing employment rate and innovation growth.

Previous studies have explored various accounting approaches for enhancing monitoring and control in SMEs, such as management accounting and control systems (Reinking and Resch, 2023), risk management (Moschella et al., 2022) and ERP systems (Teittinen et al., 2013). Jansen (2011) investigated how managers' leadership styles influence information receivers' (employees) perceptions of newly introduced management accounting information in a Dutch

firm. Cheffi *et al.* (2023) found that management control systems and ethical leadership contribute to the development of SMEs in an emerging economy, the UAE. However, there is currently no study on how accounting changes take place under different contexts of leadership style, especially amongst SMEs. As Reid and Smith (2009) argued, each small firm has a unique evolutionary history, which offers opportunities to explore leadership styles and different stages of accounting changes, through a process rather than in a state. Moreover, understanding accounting changes and holistic leadership behaviour rooted in **traditional Chinese philosophies**[1] can contribute to future comparisons of **leadership**[2] and accounting practices with **Western philosophies**[3] (Ma and Tsui, 2015).

This paper investigates how accounting practices meet the demands of legalistic leadership to enhance monitoring and control. It further explores how transformational leadership facilitates the legalistic leader in making positive accounting changes, where they are influenced by a mixture of Confucianism and **Western ideology**. We adopt Cheung and Chan's (2005) argument to define Western ideology as being focused on individualism, liberalism, democracy and individualised consideration. This is in contrast to Chinese ideology, which embraces high power distance and collectivism. We therefore focus on a Chinese entrepreneurial firm whose founder takes the dual identity of owner-manager and internal accountant, aiming to exert strong monitoring and control over the firm through his choice of accounting practices. Moreover, unexpected institutional pressures (political and emotional) and ongoing MBA studies enable the founder to reflect on leadership styles, which provides a unique opportunity to observe leadership transition under different cultural contexts.

Our work therefore contributes to the body of knowledge on the transition of leadership styles in the process of implementing accounting changes during the growth path of entrepreneurial firms, in a Chinese context. We continue below with a discussion of the literature relevant to both legalism and accounting, including discussion of emotional conflicts and transformational leadership in a Chinese setting. We then present our case study evidence, from which we derive our results, analysis and conclusions.

2. Legalistic leadership and accounting

Legalism refers to the rigorous and clear rule of laws that all citizens obey. The ruler offers generous rewards to those who carry out their duties faithfully and punishes law-breakers, without exception (Witzel, 2012). Legalism is based on the modern economic assumption that people are born selfish. It highlights problems of self-interest that can harm organisational

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[1] We adopt Ma and Tsui's (2015) approach in identifying Confucianism, Daoism and Legalism as traditional Chinese philosophies. Typically, we might think of these as being associated with harmony, community, and practical wisdom, or as having a stronger focus on cultivating personal virtue through ethical conduct, particularly within the framework of family and social roles.

[2] For the purposes of this paper, we define leadership as the business leaders' or owners' management styles, as displayed in practice in Chinese firms.

[3] Here, we take Western and Euro-American leadership styles as encompassing specific management and/or governance practices adopted under Western philosophies, whereby fundamental questions are explored by a more critical and systematic approach than is typically the case in China, for example, by using reason, logic, and evidence.

interests (Ma and Tsui, 2015), whilst promoting fairness and equality for people through the pursuance of state welfare (Cheung and Chan, 2005). Therefore, it is highly important for business leaders to maintain power through rigorous rules and regulations and effective monitoring mechanisms. Legalism also promotes generous rewards and serious punishments, with clear explanations, to ensure fair control over employees (Lin *et al.*, 2018). As the mutual language of rights and obligations for communication and evaluation (Dermer, 1990; Roberts and Scapens, 1985), accounting serves as a tool for leaders to use discretionary power to appraise employees' performance, which matches with the principle of legalistic leadership (Ma and Tsui, 2015).

The most important legalist philosopher, Han Fei, witnessed chaos and wars amongst kingdoms immediately following Confucius and Laozi (Doasim), during the 6th or 5th century BC. In response, he proposed three fundamental principles for establishing order and systems: *fa* (laws and regulations), *shu* (management techniques) and *shi* (possession of power) (Ma and Tsui, 2015; Wang *et al.*, 2012; Witzel, 2012). *Fa* refers to the standards with which people must comply, in order to pursue the common good (Witzel, 2012). Legalism believes that people avoid punishment and that, therefore, leaders should establish and implement strict rules and laws to maintain the social order (Ma and Tsui, 2015). *Shu* refers to administration or governance (Witzel, 2012), whereby leaders must monitor subordinates to ensure the effectiveness of implementing laws and regulations through different approaches. First, legalistic leaders provide individuals with clear role descriptions and responsibilities to seek the best candidates, which draws on the Confucianism principle of identifying everyone's identity and duty with a title (Lin *et al.*, 2018). Second, successful candidates receive rewards when performing well, and accordingly, they are punished for poor performance, based on clear role descriptions. *Shi* refers to the power or authority to facilitate the enforcement of rules and laws (Witzel, 2012). Legalistic leaders must have substantial power (*shi*) first before applying laws (*fa*) and managing subordinates (*shu*) (Wang *et al.*, 2012).

Top leaders must have a tight grip on power, especially as regards reward and punishment, in order to exercise command. There is no special treatment for anyone who breaks the law, as legalism believes that everyone will obey the rules if lawbreakers are punished equally. This is in contrast to Confucianism, which treats individuals differently according to their skills and conditions (Ma and Tsui, 2015). Subordinates can have certain freedom and power to pursue their own goals within laws and regulations. However, legalism promotes 'rule by law', which means the laws restricts everyone except top leaders (Ma and Tsui, 2015). Combined with rewards and punishment, accounting creates a strict and disciplined order for organisations (Hopwood, 1990; Roberts and Scapens, 1985). However, under power dominance, subordinates might avoid punishment or conflicts by recognising the control of leaders over their promotion and bonus. This, in turn, triggers self-interest behaviours and acts against the organisational interest (Bovens *et al.*, 2014). Furthermore, from a philosophical perspective, legalism values state utilitarianism, which prioritises the state/organisation's welfare. However, individualism is an integral part of Western philosophies, which emphasise an individual's freedom and rights and influence some Western leadership styles. There has been limited attention to exploring state utilitarianism in small businesses through accounting practices.

Hence, under legalistic leadership, it remains unknown whether accounting facilitates superiors to always exert control over subordinates effectively. We therefore derive the following research question:

Research question 1: Does accounting facilitate legalistic leadership to exercise effective management and control?

3. Emotional conflicts and transformational leadership

Chinese leadership stems from traditional Chinese culture, which is generally characterised as consisting of both high-power distance and collectivism. Therefore, conformity is essential for Chinese leaders to maintain harmonious relationships with followers for the improvement of organisational performance (Cheung and Chan, 2005). When legalist leaders introduce accounting change, they focus on the rebalance of rules rather than employees' personal feelings (Lin *et al.*, 2018). However, Jansen (2011) found that different leadership styles may affect employees' attitudes towards new accounting changes. If there is a mismatch between leadership styles and employee work satisfaction, it results in employees' resistance to accounting change.

When subordinates disagree, or are dissatisfied, with leadership of a superior, two types of conflicts arise from the superior-subordinates relationship: namely, 'pure emotional conflicts'; and 'a mixture of emotional and task conflicts'. For example, Xin and Pelled (2003) define emotional support as a way for leaders to show trust and faith in subordinates' capabilities of accomplishing tasks. Superiors without emotional support in the vertical emotional conflict may not earn trust and respect from subordinates. Accordingly, subordinates' doubt about leadership qualities in offering emotional support is a threat to the order that legalistic leadership maintains through the establishment and enforcement of rigorous rules and laws (Ma and Tsui, 2015). Moreover, the principle of Confucian philosophy is to maintain harmonious relationships between rulers and the ruled, as well as between family members and friends. Good and effective leaders should educate, develop and improve the welfare of their subordinates (Ma and Tsui, 2015). Western philosophies and Confucianism share common values in transformational leadership. Both believe that leaders can motivate subordinates to take more responsibilities and achieve desirable work outcomes through leaders' pastoral support and care (Ma and Tsui, 2015).

In a term conceived by James MacGregor Burns in 1978, 'transformational leadership' has been evolving and recognises the importance of cultural contexts (Bass and Avolio, 1990, 1993; Bass, 1999). Following Siangchokyoo *et al.* (2020), this paper adopts Bass and Avolio's (1995) framework to define transformational leadership across four dimensions: (1) idealised influence; (2) inspirational motivation; (3) intellectual stimulation; and (4) individualised consideration. Idealised influence refers to role modelling features (Bass and Steidlmeier, 1999; Siangchokyoo *et al.*, 2020). Idealised influence implies leaders' role modelling behaviours with internalised visions, values and missions through their emotional impact (Deinert *et al.*, 2015). They explain to followers the meaning of missions and build trust with followers (Li *et al.*,

2015; Zhang *et al.*, 2011; Zhu *et al.*, 2013). Inspirational motivation focuses on the encouraging and inspiring visions of the future (Siangchokyoo *et al.*, 2020). Leaders provide followers with inspiration and passion through various approaches to help them generate additional energy to achieve new goals and overcome challenges (Bass and Steidlmeier, 1999; Zhu *et al.*, 2013). Intellectual stimulation involves the process of pushing followers to challenge the status quo and develop new, creative and innovative ideas to solve new problems (Deinert *et al.*, 2015; Zhang et al., 2011). Individualised consideration cares about followers' feelings and demands (Li *et al.*, 2015; Siangchokyoo *et al.*, 2020) and offers guidance and coaching in each follower's unique growth path and development demands (Deinert *et al.*, 2015; Zhang *et al.*, 2011).

Chinese leadership[4] integrates and balances various philosophies perspectives and balances, which explains the uniqueness of its leadership styles and practices (Wang *et al.*, 2012). However, it remains unknown what role is played by accounting in transitory leadership, where resolving trust and emotional conflicts caused by accounting changes is crucial. Therefore, the paper also addresses the following research question:

> **Research question 2**: What role does accounting play in leadership transition in an entrepreneurial firm with trust and emotional conflicts?

4. Leadership in the Chinese context

Leadership styles are embedded in cultural contexts (Bass, 1997; Ma and Tsui, 2015; Takahashi *et al.*, 2012). Traditional Chinese philosophies and cultural roots, Confucianism, Daoism and Legalism, are deeply rooted in Chinese business leaders' leadership styles (Lin *et al.*, 2018; Ma and Tsui, 2015). With the popularity of Western education (e.g. MBA) in the global context, more and more Chinese business leaders have adopted Western management practices. They have learned to create a professional work cultural environment with rigorous regulations and policies (Liden, 2011; Ma and Tsui, 2015). Hence, modern Chinese leadership and traditional philosophies are influenced by the fast-growing economy and well-spread Western culture and management practices in business settings (Wang *et al.*, 2012).

Prior research on Chinese leadership has relied mainly on Western leadership theories. Related to this, Zhang *et al.* (2014) find that young, literate Chinese are increasingly keen to express their individuality and embrace Western values. Because of ready access to the internet, they are now exposed to Western movies and brands, and are therefore becoming increasingly similar to Western young people in behaviour, values, and lifestyles (cf. Zhang *et al.*, 2014). However, there are increasing studies using Chinese philosophy to explain modern Chinese business leaders' decisions and behaviour (Ma and Tsui, 2015). For example, Chinese culture would acknowledge the importance of using ethical principles as a basis for leadership, such that supervisors should act as a role model for subordinates, and lead by example in demonstrating their leadership integrity and virtue (cf. Li and Shi, 2005). However, most studies focus on Confucian dynamism and may overlook the complexity of contemporary Chinese leadership (Lin *et al.*, 2018); as modern Chinese leadership does not solely rely on

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[4] Chinese leadership in this paper refers to the unique phenomenon where Chinese leaders in business organisations are influenced by more than one traditional philosophical school and are in harmony with those philosophies.

Confucianism but synthesises Confucian, Daoist and Legalist doctrines together (Cheung and Chan, 2005).

Ma and Tsui (2015) found that contemporary successful Chinese business leaders adopt legalism most frequently, followed by Confucianism, and finally Daoism. The popularity of philosophies for leaders depends on the institutional and cultural context. For example, political economy is a salient institutional feature in China, which highlights the prominent impact of government intervention and political forces on the economy and society (Cheng *et al.*, 2022). China's government enforces formal restrictions through rules, laws and regulations on enterprises to control the economy (Lennox and Wu, 2022), which creates a legalistic environment with increasingly complicated and unexpected difficulties for businesses. Therefore, for entrepreneurial firms, leaders may use individualised approaches to lead at the start but must establish rigorous regulations and policies later. Uncertainty in the political economy forces leaders to establish tougher and stronger regulations and systems to improve efficiency and effectiveness, which shares the same goal as modern Western corporate governance practices e.g. 'Path–goal theory of leadership' (Fischer and Sitkin, 2023) and Weber's (2023) 'bureaucracy theory' (cf. Ma and Tsui, 2015). However, most Chinese leaders acknowledge that both they and their subordinates are deeply integrated with Confucianism; and they must pay attention to individual emotions and feelings when managing employees (Ma and Tsui, 2015; Wang *et al.*, 2012). In short, contemporary Chinese leadership is 'Janus-faced': Confucian to the outside world and Legalistic internally (Lin *et al.*, 2018; Ma and Tsui, 2015). Hence, it is worth exploring how Chinese entrepreneurs maintain the harmony and conformity with employees under different leadership styles and cultural contexts, especially when pressured by political institutional forces.

4. The setting

This paper presents a case of a Chinese entrepreneurial firm (hereafter named Distiller for anonymity) selling distiller equipment for brewers online. Distiller was founded in 2017 by three male undergraduates (hereafter X, Y and Z), who studied in a US-China university collaboration in Wenzhou, China. The three founders all come from families with business histories and diverse resources. Distiller designs and manufactures their patented distiller to overseas wine factories and individual brewers on AliExpress and home markets on Alibaba. From a start of very few orders, with only 4 employees in 2017, Distiller had achieved £1.5m in revenue and employed 22 people by 2023. However, there have been several major changes in Distiller's business mode and management level, which raised various accounting issues and conflicts between the owner-manager and employees. The growth path of Distiller reflects the shift of leadership styles at different stages, as shown in Figure 1. In Phase 1, Distiller targeted overseas wine factories, bars and individual breweries by providing large sets of distiller equipment (£10,000-£20,000 per set), which were replicated from overseas competitors but sold for only half the price. As founding director, X focused on product research and placed orders with a factory (owned by his relatives). Y managed sales and delivery as the second shareholder. Z, the third shareholder, was mainly responsible for customer service and advertising. They used emails and Facebook to contact potential customers by leafletting and

offering much lower prices, but without any legal website or contracts. Therefore, they would only receive 1-2 orders in 2-3 months, or nothing at all, which forced Distiller to give up the overseas market and focus instead on domestic customers.

In Phase 2, Z left in 2018 because of a disagreement over a business strategy, upon which X had firmly insisted. X and Y used Alibaba to sell a great variety of small and cheap distillers (£100-£2,000 per set) to domestic markets, acting as an agent, by purchasing finished products from other factories, rather than relying solely on the family factory. X took on the roles of owner-manager, chief shareholder, product developer, sales manager and accountant; whilst Y became a senior manager in managing manufacturing and deliveries. They hired a few sales staff to manage the online orders and handle customer service. Due to limited self-production capacity, the business was significantly affected by fierce domestic competition and supply chain problems. Overall, they barely made a profit and decided to design and manufacture their own products by making greater investments in research and innovation.

By Phase 3, Distiller were designing and manufacturing their distiller products, and had expanded the business to the areas of facial care, essential oils and fragrances. Professional marketing, manufacturing and research teams were established under X's leadership. KPIs and other performance measurement rules were implemented. Except for basic responsibilities, Y dealt with issues referred, or overlooked, by X, and resolved conflicts between X and their employees, which took additional personal time and effort.

In Phase 4, with the outbreak of COVID-19 and the government relocation notice[5] in 2021, Distiller returned to overseas markets and built a new factory with government support in 2022. Their market share was reduced from 80% to 55% in favour of the domestic market, whilst their overseas market business accounted for 45% in 2022 based on their total market share in 2021; both continued to expand from 2023 onwards. However, Y left the organisation because of the unbearable pressures of leadership. Meanwhile, Distiller introduced the SaaS ERP system to improve financial planning and efficiency in 2021 but received significant resistance from the entire firm, which caused serious disruptions to the business and made X reflect on his leadership style. Moreover, X had started studying towards an MBA to learn contemporary management and gain leadership knowledge of both western and Chinese philosophies.

5. Methodology

Jørgensen & Messner (2010) supports Yin (2009) and Verdier & Lapeyre (2023), in proposing that case studies are the most appropriate research method for exploring the 'How' and 'Why' questions. Participant observation is facilitated by semi-structured interviews, which help the researcher to spend time and connect with interviewees in the field, while reflecting on their experiences, careers and challenges in their domain. Semi-structured interviews, in turn, help the researcher to find a coherent storyline to connect with interviewees (Dai et al., 2019).
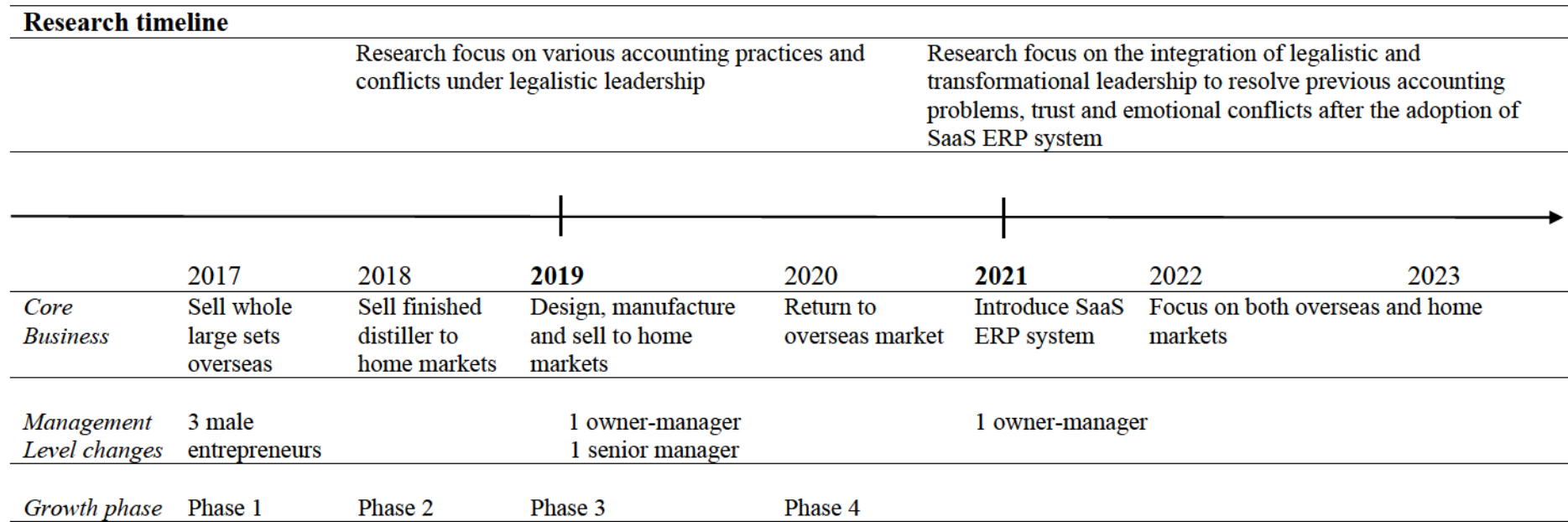
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[5] Under this policy, Chinese local government sells land to generate revenue and cover the local government deficit (Du and Peiser, 2014). The current occupiers receive compensation but must leave the sold land within the given period of notice.

Therefore, a field-based case study can enable the researcher to explore the exercise of legalistic and transformational leadership through accounting information and practices within an entrepreneurial firm.

This paper adopts a field-based case study approach (Scapens, 1990; Spicer, 1992). A single in-depth investigation and observation of a firm offers richer evidence of the relationships between daily social interactions and social structure. This then facilitates greater understanding of what happens in organisations and why members behave in particular ways (Parker, 2012; Pigatto et al., 2023). Although field-based research and case study research can be used interchangeably in management accounting research, field-based research is unique in having field site visits, which involve intensive and detailed investigations to specific embedded units within the organisation (Spicer, 1992). The field site visits were carried out by participant observation: the observer watched participants' activities, and interacted with participants to learn their practices and understand better the motivations behind their actions.

Figure 1 Growth path of Distiller

Research timeline

	Research focus on various accounting practices and conflicts under legalistic leadership	Research focus on the integration of legalistic and transformational leadership to resolve previous accounting problems, trust and emotional conflicts after the adoption of SaaS ERP system

	2017	2018	**2019**	2020	**2021**	2022	2023
Core Business	Sell whole large sets overseas	Sell finished distiller to home markets	Design, manufacture and sell to home markets	Return to overseas market	Introduce SaaS ERP system	Focus on both overseas and home markets	
Management Level changes	3 male entrepreneurs		1 owner-manager 1 senior manager		1 owner-manager		
Growth phase	Phase 1	Phase 2	Phase 3	Phase 4			

Distiller was selected as an illustrative case for two reasons. First, the owner-manager also has the dual identity of 'internal accountant' in the entrepreneurial firm, which helps us to understand how legalistic leadership might be exercised and enhanced through accounting practices. Raised in the Chinese philosophies-based (Confucianism) environment, the owner-manager did not obtain a US-China bachelor's degree until reaching a mature age, which indicates that Confucianism is embedded in their mindset and behaviours. Furthermore, the owner-manager's on-going MBA study suggested having an open mindset for absorbing and reflecting upon western philosophies. This in turn, provides insights into the integration of legalistic and transformational leadership for resolving conflicts generated by accounting changes. Second, the firm was deeply affected by COVID, causing the owner-manager to change its strategy, and leading to significant business expansion. However, the unexpected government relocation policy had required the owner-manager to make significant changes (including adoption of SaaS ERP system in 2021) without negotiation, which is not a regular practice in the Chinese setting. The owner-manager's response to institutional pressure (political and emotional) provides a good opportunity to study the motivation of leadership transition via the accounting changes and emotional conflicts.

The field-based case study collates data from semi-structured interviews, participant observation, informal conversations and company documentation (Jørgensen and Messner, 2010; Kraus *et al.*, 2017; Smith and England, 2019). Table 1 presents the basic information of participants and approaches used to collect information. Semi-structured interviews were conducted with the owner-manager, senior manager and representatives of employees in each division by following Kallio *et al.*'s (2016) guidelines. The interviewees include the owner-manager (X), senior manager (Y), one of the founders (Z), manufacturer manager 1 (M1) and 2 (M2), package employee (Pac), sales manager 1 (S1) and 2 (S2), and sales intern (Intern). Participant observation was conducted by one researcher and an observation journal was prepared to record the direct observation and daily conversations with all members within the firm. To answer Research Question 1, questions were prepared to gain insights into:

- The use of accounting information for communication, interpretation and appraisal
- The function of accounting in monitoring and control
- The expectation and practical outcome of each **actor**[6] in the superior-subordinate relationship
- The extent to which the owner-manager tolerates trust and accounting issues before the determination to resolve those issues

To answer Research Question 2, questions were organised to identify:

- How different entities perceive trust and emotional conflicts through accounting changes in the superior-subordinates relationship
- The significance and process of SaaS ERP system to the owner-manager and employees
- The motivation of the change of KPI and its contribution to leadership transition

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[6] Where an actor is simply a party to the superior-subordinate relationship e.g. manager-employee, supervisor-worker etc.

- How accounting practices help the owner-manager regain trust and ease emotional conflicts with employees
- The impact of a shifted focus on R&D by the owner-manager and employees

Table 1 The sources of interviews

Participants	Education	Experience at the firm	Approach	Time of the interview
Owner-manager (X)	US-China bachelor's Degree and on-going MBA	Founder (7 years)	Interview Direct observation	2019 2020 2021 2022 2023
Senior Manager (Y)	US-China bachelor's Degree	Founder but quit in 2022 (5 years)	Interview Direct observation	2019 2020 2021 2022
Founder (Z)	US-China bachelor's Degree and UK Master Degree	Founder but quit in 2018 (1 year)	Interview	2019 2020
Manufacture Manager 1	High school diploma	5 years	Interview Direct observation	2019 2020
Manufacture Manager 2	Bachelor's Degree in Engineering	4 years	Interview	2019 2020
Package Employee	Middle School diploma	4 years	Interview Direct observation	2019 2020
Sales Manager 1	Bachelor's Degree in Marketing	5 years	Interview Direct observation	2019 2020
Sales Manager 2	High school diploma	3 years	Interview	2019 2020
Sales Intern	High school diploma	0.5 year	Interview	2019 2020

The researchers conducted two rounds of interviews: one in December 2019 to January 2020 and further annual follow-up interviews with the owner-manager from 2020-2023. This objective of this work is to explore over time accounting practices during leadership transition within an entrepreneurial firm, which explains the demand for rich and in-depth information to generate better understandings of the complicated phenomena based on a small sample (Lee and Humphrey, 2006). The first round of interviews was carried out in the interviewee's office or the meeting room. The follow-up interviews were conducted via zoom to collect the latest information and revisit previous discussions for further updates; as accounting practice is a process that offers researchers illustrations and examples in particular settings (Ahrens and Chapman, 2006). Informed consent was obtained before the meeting and the interviews lasted between 25-70 minutes and were digitally recorded. Notes were taken during the interview with permission from interviewees and checked by the interviewees before the end of the interview.

A participant observation journal was collected during December 2019 to January 2020. The firm's archival data was updated from 2018 to 2023. Participant observation builds the foundation for researchers to locate accounting practices in the historical, economic and organisational background through fieldwork (Parker, 2012; Scapens, 1990). It offers supplementary information to set the scene for semi-structured interviews from the social accounting perspective (Parker and Northcott, 2016; Vaivio, 2008).

6. Results

The results are presented in three phases. First, we present legalistic leadership evidence according to the three components of: *fa* (laws and regulation); *shu* (management techniques); and *shi* (power). The evidence includes the owner-manager's direct monitoring and control over the accountant's record-keeping, accounting information, the nature of open workplace and specific rules on orders. The latter enhances legalistic leadership but triggers accounting issues in 2019 and 2020. The accounting issues relate to careless financial planning and budgeting, poor cash flows, employee shirking and resistance in adopting management accounting techniques, which remind the owner-manager to reflect on legalistic leadership and the necessity of accounting changes.

Second, facing the unexpected government orders to relocate while recovering from COVID, the owner-manager felt effortless to confront government under political pressure, despite already possessing the highest power in the firm. Meanwhile, the owner-manager was searching for new solutions to the existing accounting issues and conflicts through two approaches: pick up the best SaaS ERP system to build an integrated accounting system; and start an MBA course to learn more about Western governance and management theories and knowledge. Therefore, the second phase outlines evidence on transition across leadership styles, with a focus on the owner-manager's reflection.

Our third concern is to illustrate how the owner-manager became determined to shift from being a legalistic to a transformational leader, through the adoption of the SaaS ERP system,

R&D and improved KPI over the period 2021 to 2023. This phase also shows the true transformational leadership, in solving accounting, trust and emotional conflict issues through Bass and Avolio's (1995) framework: (1) idealised influence; (2) inspirational motivation; (3) intellectual stimulation; and (4) individualised consideration. SaaS ERP system can improve the efficiency and accuracy of budgeting, but it also forces the owner-manager to act as role model in increasing *idealised influence* in face-to-face communication with employees. This is complicated by employees' resistance along with low trust towards the new system and accumulated emotional conflicts under stricter monitoring and control. This, in turn, requires the owner-manager to care for employees based on *individualised consideration*. Moreover, the owner-manager also focuses on R&D and upgraded KPIs for *intellectual stimulation* and *inspirational motivation*, rather than as an attempt to control everything in the firm. Table 2 summarises the main results and detailed discussions are presented from section 6.1 to 6.3.

6.1 Legalistic leadership and accounting practices

(1) Dual identity to achieve *shi* (substantial power)

The owner-manager (X) has always controlled the core business by taking more responsibilities (identities). At the early stage, X was responsible for product research and order completion, which supports almost 90% of the business. During the growth phase, X shoulders dual responsibilities, acting as the internal accountant alongside the other duties. This is common in small firms, where owner-managers are the primary users of accounting information (DeThomas and Fredenberger, 1985). Accounting information is not only a way of recording and defining the results of events but also a means of expressing and enforcing expectations in power relations (Roberts, 1991). Owning the power of accounting means possessing dominance over others in an organisation's authority structures (Dermer, 1990; Roberts and Scapens, 1985). Therefore, X prepares the company's financial accounts in his own way, which merges three standard financial statements into one statement.

> "I only care about cash flow. To me, cash flow equals net profit. I don't care if others understand or not." (X)

Accounting information is also the only available information to everyone within an organisation (Roberts and Scapens, 1985), which serves as a communication tool for legalistic leaders to express and enforce expectations in power relations. X uses accounting information for communication, coordination and evaluation across departments:

> "We upload the summary of daily sales and orders' status to the workgroup chat by the end of the day. Everyone can see my progress and sometimes it is stressful." (Intern)

> "The KPI board on the wall next to the gate shows everyone's daily and weekly progress. It is updated by the boss every day and we can see who meets the KPI first." (M1)

The owner-manager's rewarding and sanctioning of power via accounting information does create distance between the superior and subordinates; performance is shared and visible to all. Therefore, accounting serves as a tool for superiors to use discretionary power to appraise subordinates' performance, which matches with the principle of legalistic leadership (Ma and

Table 2 Summary of main findings

Research questions	Leadership	Accounting practices
RQ 1 *Accounting practices facilitating legalistic leadership for monitor and control*	*Legalism-shi* (power)	Dual identity of the owner-manager and internal accountant to retain power and control Daily report using accounting information and KPI for the legalistic leader to use discretionary power to appraise subordinates' performance
	Legalism-fa (laws and regulation)	'Double check order' and 'Track the order' rules as people are born selfish Rules and regulations are necessary to reduce self-interest behaviours
	Legalism-shu (management techniques)	Open workplace to monitor people effectively may force employees to be silent Employee delay and shirking in adopting unclear management accounting techniques due to unclear job descriptions and boundaries
RQ 2 *Accounting changes that facilitate leadership transition*	Transformational-*idealised influence* and *individualised consideration*	Owner-managers' commitment and effort into persuading employees to adopt the SaaS ERP system to improve financial planning and efficiency
	Transformational-*inspirational motivation*	Owner-manager focuses on R&D creates a passionate environment but controls flow of information
	Transformational-*intellectual stimulation*	Upgraded and clear KPI to boost employees' confidence in communication and creativity

Tsui, 2015). However, if the owner-manager is unable to maintain the balance between accounting power and decision-making power, it may trigger accounting issues that threaten the firm performance. For example, the observer noted an accounting issue, careless management of inventory and poor cash flow, during the observation.

'A randomly selected monthly cash flow only records expenses (inventory, packing fee, delivery fee, fixed asset purchases and other fee). However, purchasing inventories and raw materials consumes 87% of that month's cash flow.' (Observation journal)

When questioned by the observer, X recognised this problem but justified himself by several reasons, such as he cannot resist ordering some good quality inventories or was too busy to make reasonable predictions when ordering new inventories. Not surprisingly, his poor decisions were not punished or discussed in public, which clearly matches the criticism of legalism that a legalistic leader is free from restrictions (Ma and Tsui, 2015).
(2) Human-born selfish in applying *fa* (specific rules)

Legalism believes that all humans are born selfish, indicating that legalistic leaders must monitor and control employees to act against self-interest behaviours in nature through fair rules and regulations (Cheung and Chan, 2005; Lin *et al.*, 2018). X expressed his concerns of employees' potential selfish behaviours:

"What if the packing team sends our products to his family? What if the sales team makes up orders for their personal interests? I need to come up with a monitoring mechanism. When I am absent, they monitor each other as well." (X)

Therefore, X devised several strategies, associated with the accounting practices to reduce internal conflict and competition, such as 'Double check the order'. This was devised to avoid unfair blame allocation when there were questionable orders, and to ensure that legalism treats everyone fairly. First, sales employees had to double check the order with the packing employees before the box was sealed. Second, for any questionable orders, the senior manager (Y) would investigate who was to blame if the package was broken due to transportation, since logistics firms, and packing employees were also involved. Third, when customers complained about wrong or missing products, Y would investigate whether it was caused by wrong or incomplete orders, or through sales or packaging mistakes. Y would also report to X if the investigation were unsuccessful. Then the order would be presented in the pool for anyone to engage with, for an extra bonus.

"I would pick up questionable orders in the pool for a higher bonus, but it depends. Ultimately, I don't want trouble." (S2)

Legalism believes that human naturally avoids punishment. Therefore, generous rewards are important in maintaining the social order, if employees follow the rules and regulations. Employees would communicate via accounting information and help each other when needed across departments for bonus and personal relationships, as there were clear appraisal rules for bonuses and promotion to encourage cooperation and improve overall performance.

"There is a special bonus for employees who resolve any customer disputes in the pool, which stores all questionable orders that cannot be dealt with the responsible employee. I aim to improve the quality of customer service and encourage employees to help each other." (X)

"I would ask sales colleagues directly for a particular problem or how to comply with the new rules. They are happy to help, and we also discuss how to save transportation and packing costs. We also remind each other of recording and updating information for daily report." (Pac)

This open talk and negotiation helped to relax individuals' defensive mechanisms and offered a safe platform for gaining a deeper mutual understanding and trust, rather than indifferent hierarchical values that had been imposed from above. Accounting information via informal face-to-face chat at work can enhance loyalty and friendship, ease conflicts and misunderstandings, and add more humanity and sociability into work (Roberts and Scapens, 1985).

(3) Strict monitoring to enhance *shu* (management techniques)

Legalistic leadership needs strict monitoring and control to ensure the effectiveness of laws and regulations. The firm was originally located in a large cargo house and all employees worked in an open space with inventories and semi-finished products. The exception was that X shared the only office with the sales team. X monitored employees' work progress easily by coming out of the office and touring around while listening silently to employees' conversations. This was a direct method for the legalistic leader to collect information and exercise effective monitoring over the entire firm. as all subordinates' work progress and conditions were available to others, and most of their conversations were in the open. This had the ability to reduce the chance of self-interested behaviour that legalistic leaders aim to eliminate, such as shirking, cheating or conspiring (Lin *et al*., 2018; Ma and Tsui, 2015). Moreover, the open workplace may have accelerated the flow of accounting information via face-to-face communication across departments. It offered instant feedback to the owner-manager for evaluation and decision-making purposes, which enhanced their dominant position through accounting.

Another key aspect of legalism is to have clear job descriptions and boundaries for implementing fair rules and regulations that apply to everyone (Lin *et al*., 2018). Then the best suited employee will be allocated to the position and receive rewards if they meet expectations, or else punished. X therefore developed an additional strategy, called 'Track the order', which was to reduce the owner-manager's operational risks by offering sales employees generous rewards. The sales employees who took the order were tasked with following up the entire preparation process, which involved taking photos, checking the quality and quantity of products, and updating the transportation status. Therefore, the latest information on orders was collected to facilitate the owner-manager's decision-making on budgeting, performance evaluation and the identification of any potential risks.

"It is demanding to track every order by myself especially when we have a high volume of sales, but it is better than sacrificing my bonus for others." (S1)

The specific rules on tracking orders with bonuses enhances clear accountability among subordinates, which reduces self-interest behaviours and protects the organisational interest as legalism advocates. The accounting ideology and practice create a strict and disciplined order, which serves as an effective monitoring and control tool for the owner-manager to formulate firm regulations and foster firm culture (Hopwood, 1990; Roberts and Scapens, 1985).

However, when the owner-manager shirks the legalistic leader's responsibility and instead expects subordinates to shoulder this burden, it increases subordinates' dissatisfaction. Acting as the internal accountant, X has clearly realised the importance of exploring accounting information in reducing labour costs and improving work efficiency (Marriott and Marriott, 2000). His ideal case is to arrange different manufacturing plans based on the amount, urgency and difficulty of orders. However, he relied upon Y to learn how to quantify labour hours for manufacturing team, which was beyond Y's role in production and deliveries. Unreasonable requests like this frustrated Y for a long time, leading eventually to their departure from the company.

"I want Y and the manufacturing team to quantify their labour in hours to finish assembling different products. I can offer a bonus but have had no result yet." (X)

"He gave me this task several times without detailed instructions. Our manufacturing employees don't bother to change anything. They just want to finish the products to relax. We also don't know how to do it." (Y)

Reasonably, not all subordinates would see the proposal in such a positive way, especially when the change might affect their interests by imposing measurements for stronger monitoring and control. Hence, moral hazard issues like employee resistance and shirking would occur where subordinates would sacrifice the superior's interest for their own benefits (Stevens and Thevaranjan, 2010). Moreover, unreasonable requests or orders might evoke behaviour like shirking, cheating and responsibility avoidance, especially when legalistic leaders maintain relationships with subordinates with rules rather than feelings (Lin *et al.*, 2018). The observer found that employees have two 'faces', one each for whether X is present or not.

'Employees are less stressed when X is in. They check their phone more often and joke around. Y seems to be okay with that.' (Observation journal)

The observed phenomena above are in line with Gao *et al.*'s (2011) view that when subordinates have low trust in the superior, they consider it risk voicing their thoughts and remain silent in the workplace. It shows that the owner-manager's strong legalistic control over employees invokes moral hazard behaviour like shirking to avoid punishment for low efficiency at work.

6.2 Unexpected changes and the owner-manager's self-reflection

The owner-manager recognised that there were many issues going on and thought it was time to change in 2021, because of a number of factors. First, the outbreak of COVID and several waves of lockdowns, especially those in Shanghai, forced the owner-manager to reduce the reliance on domestic markets from 80% to 55% and increasingly explore overseas markets (20% to 45%). This new overseas focus brought more opportunities and expanded the business significantly. The company now has 10 manufacturing employees, 1 new procurement manager, 1 R&D innovator, 7 sales employees and a larger packing and transportation team, with high employee turnover. Furthermore, the previously generated accounting issues under X's leadership had negatively impacted the planning and forecasting of cash flow, which was the most important indicator valued by the owner-manager. X realised the necessity of a centralised and integrated system to manage more overseas orders, more complicated manufacturing process, over 200 suppliers and a bigger team. Therefore, it took him a long time to find a suitable ERP (Enterprise Resource Planning) system.

> "The traditional ERP suits manufacturing industry but my firm is order-oriented. After experimenting with several systems, I decided to use the mostly commonly used in e-commerce and the most expensive ERP system in China". (X)

In addition to these operational innovations, the longest-tenured founder and second-most-important decision-maker, Y, had left the company, in frustration. X did not openly talk about Y's departure. However, X is unwilling to recruit new employees to replace Y because he worries that would cause low efficiency but with a higher labour cost. Therefore, X has become the sole decision-maker, who supervises and monitors all employees without any help from senior managers.

Second, X started his MBA because he felt that current knowledge and management experience could not solve all problems in the company; nor could it explain why all other founders had now left. Though it is true that legalistic leaders may overlook emotional conflicts, as legalism advocates self-control rather than benevolent consideration of the subordinates' perspective under Confucianism (Cheung and Chan, 2005; Ma and Tsui, 2015). Chinese philosophies, especially Confucianism, have integrated with Chinese culture, influencing every individual's mind and behaviours. Having obtained a bachelor's degree from a US-China university collaboration, X feels more comfortable in seeking help from Western leadership theories and practices, as Western and Chinese philosophies share many common values. For example, both Socrates and Confucius are good examples of leaders with idealised influence. Confucius encourages a moral person to pursue stake of virtue beyond personal interests, which echoes Socrate's value that a moral person does not put anything before virtue (Bass and Steidlmeier, 1999).

Last, the government relocation notice enforced X to build a brand-new factory without any questioning or negotiation. Considering the nature of political economy in the Chinese setting, businesses and individuals have no choice but to follow what the government requests, which is similar to the enforcement of legalistic rules and regulations (Cheng *et al.*, 2022; Lennox and Wu, 2022). Despite the fact that company had survived COVID and was expanding quickly, X had needed to spend a lot of time searching for land and designing and building a new factory.

The new factory separates all departments, and each one has independent workspace. X has his own office and can no longer monitor employees easily by simply walking out of the office and around the factory floor. All of these changes made X reflect on the meaning of legalistic monitoring and the importance of personal feelings under legalistic leadership.

6.3 Conflicts and transformational leadership

(1) SaaS ERP system, *idealised influence* and *individualised consideration*

The SaaS ERP system is a cloud-based software application that processes information collectively and instantly and generates on-demand reports using distant servers through the Web browser (Mauricette *et al.*, 2022). The adoption of SaaS ERP system contributes to the simplification and improvement of transactions and processes, saving time and resources for complicated and core activities, based on collected real-time data and information via a centralised network (Martins and Santos, 2021). It also improves the efficiency and effectiveness of communicating with suppliers and customers, which benefits the firm's image and supply chain (Seethamraju, 2014).

> "We have more than 1300 types of inventories and 200 suppliers. The ERP system is particularly for online businesses and very popular in China. It integrates all online orders, provides instant inventory management using bar code, and formalises the work routine. It reduces our previous careless mistakes and improves efficiency greatly." (X)

It generally takes longer periods of negotiation and adaptation to the ERP system because current users realise that they can no longer continue their legacy work and start to resist the new system (Alsughayer, 2024; Wagner *et al.*, 2011). Moreover, as AL-Shboul (2018) found, top management support plays a key role in the adoption of a cloud-based ERP system. Management accounting change brings with it the introduction of new accounting information, the effectiveness of which can be affected by leadership styles (Jansen, 2011). However, the exit of Y intensifies employees' emotional conflicts with X to the maximum, especially when they are requested to scan every inventory to build the database for ERP at the initial stage. Without the senior-manager's mediating and translating role of explaining the owner-manager's requests, employees' negative feelings in the hierarchical relationships trigger dysfunctional behaviours (Xin *et al.*, 2003).

> "All senior managers in different divisions take the lead to act against me. For example, the manufacturing employees would take 200 pieces of inventories with them to avoid using a bar code. Every employee took part in this rebellious activity, and it shocked me." (X)

Employees with less accounting knowledge need accountants or superiors with greater communication skills and broader knowledge of operations across different departments to help them learn new knowledge and develop new skills (Martins and Santos, 2021; Wagner *et al.*, 2011). However, the legalistic X used to shirk the responsibility of teaching subordinates how to use new accounting tool, based on his habit of relying on Y. The rule-based legalistic leadership is challenged by emotional conflicts and trust issues.

"I accept the fact that I can't enforce them to learn, especially since most of them have a limited education background. It is impossible for them to see the point and future of adopting ERP." (X)

However, it is impossible for X to give up the ERP system as it offers a more powerful tool for collecting and analysing accounting information, in order to retain power. To follow the utilitarianism principle in legalism, X reflects the alternative approach to maximise the organisational benefits. Confucianism believes that virtuous business leaders can achieve their business goals because they pursue the common good for the firm rather than personal benefits, treat others based on justice and rituals and care about employees' feelings. Confucius also believes that business leaders should act as role models in teaching, encouraging and leading employees (Ma and Tsui, 2015). It responds to *idealised influence* and *individualised consideration* in transformational leadership. Idealised influence refers to the leaders' role in modelling behaviours and influence, to explain the meaning of missions to followers which, in turn, builds trust with them during the process. On the other hand, individualised consideration prioritises and cares for followers' feelings and demands, and then offers unique guidance and support for each individual follower.

To ease the tension, accounting information via face-to-face contexts offers a vehicle in the superior-subordinates relationship for the legalistic leader to shift to transformational leadership. Accounting information breaks down firms into multiple units and introduces the calculative accounting language to permeate the internal bureaucracy, boost the decision-making process, and facilitate internal coordination (Hopwood, 1990).

"It took me one-and-a-half years to help them accept ERP. Patience and face-to-face communication every day have changed their hostile attitude towards me and helped them to recognise the benefit of ERP, by watching my repeated step-by-step examples. Now we talk more often." (X)

Regular face-to-face contact enhances mutual knowledge and understanding through interpretation and understanding of accounting information, which might lead to more integration and negotiation (Roberts and Scapens, 1985). The physical appearance of colleagues can enforce individuals to acknowledge and think about others and narrow the distance between subordinates and superiors. Thereby, subordinates can gather more information to enable them better to interpret their superior's real intentions and concerns, and then to act on their wishes (Roberts, 1991; Roberts and Scapens, 1985).

Viewed in this way, the likelihood of employees voicing thoughts is increased during communication and negotiation, during which trust is developed, when the leader responds to their voice (Gao *et al.*, 2011). Employees follow X to operate the ERP system, the process of which builds their confidence in performing tasks successfully. This is achieved by *idealised influence* and *individualised consideration* under transformational leadership to stimulate enthusiasm and creativity.

(2) R&D and *inspirational motivation*

The newly built factory allocates each department to a physically separate location, rather than an open workplace. X also has an independent office and no longer shares an office with sales team. Although it is impossible to monitor employees like before, X now focuses on innovation and sharing the future vision. As X has learned from previous legalistic experience, for example, employees are unwilling to learn and use the SaaS ERP without understanding the future of the company. Or they ignore employees' feelings and individual situations, whilst emphasising meeting KPIs. Moreover, X is now willing to supervise a future CEO and share their responsibilities and power, rather than retaining tight control themself.

Inspirational motivation focuses on boosting followers' enthusiasm and passion through future visions, to achieve new goals and overcome challenges. X acknowledges the key strength of the company is in launching products that suit customers' demands at a reasonable price. Moreover, the company has received a lot of approved patents and government approval to produce new products. This is partly because some of X's roles have been taken over by the new procurement manager and the R&D innovator.

> "Now I realise that it is important to trust employees and offer promotion opportunities to the best performers. I need to save time to lead in research and development, which is the core of my business." (X)

The daily routine of X involves communication with all departments to share his latest knowledge and ideas. He tests new products by himself or with employees to share his experience and ideas; he supervises his sales team to spend advertising fees on different platforms by considering timing, culture and customer preferences; and he also joins and communicates in the customers and fans group chat to learn the latest techniques and customer demands. Employees are more willing to communicate with X and understand the company's future, which boosts their enthusiasm to solve problems and face challenges by following *inspirational motivation* in transformational leadership. However, it does not indicate that X has totally given up legalism to retain power and control. Although X offers discretion to all departments, he still controls and limits each department's communication and connection. For example, he collects and integrates the information through SaaS ERP system and coordinates the conflicts across divisions to avoid potential moral hazard problems like coalition or cheating, which enhances his position of dominance in the organisational decision-making process (Hopwood, 1990).

(3) Upgraded KPI and *intellectual stimulation*

Transformational leaders are change-oriented and encourage employees to view problems from new perspectives, which also motivate employees to voice their thoughts (Liu *et al.*, 2010). Intellectual stimulation encourages followers to challenge the current status quo and develop creative and innovative ideas to solve new problems. The previous rewards system was decided solely by X's understanding of the financial performance and estimation of the market under legalistic leadership. It was mainly for sales employees who would earn a bonus if they met sales targets or solved questionable orders from the pool, but was not motivational enough for manufacturing, packing and transportation employees. With the help of his MBA, X learned

and now applies an "Objectives and Key Results (OKR)" system to let every employee take part in making positive changes in the firm.

For sales, the OKR sets 4 objectives: monthly and yearly sale targets, actual sales, advertising budget, actual advertising fees. These 4 objectives create a coordinated system, which is updated with real-time data (such as domestic and overseas orders) and helps everyone understand the performance. Sales teams hold meetings three times a week to discuss actual performance across 4 aspects, and whether or how to meet the target. To encourage creative ideas, the research news updates and production-related information hangs in the meeting room and the sales workplace to show the standard sales, production and sales process, alongside any breakthrough in products or solving problems. Sales employees and X work together to understand the latest trend in global markets and develop innovative marketing ideas based on the global customer and fan feedback. X also offers more varieties of rewards and more scientific methods to set sales targets. First, outstanding senior managers in all departments are rewarded with a maximum of 10% of the firm's ownership. Second, sales employees can receive a bonus of 1-1.5 times standard pay, depending on the sales KPI. Last, only the senior manager in sales is punished for the failure of meeting KPIs and other issues, rather than subordinates, following the standard Western concept of responsibility accounting i.e. only hold responsible those who have some control (Drury, 2018).

Manufacturing, packaging and transportation teams also receive specific rewards rather than follow the rewarding principle for the marketing department. X supports supervisor-subordinate relationships in the manufacturing department due to its complexity. Therefore, for every supervisor-subordinate pair, the supervisor receives additional 0.5 times and subordinates receive additional 1.5 times year-end bonus based on the manufacturing KPI (based on previous data and estimation) to encourage more creativity and flexibility. This is targeted especially at subordinates to encourage learning of the latest techniques or to save more cost during the manufacturing process.

> "The manufacturing team are very hardworking now and they have a very responsible senior manager. He is a good role model now and leads others to check and prepare for inventories when they are not busy, rather than to play with their phones". (X)

Due to the high turnover of the packaging and transportation team, X now offers each individual bonus based on their performance at the year end to increase their loyalty. All supervisor-subordinate pairs receive an additional bonus if both meet all targets at the year end to boost confidence and enthusiasm. Viewed in this way, X creates a supportive climate and treats each employee as an individual by recognising and valuing their own contribution and creative ideas by following intellectual stimulation in transformational leadership.

7. Conclusions

This paper explores the relationship between accounting changes and leadership transition within an entrepreneurial firm. Accounting does help legalistic leaders to exert strong monitor and control by creating a strict accounting order, using accounting information as a common

language, collecting and monitoring the flows of information via face-to-face contexts. However, too much emphasis on transparency and openness, or unclear instructions, on accounting changes create emotional conflicts and employee shirking. Moreover, the legalistic leader reflects and embraces transformational leadership under pressure from several factors: namely, institutional pressure; ongoing education from an MBA; and low trust and emotional conflicts with employees during the implementation of the SaaS ERP system. Idealised influence, inspirational motivation, intellectual stimulation and individualised considerations under transformational leadership help the owner-manager regain trust from employees and initiate accounting changes successfully.

From the body of knowledge, this case study provides primary-source evidence from both participant observation and semi-structured interviews to gain a good understanding of accounting practices under different leadership styles in an entrepreneurial firm. This study also finds that Western philosophies blend with traditional Chinese philosophies through holistic leadership behaviours via the adoption of the ERP system and flows of accounting information via face-to-face contexts. Moreover, this study gains an inner perspective to explore how individuals perceive accounting information and determine the possibility of conducting moral hazard issues in the superior-subordinates relationships. This promotes the significance of accounting in facilitating leadership transition rather than focusing only on numerical functions.

From a practical standpoint, this paper highlights accounting practices that may trigger trust and emotional conflict issues in the superior-subordinate relationships within an entrepreneurial firm. The founder/owner-manager plays a central role in influencing the effectiveness of leadership styles through defining management styles and building the accounting system for long-term sustainability, the balance of which will help firms to adapt well to future expansion and challenges. Furthermore, the owner-manager's cultural and philosophical background draws attention to the interpretation of specific accounting issues in different cultural settings. Even though the young owner-manager has been studying and is constantly influenced by Western leadership theories and practices, he is also deeply embedded in the Confucianism that values care, support and benevolence. This case study implies how transactional leadership theory (legalism) adapts to entrepreneurial firms in a Chinese context; that is, how Confucianism and legalism values are integrated through accounting practices. The paper offers novel evidence on how local cultural and philosophical values may interact with new or external values through accounting practice. We believe it will be useful for future research that explores integrated leadership practices from a philosophical and interdisciplinary perspective, for example, in strategic management, leadership, accounting and accountability.

A limitation of this paper is in the adoption of a single case study methodology that is only restricted to the fieldwork findings and the literature rather than to quantitative studies on a larger scale. This paper is also restricted to the Chinese business setting, in which Confucian philosophy is often promoted. However, insights from this paper might carry over to entrepreneurs and SMEs in other Asian business backgrounds, who have similarities in the Confucian-influenced components under western influence. Future research could explore

accounting changes and leadership transition in SMEs, considering changes in the institutional and cultural factors (e.g. of SMEs in Western society) that stem from different philosophies.

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