Aalto University
School of Business

Management Accounting in Small and Micro Enterprises

A Case Study of Two Finnish Small Businesses

Bachelor's Thesis

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Accounting

Spring 2023

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Abstract of bachelor's thesis

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Title of thesis Management Accounting in Small and Micro-Enterprises – A Case Study of Two Finnish Small Businesses

Degree B.Sc. (Economics and Business Administration)

Degree programme Accounting

Thesis advisor(s) Thomas Taussi

Year of approval 2023 **Number of pages** 27 **Language** English

Abstract

This thesis aims to examine the use of management accounting in small and micro-enterprises, which are the smallest economical units in the corporate world. The aim is to find out to what extent is management accounting utilized and how are different methods used. Management accounting includes various methods, of which this paper concentrates on planning, performance measurement, budgeting, cost accounting, and capital budgeting.

Management accounting research has focused on large companies' practices while putting less weight on the micro and small companies' use of management accounting. A great majority of all companies worldwide are companies of minimal size, while they employ huge amounts of people. This makes the topic of MA in small and micro-enterprises an important one. From the perspective of agency theory, small companies experience fewer agency problems in the form of principal-agent conflicts than the bigger ones, but other inefficiencies may occur, which makes it interesting to take a closer look at small companies with the help of agency theory. The literature review provides data from management accounting academia.

Two companies' representatives are interviewed to gain empirical data, one is the CEO of a micro-enterprise, and the other one is the CFO of small enterprise. After the review of literature, management accounting may be perceived as having quite little use in the small businesses. However, empirical data shows that some deviations to the theory may occur. The importance of manager's knowledge of management accounting's advantages is crucial.

Findings of this paper show, that some of the management accounting tools are more regularly used in small and micro-enterprises, often informally, but are aware of their usefulness in decision-making. The performance of a small business increases with the use of management accounting, which can be seen in the case of interviewed small company.

Keywords micro-enterprises, small enterprises, management accounting, agency theory, performance, management knowledge

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1. Introduction

1.1 Motivation

Management accounting is of utmost importance to large corporations and organizations, since their need to acquire precise and accurate information to make sound business decisions. The nature and scale of business in big, multinational, and often publicly held companies require comprehensive management accounting information. However, much less attention is given to small companies, let alone micro-enterprises. Academic literature and teaching handle the area of management accounting from the perspective of large organizations, almost completely ignoring the smaller companies.

The lack of attention to MA information usage in small and micro enterprises is interesting, considering the great importance of small companies to the economy, since they account for a large share of economic units in any given country (Berrone et al. 2014). In Finland, the share of micro-enterprises in the total amount of enterprises is 92% (Tilastokeskus, 2013), and the percentage has been stable ever since. The employment effect of small micro-enterprises is also significant and has been widely accepted by academics, politicians, and other decision-makers (Shields and Shelleman 2016). On this basis, the significance of small and micro enterprises cannot be ignored. It is a fact that MA methods in small firms differ from the larger ones (Najera Ruiz and Collazzo 2021), but how and to what extent this happens, is a very interesting question.

The definition of a micro-enterprise varies to some extent, depending on the region where the companies are located. The European Commission and Tilastokeskus (Statistics Finland) use the following constraints to define a micro-enterprise: The company employs 10 employees at maximum and has a turnover of 2 million euros at a maximum per year. The upper limit of 2 million euros may be applied to the total balance sheet if one wishes not to use the turnover constraint. There are some reliefs given to small companies in the Finnish Accounting Act, which has different limits for the turnover and total balance sheet, but this thesis uses the definitions that were stated at first. However, it is important to know, that differences in definitions exist.

A small enterprise is defined as follows by the European Commission and Tilastokeskus: The company employs 50 employees at maximum, while having a turnover of 10 million euros per year at maximum. The upper limit of 10 million euros may be applied to the total balance sheet as well as in the case of micro-enterprise.

1.2 Objective, limitations and structure

This thesis aims to create a clear understanding of MA practices and information that are used in small and micro enterprises. The central research question can be shaped as follows: how are MA tools used and implemented in the target companies? To get the answers, this thesis reviews relevant literature and covers the approach of agency theory in management accounting. There is decently literature considering the topic of MA in small and micro enterprises, but most of them do not separate micro-enterprises from small ones. However, this may not be a problem, since micro companies possess many of the traits that the small ones have, and they can be compared in the empirical section of this thesis. Furthermore, covering every single aspect of management accounting in these companies would be interesting, but the space is limited and thus decisions have been made to handle only some of the most important management accounting methods in this thesis.

In addition to the literature, to gain empirical data, an interview with a CEO of a micro-enterprise about how MA methods are conducted in that firm is done, and the results of that interview are reported in this paper. Another interview with a CFO of a small enterprise about their MA methods is also done. These two interviews give perspective on management accounting in two different companies of different sizes. Another interesting research question in this paper is: How do the methods change when the size of the company grows?

The structure of the thesis is as follows: in section 2, the literature on the topic of management accounting in small and micro enterprises is covered. In section 3, the empirical data is presented: what data does the thesis utilize and how was it collected? Section 4 covers this data by presenting and connecting the results to earlier theories. In section 5, there will be a discussion of the data and the literature. Finally, section 6 includes conclusions and references.

2. Literary review

2.1 The definition of management accounting

Management accounting is a term that has a broad range of definitions. It is the other part of accounting, which includes also financial accounting. Financial accounting records economic events and transactions, such as sales and purchases, and reports them to external parties. Management accounting instead measures, processes, analyzes, and reports the data of these economic events to help managers to fulfill the goals of an organization, be it a multinational corporation or an NGO. Management accounting also covers nonfinancial information, which is often crucial for the company's performance. The information gathered using management accounting is used in the strategy work of an organization to develop, communicate, and implement the strategy. Besides that, management accounting is used to coordinate a company's operations and evaluate its performance (Datar and Rajan 2021).

Management accounting systems facilitate decision-making in an organization via a myriad of different tasks. Examples of those tasks that may, and often must, be regularly performed, in a company are capital budgeting, pricing, cost analysis, profitability analysis, and evaluation of the company's and manager's performance. To perform these tasks accordingly, a company must make business decisions that can be separated into two categories: planning activities and control functions (Shields and Shelleman 2016).

To assist the organization to improve its performance, management accounting systems are being adopted and the literature shows that this adoption truly has positive effects on performance (Lee et al. 2013). Using management accounting, a company can track important information, which may lead to more accurate and precise data that is used, for instance, in cost accounting (Datar and Rajan 2021).

2.2 Management accounting and small and micro - enterprises

Management accounting academia has acknowledged the importance of the smallest companies in the national economy of both developed and emerging economies (Armitage et al. 2016; Berrone et al. 2013). Nonetheless, the research of management accounting methods among these companies is lagging behind the research of bigger enterprises. (Najera Ruiz and Collazzo 2021) argued that the majority of this literature incorporates small and micro–enterprises in the group of so-called SMEs with medium–sized companies. This approach poses several problems as mid–sized and small companies have significant differences between them. By no means does this intend that management accounting is not important to small organizations. The scarcity of research may be a sign of neglect and, as Jarvis et al. (1996) concluded, the fact that some management accounting practices used in these companies in some forms are not recognized as such.

2.2.1 Use of MA tools in small and micro companies

Financial accounting information and collecting it is often considered difficult and time–consuming in small businesses, which makes them redundant to do any more than is necessary (Najera Ruiz and Collazzo 2021). The same applies to the use of MA tools. Small enterprises use them very little, and microenterprises even less. One of the main reasons for this is the owner–centric intuition in business. The smallest of companies base their business administration on the skills, visions, and abilities of the entrepreneur, who usually is the owner and CEO of the company (Liberman – Yaconi et al. 2010). The owner–manager of the firm often has personal goals that guide the operational activities of the company.

The difference between the use of MA tools in medium–sized companies and small companies is notable, according to some studies (Broccardo 2014; Danielson and Scott 2006; Neubauer et al. 2012). The smaller the size of a company, the fewer MA tools are used, and the frequency of the use also declines. However, other studies have found almost no differences in the use of MA tools even in micro–sized enterprises. Shields and Shelleman (2016) claimed that management accounting systems were used rather frequently in micro–enterprises, which is quite the opposite result compared to other studies. Some academics, like Alattar et al. (2009) noted that management accounting tools are something that micro–enterprises utilized in their business administration, but informally, not keeping track of them or recognizing their planning and control activities to be those of MA nature.

One arising question from this topic is why not all small and micro–enterprises use management accounting tools. As management accounting has been found to increase a company's performance, the literature has wanted to gain more knowledge of the lack of these tools implemented in small companies. The review of the literature gives an understanding that entrepreneurs of these enterprises lack the resources needed to make more long–term planning and control the direction of the business. They simply did not have the time and capacity to perform these activities, especially in micro-enterprises. (O'Dwyer and Ryan 2000). Many of them suffered from weaknesses in financial skills and managed to conduct the business only by following the cash flow (Broccardo 2014). Cash flow analysis was considered one of the most important, if not even the most significant ways of monitoring the company's business activities. The knowledge that there is sufficient money in the company's bank account satisfied the need for financial information among most of the owner–managers (Perren et al. 1999).

When the age of the company is young, that makes it more probable that the planning activities are centered around survival. In other words, cash flow analysis may be the only MA tool used, and other techniques are pretty much ignored amid a shortage of human and financial resources, financial skills, and almost nonexistent strategic planning (Armitage et al. 2016). Some entrepreneurs perceived the management accounting systems only as constraints to their business that take away the flexibility and adaptability of a small business. The use of external accountants or other experts that had more financial knowledge was often avoided, but those companies that used them reported better results, and improved practices in the company (Alattar et al. 2009).

2.2.2 Planning activities

An integral part of an organization's management is planning the operational and strategic work in different time horizons. A company ought to have some clear goals toward which it may head to. Management control systems, which comprise a broader set of organizational systems, including management accounting tools, include strategic plans as important elements of an organization's information-based routines managers use to maintain patterns in the organization's activities (Lee et al. 2013). Strategic planning includes a wide variety of activities, and it is not meaningful to cover every aspect of it in this section, but rather focus on the scale of planning and the objectives that small businesses pursue when planning.

The evidence from Ghana confirms some of the arguments made in the literature about low levels of MA tools usage. Small and micro companies use strategic planning with smaller intensity compared to larger firms. The analysis and scanning the of business environment together with setting goals and controlling the processes towards said goals as strategic planning activities became more common only when the business grew enough, and a company began to pursue an ever-enhancing performance (Agyapong and Muntaka 2012).

In Mexico, the research shows that business planning was considered crucial for the company's performance, and a majority of small and micro–enterprises had a plan and objectives for their business. Measures of performance were declared to exist in 75 % of surveyed companies. However, not all of them had the plan written (Najera Ruiz and Collazzo 2021). The ownership and managerial structure of the micro company, which is usually concentrated on one person, the owner or entrepreneur, supports this evidence. As an independent entrepreneur, one does not need to have the business plan written down if one has it clearly in mind. Measuring the progress towards goals and reassessing these metrics was considered difficult if the business plan did not exist as a written version (Najera Ruiz and Collazzo 2021).

The reason why a company exists is widely accepted in the literature to be the maximizer of the wealth of the shareholders. In the case of small and micro companies, the reasons for setting up a business and perhaps planning it strategically are more based on employing oneself and having a decent living. Most of the micro–entrepreneurs did not, according to Alattar et al. (2009) to be those that aimed at maximizing owners' wealth, in other words, themselves. Furthermore, the continuity of sales was stated in the strategies as the most significant objective of the business. Offering products and services to an increasing number of satisfied customers was often mentioned (Najera Ruiz and Collazzo 2021). For small businesses, customer satisfaction is vital, not least for the sake of growing the firms via sales and new scalable products, services, and stores which were also mentioned to be important strategic objectives, but not as important as the continuity of sales.

A great majority of micro–enterprises, as well as small ones, are based on the ownership of families. The workers, managers, and owners may all be from one family. This is one of the reasons why a stable income and the welfare of families were important factors in the business planning of these companies (Esparza-Aguilar 2023; Najera Ruiz and Collazzo 2021).

2.2.3 Budgeting

One of the most common tools used in management control systems is budgeting. A manager integrates a budget with a company's strategy to plan actions for a specific period by numerical goals. With both financial and non-financial aspects, for example, expectations of income, cash flow, and inventories are quantified and during the period those expectations are evaluated, whether the limited financial resources are used correctly in the company or not (Datar and Rajan 2021).

As suggested by Alattar et al. (2009) and Shields and Shelleman (2016), measuring actual performance in profit–loss account versus budget is a key management accounting information topic for small and micro-enterprises. However, only 34 % of micro-enterprises were found to utilize budgeting, let alone compare the actual performance with budgets (Nayak and Greenfield 1995). Many of the managers in these companies suffered from a lack of time and management skills to perform the budgeting activities themselves. Most of them used only weekly appraisals to have a look at how the business had been going during the week. Other firms declared the budgets to be unnecessary due to the small size of the company (Najera Ruiz and Collazzo 2021).

It does not matter whether the budget is simple or elaborate, the small companies that made some kind of budget experienced increased performance in the form of sales growth (Wijewardena et al. 2004). Not only did the budget have an impact on sales, but also the comparison between actual and budgeted amounts, for instance, expenses. Sales are also the foundation of budgets in small and micro-enterprises since historical sales data are often taken as a reference to calculate budgets. Not only are sales considered as key variables of the firm, but also expenses, profit margin, and break-even points are calculated in these companies' operating budgets, whenever they are made (Najera Ruiz and Collazzo 2021).

Shields and Shelleman (2016) proposed that the use of management accounting systems, both more frequent and more detailed, will affect the performance of micro-enterprises positively. Not only the evidence on sales growth but also Shields' and Shellemans' results on the research contribute to their expectations. The micro-enterprises in the United States were discovered to prepare operating budgets, using them to set performance targets and comparing actual performance to budgeted performance in notably large quantities (Shields and Shelleman 2016). These methods were reported to have highly positive effects on business, especially due to target setting for performance, which guided commerce actions to a large extent.

2.2.4 Cost accounting

There is regrettably little amount of literature covering cost accounting of small and micro-enterprises; few academics have done more thorough research on this subtopic. The costing systems are essential parts of management accounting systems, though. The research that covers the costing systems of smaller businesses indicates that most firms use some kind of costing system for their products. Many enterprises acknowledge the need for more sophisticated methods for costing. (McChlery et al.; Nayak and Greenfield 1995; Najera Ruiz and Collazzo 2021).

Based on evidence from Mexico, almost 40 % of the companies determine the costs of their products based on acquisition costs, in other words, the cost of raw materials, indirect costs, and other input costs. One-quarter of the companies put a markup on top of acquisition costs without further analyzing the input costs. Furthermore, one-quarter of the companies use benchmarking in costing. They compare similar competitive products and specifically their prices in the market and adjust the prices of their products according to this comparison. Only about 14 % of businesses use more detailed cost accounting, like calculating break-even points, setting a margin above fixed costs, or grounding the costs on the level of production. Only a fraction of the companies make a difference between variable and fixed costs (Najera Ruiz and Collazzo 2021).

The research states that cost accounting is informal among micro and small enterprises. Product costing systems are not often written down, but instead, they are usually based on the personal memory of owners of these companies; the procedures have been the same for years and the methods are only mentally known to exist (Alattar et al. 2009).

2.2.5 Capital budgeting

The process of making planning decisions for long-run investments is called capital budgeting. A manager must make decisions about which investments to execute by analyzing the cash flows they will generate during their lifetime (Datar and Rajan 2021). Different capital budgeting methods are used in this process, with net present value, internal rate of return, and payback time as the most applied and important ones.

Large companies tend to use the methods listed above, but small companies differ in this manner. Capital budgeting theory suggests the use of discounted cash flow methods due to them measuring all cash flows of a project while considering the time value of money, which is an essential concept in investments spanning for a long time (Verbeeten 2006). However, small companies do not use these rather sophisticated methods, but instead payback period and accounting rate of return, which are not often recommended in the literature. Even gut feel was noted to be a common way of measuring investment profitability (Danielson and Scott 2006). The benefits of capital budgeting are still recognized in small companies as it is often considered one of the most helpful management accounting tools in planning activities (Chenhall and Langfield-Smith 1998).

There are several reasons for capital budgeting differences. Once again, lack of education and knowledge of capital budgeting methods were mentioned, but also insufficient staff size (Danielson and Scott 2006). A small financial management team does not have an interest to conduct more precise calculations on investment opportunities. Furthermore, the financing environment is quite special for micro and small companies. It is not exceptional that a small enterprise must use only its retained earnings as funding for investment, since capital markets may not offer external funding due to credit constraints (Danielson and Scott 2006).

The investments that micro and small companies make are often hard to evaluate using discounted cash flow methods because future cash flows are uncertain and imprecise by nature, which makes the result of such evaluation unreliable. A small business does not have the resources to conduct a more thorough analysis of cash flows, which affects the decision to not use discounted cash flow methods, but even only gut feeling instead (Danielson and Scott 2006).

2.2.6 Measurement of performance

A company evaluates its performance by following a set of figures that it has considered the most important and beneficial for the organization, hence the name key performance indicator (KPI) that is often used in association with these figures (Datar and Rajan 2021). These KPIs may be from a financial, customer, internal business growth, or learning perspectives and they can measure a wide range of factors that matter to the company. KPIs combined with the business plan allow for a better understanding of the daily business (Lopez and Hiebl 2015).

As one might assume, the KPIs that micro and small businesses follow are not complex. Half of the companies told in a survey that they follow sales as the only measure of performance, and as a supplementary indicator, cash flow and bank account balance are used (Najera Ruiz and Collazzo 2021). The ratio of expenses and profits, as well as the portfolio of clients, were used. The importance of a regular customer is big for micro companies, which explains the need to keep track of customers and their purchases. These indicators are used to compare performance to previous periods and budgeted amounts as well as measure activity during the ongoing accounting period (Najera Ruiz and Collazzo 2021).

Armitage et al. (2016) found that the indicators used in measuring performance are connected to the strategic planning of a small company to some extent if such a strategy exists. Those indicators are reviewed not more often than on a semi-annual basis to keep the manager of the company aware of whether the strategic goals are to be accomplished or not. Another observation is that small companies use very few nonfinancial indicators in measuring performance if the client portfolio is excluded (Halabi et al. 2010). Much larger emphasis is put on financial indicators and completing the financial goals that the company has set for itself, for example concerning the profitability of the company. The benefits of measuring performance are widely accepted among the owners of small businesses, especially when the size of the company grows from micro to small (Esparza-Aguilar et al. 2016).

An interesting aspect of performance measurement is the remuneration of the managers, which is often based on the performance of the company. However, such research on the remuneration of small companies' managers is pretty much non-existent, which creates room for future research.

2.3 Agency theory approach

A widely used theoretical model of agency theory by Fama (1980) handles the separation of ownership and management in an organization as a potential source of conflict of agency costs. In short, this means a situation where two groups or individuals are in a relationship of some kind but with conflicting objectives and interests. In this model, another group, agents, are those who act on behalf of another group that are called principals. In the corporate world, agents are company leaders who make decisions that should aim to maximize the wealth of their principals, i.e., shareholders.

It is not uncommon that companies face even severe cases of agency costs, where the interests of agents deviate from the interests of principals. The theoretical framework assumes in problematic situations both parties are wealth-seeking entities that pursue their self-interests (Tiessen and Waterhouse 1983). Aside from conflicting interests, many of the problems in the principal-agent setting arise from asymmetric information, which is an informational advantage of one party, usually agents, over another.

The question of agency costs has been extensively reviewed in literature for large corporations, since the manager – shareholder – structure is obvious, and thus the risk for agency costs arising in the organization is greater. In the case of micro and small companies, the situation is usually completely different. Management accounting information is almost solely used in small and micro-enterprises for facilitating decision-making, while, aside from decision-making, in large enterprises, a very important objective for its use is reducing agency costs (Baiman 1982). Shields and Shelleman (2016, p.21) argue that "the separation of ownership and management is minimal in micro-enterprises because most micro-SMEs are operated by the owners themselves". Many micro and small businesses are family firms, and thus the previous statement is confirmed by Esparza-Aguilar et al. (2016). This observation makes it interesting to look at this paper through the lens of agency theory. When the agency costs are not present as usual, the only reason for an organization to apply management accounting practices is to facilitate decision-making. At the same time, the review of literature shows the lack of management accounting use in small businesses which leads to lower performance of those companies.

The concentration of ownership and management to one person generates a situation where he or she adopts inefficient practices that reflect the own interests and objectives of that owner-manager. This leads to agency problems occurring in the company, since concentrated ownership creates planning and control mechanisms of reduced effectivity, while those practices as management accounting tools always, should produce increased efficiency and performance (Carney and Gedajlovic 2002). Again, it is important to note that as a great number of small and micro-enterprises are family firms, the meaning of family when making managerial choices cannot be ignored. The involvement of family in business poses an increased risk for agency problems to arise, which makes the agency theory highly relevant when studying small companies (Huerta et al. 2017).

3. Description of the research method and material

3.1 Research method

The research of this thesis was chosen to do with the qualitative approach by conducting two interviews with managers of different companies. Qualitative research was chosen because of the possibility to dive deeper into the management accounting use of the information of the company than would have been possible with a quantitative approach. Research of quantitative nature requires a great number of companies available to be surveyed for the results to be reliable. Qualitative research offers a more perceptive view into the field of management accounting (Vaivio 2008). The chosen approach of research is not without weaknesses; the generalization of the results may be problematic, as well as the interview responses can be influenced by the interview situation itself.

3.2 Research material

The empirical data of this thesis comprises two interviews made for two case companies' representatives. The first interviewee is a founder and CEO of a micro-enterprise, that can be classified as one offering management consultation. The company employs two full-time employees, has a turnover of 200 000€ and serves both Finnish and international clients. At the same time, the CEO is the head consultant of the company, who is responsible for sourcing customers, managing the ongoing projects, and overall management of the company. Together with the board, CEO defines the direction of the company and plans possible future projects. The CEO has an educational background of Master of Science, specializing in geology and mineral economy. This company was chosen because of its small size, even for a micro-enterprise, which makes it interesting to see if such a little company makes any use of management accounting tools. Throughout this thesis, whenever the CEO is mentioned, it refers to this particular micro-enterprise.

The second interviewee is the CFO of a small enterprise, and this company operates in the construction sector offering exterior painting services for consumers. The company recently crossed the border of 2 million euros in turnover, which makes it a small company. It employs about 10 people full-time around the year, and 60-70 people in painting and sales seasonally in the summer. The CFO of the company is responsible for accounting and overall financial management, in addition to managing the law affairs of the company. He has an educational background of Bachelor of Business with accounting and corporate law as special areas of interest. The rest of the executive board is also well equipped with people having backgrounds from business or technology schools. This company was chosen because of its rapid growth to be a small-sized company, and the background of the executive board, and especially the CFO. It is interesting to see whether educational background influences the use of MA tools. Throughout this thesis, whenever CFO is mentioned, it refers to this particular small enterprise.

The interviews were made during May 2023, the one with the CEO face to face, and the one with CFO by phone. Both interviews lasted for around 30 minutes, and they consisted of a set of semi–structured questions, which may be seen in the Appendix. These questions were prepared in advance with the thought of the interviews being quite informal meetings, that would leave room for freer conversation around the topics, which happened.

4. Analysis of the research findings

4.1 Strategic planning

The first question touched upon the topic of planning the overall business of the company. The objective of this question was to find out whether the company has any plans regarding the future of the business or not. The answers were quite similar in the sense that both CEO and CFO admitted having a business plan in the form of a few specific objectives, even though it was not declared to be "a business plan".

The CEO of the consulting company said there is no need to make precise planning because of the nature of the management consulting industry. The backlog of projects reaches only about three months ahead, which makes the whole planning quite difficult. Most of the planning consists of thought work, where he ponders on new project opportunities and possibly new customers. This requires much networking and advertisement. When asking about business goals that would possibly define the planning process and making of business the answer was simple:

"There is just one objective: the objective concerning turnover. Around 130 000€ of turnover is something that I desire to accomplish every accounting period. To be able to reach that objective, continuous selling of our services is crucial, which might be the second objective: the growth of sales (no exact growth percentage or similar was mentioned). Of course, I require the business to be profitable, too. I have a certain margin for our services that I take, and which I carefully follow."

(The CEO)

The CFO of the painting company presented a few objectives, too. He said that the business of the company is planned on an annual basis. In other words, once a year the executive board and board of directors design the business of the next accounting period with four objectives in mind that the CFO named to be key performance indicators (KPIs):

1. Sales
2. Turnover
3. Net income
4. Customer – and personnel satisfaction

The exact numerical values or refinements concerning these KPIs were not provided, the CFO just mentioned that there are goals for each of these KPIs and they shape the operational work of the company. KPIs are based almost entirely on the company's performance last year and they may also be refined during the ongoing year. The use of exact metrics and the process behind determining them shows that the enterprise has recognized the importance of planning and goal setting. Especially in the infancy of the company, a more specific market analysis was also conducted to find "the company's place in the market", as the CFO said. The seasonality of the painting business was also mentioned to shape the planning work:

"The painting season in summer is so intensive that there is neither time nor possibility to do any more planning then. Everything must be crystal clear at the end of the off-season. Only some minor refinements in the objectives may be made, otherwise, the performance of the sales department defines the whole season. That's why sales are probably the most important KPI along with customer – and personnel satisfaction which is the foundation of our business."

(The CFO)

The significance of sales was emphasized by both the CEO and CFO, which is by the literature that declares continuing sales to be the core element of a micro – and small company's planning. Both men stressed that the backlog of projects defines all other actions in the company, which makes sales growth to be something both enterprises desire to achieve.

Both companies had a strategy implemented. They were somewhat similar. The main point that both managers stressed was to be different from the competitors. Differentiation and choosing the best customers were the cornerstones of the strategy. A small business does not often have the choice to decide to be a cost leader, which is another basic corporate strategy. The small scale of business and a narrow pool of customers, at least at first, do not often give a chance to compete with the lowest prices in the market. For this reason, these companies' strategy choices were not surprising. The CEO mentioned customerships of high quality to be the driving force of the company.

"We offer different expertise compared to our competitors. Less "bulk", more services directly curated to our customers. A conscious choice not to grow the business bigger than it now has also been made for the sake of administration and bureaucracy. It is also one part of our strategy".

(The CEO)

"The differentiation is at the core of our strategy. We are not the cheapest option, and we are not available everywhere in Finland, only in the centers of growth. Even in those places, we do not sell our services to everyone. This is a strategic choice. [Company's name] is a premium service provider."

(The CFO)

When it comes to micro-enterprises, the purpose of the business can often be only to provide a living for the entrepreneur and his or her family. Findings in the literature support this view. The strategic choice of the CEO to keep the business "micro" is not atypical in this sense.

The increase in the size of the company shows again in the answers. The small enterprise represented by the CFO holds an annual strategy meeting with the board members to discuss whether the strategy should be updated or not. This meeting concerns only the strategy in a period of two years maximum. When discussing the topic of strategy, the CFO admitted, after talking about the strategy meeting, that the long-term strategy for the five upcoming years should be defined better.

4.2 Performance indicators and remuneration

More precise performance indicators are used to track a company's success and development toward the broader business objectives that it has set for itself in the planning phase. The differences between micro and small enterprises are more visible in this sense because the micro-enterprise did not have as clear a set of metrics for the performance measurement as the small enterprise had. The profitability and the margin for services were mentioned again by the CEO, as obvious measures of performance. There is accounting software in use in this company, which makes it possible for the CEO to follow numerous indicators. However, most of the indicators were considered unnecessary to keep track of, as long as the business was profitable enough.

"Again, continuity is all that matters and great customerships that enable long-term operational work of this company. The scale of this business makes it needless to have a bunch of metrics that I would track monthly. Cash flow is something that I regularly follow every week. Still, I would not say it is as important for me as it would be for a barber, for instance. The nature of this industry makes the cash flow not so crucial indicator."

(The CEO)

It is important to note that the measures of performance may be highly specific since there is no standardized set of metrics that one should follow when managing a company. Every enterprise defines the best set of financial and non-financial figures that it considers the most beneficial to be aware of. The bigger the business, the more detailed metrics there are in use (Halabi et al. 2010). In the painting company, this transition is clear.

"Yes, there are a couple of central measures of performance. For example, the ratio of one painter's expenses to turnover, which measures efficiency. Another one is turnover per week, and the meaning of hourly invoicing from work done should not be forgotten. These indicators include many details and information that are important for us on the executive board. That's why they are regularly being compared to the objectives we have set for them."

(The CFO)

The comment of the CFO shows the even advanced use of management accounting tools for a small company. Regular sparring around the indicators and the informational importance of them that is recognized is a sign of awareness about the significance of performance measurement. The painting company experienced increased performance once more detailed indicators were set up. Adopting even simple measures of performance has positive effects on the overall performance of the firm, as suggested by the literature, and the small enterprise has completely recognized this point.

As mentioned in the literature review, the remuneration of small companies' executives is a heavily under-researched topic. For this reason, the two interviewees were asked if such remuneration exists in their companies. The CEO of the micro-enterprise simply paid himself dividends if the net income objective was fulfilled. In the small enterprise, however, a more specific remuneration program exists. Aside from the personal bonuses, the executive board received compensation based on the abovementioned four KPIs that are in a central role in the company's strategy.

"The remuneration in our company encourages the management to do its job diligently. For example, the production manager's compensation is based on a minor amount of consumer complaints. If the number of complaints increases, he is left without compensation."

(The CFO)

This kind of remuneration scheme conforms to the compensation policy of large corporations. A performance-based incentive system aligns the objectives of the company with the preferences of the executive board (Datar and Rajan 2021). However, long-run incentives like stock options, which are typical in larger companies do not exist in the painting company. Setting the KPIs as the basis of compensation decreases the risk of managers perpetrating harmful procedures from the perspective of agency costs. At the same time, a performance measurement system facilitates decision-making but also decreases the possibility of agency problems incurring.

4.3 Other management accounting tools

Budgeting and costing in the micro-enterprise were tools that had quite limited usage. The CEO justified this by the nature of the business. A slight amount of fixed costs and well-predictable variable costs do not require extensive budgeting and costing processes. A harsh estimate of the annual budget is made, and it is followed every now and then. One does not need to make it more precisely because of the backlog of projects which typically reaches three months away. Cost accounting is given a little more weight.

"Well, some costs must be calculated. Together with the customer, the objective of the project is determined and that is the basis of costing and pricing my work. The expenses are determined by the estimate of hourly work. The whole costing process lives with the customers so one exact method cannot be used".

(The CEO)

In short, the costing process seemed to go by the markup- a method where simply the margin was put above the initial costs. For a small business with little expenses, this may be a good way to do cost accounting.

More complex methods of budgeting and costing were familiar to the painting company, where both activities were strictly kept track of during the accounting period. The annual budget was made for the whole company, and separately for the five different business functions there are inside the company. Besides annual budgeting, a rolling budget was also told to be an important management accounting tool. A monthly check of the budget and comparing actual amounts to budgeted is in important role.

The educational background of the CFO was also visible in the answers concerning cost accounting.

"The pricing is based on the target gross margin, and cost accounting is made by activity-based costing systems. It is all about comparing the budgeted amounts to actual amounts, especially when it comes to the margin."

(The CFO)

Activity-based costing systems identify individual activities to be sources of indirect costs (Datar and Rajan 2021). Specific cost centers were identified in the painting company which is the basis of costing according to the CFO. This kind of adoption of cost accounting systems demonstrates quite advanced knowledge of the most beneficial costing practices for that organization. Rarely do companies of small size calculate the costs using this kind of system.

The last MA tool covered in the interview was capital budgeting. Neither of the companies had implemented methods of calculating the profitability of the investments. The reason for this conscious choice was the tiny scale of the investments that take place in both companies. The answers were similar in the sense that both managers compared whether to buy the target of the investment or lease it. Most of the procurements in the micro-enterprise are financed with cash, but the leasing option is always considered.

"No capital budgeting based on discounting cash flows is made, because the investments are not big enough for those calculations to be necessary. Most of the equipment is leased, but as the company grows, owning the equipment becomes a better option. That's why the adequacy of funding must be secured before making investments in the future. Owned equipment may also be depreciated from the balance sheet while it is still usable. Leasing is not always the best option."

(The CFO)

The absence of discounted cash flow methods is by the literature suggesting that small companies often decide not to use them. The uncertainty of future cash flows concerning the investments was not mentioned in the interviews, but discounting was considered too complex a method. Not even the payback period was mentioned to be a used capital budgeting method even though the research shows its popularity among small companies.

4.4 Usefulness of management accounting

A skeptical attitude towards management accounting is common among small and micro-enterprises. The need for financial calculations and techniques to plan and control the business is often questioned. Limited amounts of resources and knowledge are the most common constraints mentioned that limit the use of MA tools. In the interviewed companies the attitude towards management accounting is favorable. The CEO would not do much more planning and controlling as long as the size of the company remains as small as it is nowadays. However, if the business was to grow, management accounting methods would be more thoroughly studied and the need for external help would be used.

"I have an accountant and I trust his expertise. But in operational work, I do not need assistance. The business is running smoothly under my control. Some external expert would be useful in case the company grew, for example, how to use the excess cash reverses most profitably?"

(The CEO)

A small company may reach a turnover of 10 million euros, which is already a significant size for a business. The need for planning and control mechanisms is recognized in the painting company, which aims to grow steadily toward a medium-sized company.

"Management accounting tools are important. They help to organize the business and define the direction and frameworks of the company. It is easier to do strategy work when one has implemented MA tools in the company. The size of this company is already so big that we would not manage completely without these tools. And looking at our performance, I am quite happy that we have implemented management accounting systems in our firm."

(The CFO)

External accountants and auditors were used, according to the CFO, but they did not provide help in operational work. The executive board was considered good enough by its judgment and competence. Recently, the board had been replenished with a board professional who provided his expertise to the use of the company.

5. Discussion

A company may utilize numerous management accounting methods when conducting business. In the interview, some of the most significant methods were discussed to find out whether the interviewees apply these methods or not. More questions could have been made about corporate governance, for example. However, the aim of this thesis was not to cover all MA tools there are, but to find out if there are even some tools in use in these companies, and how are they implemented. Not only the use of the tools was explored, but also the attitude towards them as means of supporting the daily operations of the company.

One visible attribute in both enterprises was mainly a positive approach to management accounting. Despite the small size of the business, MA tools were seen as useful techniques to control the activities of the company, while also being efficient devices in decision-making. Despite the approval of these methods, the CEO of the micro-enterprise seemed to be less eager to make use of the management accounting tools, as the size of his business along with the diminutive capital intensity of the industry did not require much coordination and planning work. Instead, self-confidence and trust in own skills in managing a company were visible, which seemed to be the driving force behind the success of the enterprise.

As O'Dwyer and Ryan (2000) concluded, entrepreneurs of micro-enterprises were not quite receptive to management development training and learning new methods of management accounting to make the business thrive. An entrepreneur of a business of micro-scale resorts to a gut feeling and own a clear vision of the activities he or she is willing to perform. This is an acceptable way of running a company if the objective of the company is not to grow and expand to new markets, products, and services. One should notice, however, that the ever-increasing performance of an enterprise, be it a micro one or one of multinational, publicly listed nature, requires the adoption of management accounting practices to some extent (Chenhall et al.1998). The evidence of management accounting systems increasing a company's performance is visible in the literature.

As the literature review revealed, for example, business planning and budgeting were methods that often were in use by small and micro-enterprises, but not as written down and consciously adopted practices. The CEO interviewed was a good example of this manner. From the perspective of agency theory, inefficient practices of management are more probable to occur if the operational management and ownership of the company are concentrated on the same persons, who do not receive external advice on conducting the business, or if the owners are not able to supervise the managements' actions. In the case of the interviewed consulting company, the manager of the micro-enterprise acts as the lone owner of the company. Regardless, not being aware of and not executing all the most sophisticated management accounting methods is much more likely to happen than harmful practices being realized by the owner of the company, since he usually makes a living of himself through the company. Carrying out actions that are guided by, for instance, greediness, which agency theory supports to be one of the main reasons agency costs occur, will affect negatively the performance of the company. In the long run that will ruin his possibilities of making a living through the company. In this way, a micro-enterprise most likely does not suffer from agency problems, even though the business may not be executed in the most efficient way possible.

The other one of the case companies has implemented a wide variety of management accounting tools in controlling its operations. Capital budgeting was, within the framework of this paper, the only MA tool that was of no use in this painting company. Considering that the company at hand was a small one, the use of so many management accounting methods was not only exceptional but also impressive. The fact that the CFO of the company has completed the Bachelor of Business in accounting, and all other members of the executive board have degrees in fields that are relevant to managing the different operations of the company, partly explains this behavior. The use of management accounting tools is more common in small companies than in micro-ones, but most of the literature showed much poorer utilization of these tools. The case company had appreciated the value of management accounting since the birth of the company as a decision-making device, which deviates from the literature's view of companies adopting these methods not until later when the business had already "settled".

The evidence from the CFO's interview confirms the statements made in the theory about the crucial role of owner-managers management knowledge. Enhancing the performance of an organization requires training and awareness of MA tools, together with an understanding of the usefulness of management accounting. That's why solely the size differences of the two case companies do not explain different usage of management accounting tools.

6. Conclusion

This paper was made to shed light on the topic of management accounting use in small and micro-enterprises. The objective of the study was to present the means of using certain management accounting tools. As the findings show, there are various ways of using management accounting in the sector of the smallest companies. Even contradictory results on the extent of management accounting usage were retrieved. Some papers reported a negligible amount of use, while other ones presented convincing use of MA information. Also, the case companies utilized management accounting in different ways, the micro-enterprise lighter and small enterprise more extensively, being aware of and using activity-based costing and KPIs as more advanced MA tools.

Business planning and costing systems in one form or another took place in the majority of small and micro-enterprises, as the findings point out. Even though many companies admit having the practices and objectives barely written, but only as drafts in the mind of the managers, it may be enough for such a small business. Budgeting and performance measurement were rarely used, but throughout the study, the importance of these systems was recognized. Capital budgeting did not gain much popularity among small and micro-enterprises, mostly due to the tiny scale of the investments. There is no simple and unambiguous answer to the research question, since the practices and knowledge of management accounting differ significantly, depending on the industry, geographical location, and the background of entrepreneurs, to mention a couple of forces behind management accounting use. Studying the literature and empirical evidence showed the challenging nature of small businesses' management accounting.

Collected empirical data gave valuable and insightful information, which is partly in line with the findings of the literature. The most significant deviation between empirical data and literature is the small company's advanced use of management accounting, especially when it comes to performance measurement. This is rarely found to happen in small companies. Cash flow analysis was often mentioned to be a highly important tool in managing a small business, but neither of the case companies shared this opinion, even though the CEO monitored cash flow regularly.

This study examined only two companies as empirical evidence, and thus the results of this study cannot be generalized to cover all micro and small companies. An interesting future research topic would be the financing decisions of the smallest companies, also from the perspective of agency theory, since obtaining funds for a small company is extremely difficult, as the CEO of the consulting company said after the interview. The whole topic of management accounting in small and micro-enterprise is heavily under-researched, which makes the need for further qualitative research. Especially the need for remuneration research in these companies would be needed. The findings of this paper point out also the meaning of management development training for managers of small businesses, which would make more managers aware of management accounting methods, thus potentially increasing the performance of their companies.

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APPENDIX

Below are the questions asked in the two interviews of case companies.

1. What is your position in the company and what are the things you are responsible for?
2. In what way do you plan the business in the company? Do you have any objectives concerning your business?
3. Does the company have some kind of strategy implemented? What is it like?
4. Are there any measures of performance that you use? If those exist, which ones are the most important?
5. Does a remuneration scheme for the management exist in the company?
6. Do you practice cost accounting when pricing your services? How does it happen? Do you calculate the profitability of the projects?
7. How do you make the budget for the company? For which time horizon(s) is it made?
8. Do you utilize any kind of capital budgeting methods?
9. Do you perceive these abovementioned management accounting methods useful? Would you use them more?
10. Are there any external advisors helping you in decision making. Do you feel like you know enough about the operational and strategic management of the company?