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Use of Management Accounting Methods in SMEs

A case study on Finnish SMEs

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Abstract

Purpose: This study investigates how SMEs use and implement management accounting methods, how their use supports SMEs' strategic processes, and what factors motivate and drive SMEs to adopt specific management accounting methods.
Design/method/approach: This study was done as a qualitative case study of two Finnish SMEs in different industries.
Findings: SMEs employ various management accounting methods primarily to enhance operational efficiency and support strategic decision-making. Motivation for adopting these methods is influenced by the perceived benefits, available resources, and strategic orientations. The adoption and refinement of methods was found to increase with maturity in line with organizational lifecycle theories.
Research limitations: Reliance on a limited set of data may not represent all SMEs. The qualitative data from the case study may limit the findings' applicability. The research method and subjective interpretation of the qualitative data may have introduced biases. Findings may not be applicable to SMEs in other regions. The scope and length of this study was restricted, thus relevant information may have been overlooked.
Implications for research and practice: Further studies could use a wider set of data to find similarities inside different sizes, strategic orientations, and lifecycle stages to build a clearer framework for SMEs. This could help SMEs with significant resource constraints find efficient ways to utilize management accounting methods.

Keywords management accounting methods, SMEs, strategy, organizational lifecycle, customer accounting

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1 Introduction

Within the European Union, Small and medium-sized enterprises (SMEs) represent 99% of all businesses, which highlights their crucial role in the economic landscape (European Commission, n.d.). SMEs represent a distinct group of companies, that are differentiated from large corporations. SMEs constitute a large and important part of developed economies, which underscores the need to examine their unique characteristics and needs. (Armitage et al., 2016).

Despite their importance, there has not been much research focusing specifically on SMEs, especially medium-sized firms, in the field of management accounting methods or strategic perspectives, presenting a gap in current research. There are some studies (Ahmad, 2017; Armitage et al., 2016; Broccardo, 2014; Esparza-Aguilar et al., 2016; García-Pérez et al., 2014; López & Hiebl, 2015; Mozaheb et al., 2015; Najera Ruiz & Collazzo, 2021; Nandan, 2010; Neubauer & Mayr, 2012; Shields & Shelleman, 2016; Zaitsev, 2023) that have provided insights into this relatively unexplored area. However, research also tends to either aggregate SMEs with larger firms or focus predominantly on micro- or small-sized firms, often overlooking the significant differences between enterprises within the SME category itself. Findings from existing studies offer valuable insights into the adoption, use, and consequences of management accounting methods; however, these studies are mostly in the context of either larger, established companies or young companies (start-ups) (Armitage et al., 2016). Moreover, there is no clear framework established for the use of management accounting methods in SMEs.

As companies grow and mature, they tend to make greater use of management accounting methods due to increased resources, the necessity of managing a larger scale of operations, and the heightened need for information to coordinate operations across the organization (Moores & Yuen, 2001). However, the assumption that SMEs are merely smaller versions of large companies is misguided (Blank, 2012, 2013, as sited in Armitage et al., 2016). SMEs, particularly in their early stages, tend to prioritize exploratory activities such as determining customer preferences, whereas more established and larger companies might concentrate on "execution" activities like developing control systems (Moores & Yuen, 2001).

This thesis aims to contribute to the literature on management accounting tools in SMEs, exploring how these tools are adapted to the specific characteristics and developmental stages of small and medium enterprises. The goal is to understand better how SMEs leverage these tools to enhance performance, guide strategy and meet SMEs unique operational challenges. The dynamic environment of SMEs may result in interesting and adaptive applications of management accounting methods that deserve further exploration.

The goal of this thesis is to answer three research questions about SMEs. The central question addresses: (1) How management accounting methods are used and implemented in the context of SMEs, and to what extent these methods are employed for strategic reasons? The secondary questions investigate: (2) How the use of management accounting methods supports strategic processes in SME context? (3) What motivates or drives the adoption of specific management accounting techniques within SMEs?

To answer these questions, this study conducted a case study of two Finnish medium-sized companies, each with revenues slightly below 15 million euros. This study approaches the concepts of management accounting methods and strategy by placing emphasis on theories related to the organizational lifecycle as well as customer accounting and customer-oriented perspectives.

In the current competitive business landscape, companies are growingly adopting sophisticated customer accounting methods as strategic management methods (McManus & Guilding, 2008). Furthermore, over the past two decades, research has tried to explain variations in management accounting methods based on a range of contextual factors, including environmental, organizational, and decision-making (Moores & Yuen, 2001). These align closely with the strategic and operational factors explored in this thesis.

These viewpoints are chosen also due to their relevance to the case companies, given that the companies are at different stages of their lifecycles, and both have distinctly customer-oriented strategies. This focus allows for comparison and deeper understanding of how different characteristics and orientations influence management practices in SMEs.

For this thesis, SMEs are classified by a European Commission recommendation for defining SMEs. According to the European Commission, SMEs are defined based on number of staff and financial metrics: a medium-sized enterprise has fewer than 250 employees and an annual turnover of no more than €50 million or a balance sheet total not exceeding €43 million. Small enterprises have under 50 employees and turnover or balance sheet totals of no more than €10 million, while micro-enterprises employ less than 10 staff with turnover or balance sheets not surpassing €2 million. (European Commission, n.d.).

The findings of this thesis reveal the use of management accounting methods in the context of SMEs, demonstrated by the case studies of Company X and Company Y. While both companies demonstrated strategic use of these methods, their focus between integration of strategic initiatives, operational support and regulatory compliance was varied. This study highlights the influence of organizational lifecycle stages on the adoption and refinement of management accounting methods, suggesting that more mature firms exhibit a more comprehensive and formal use of management accounting methods. Additionally, it notices the impact of resource constraints on limited implementation of complex methods. The study also reveals a contrast with empirical observations and existing literature, emphasizing the need to recognize different factors and contexts within SMEs. Ultimately, this research underlines the dynamic nature of management accounting methods in SMEs and suggests future exploration of strategic orientation and factors affecting the choice of methods in SME context.

The primarily limitations of this case study arise from the research data as it is sourced only from interviews of two entities and individuals, due to the restricted scope and length of this study. This small data set and single methods restricts the findings of the study, and potentially limits its applicability to other SMEs. Further limitations are specified in the conclusion chapter.

This thesis is structured as follows. The second chapter introduces the theoretical background of the study topic, exploring previous research on strategic perspectives and management accounting in SMEs. Chapter 3 presents, the research design choices for this study, along with brief descriptions of the target companies examined in the empirical research. Chapter 4 presents the findings drawn from qualitative case research, based on interviews with representatives from two Finnish SMEs. This is followed by chapter 5 where the empirical findings are discussed in relation to existing literature. The final section summarizes the main findings and concludes the study.

2 Literature review

This chapter presents a review of the literature on the application of management accounting methods within SMEs, particularly in relation to strategy, lifecycle stages, and customer-centric approaches. The first section begins with defining management accounting methods and discusses their role and application in SMEs. The section also explores their relevance across different lifecycle stages. Following this, the chapter shifts focus towards strategic management in SMEs. This section provides an examination of the strategic relevance of management accounting methods in supporting decision-making processes within SMEs. This chapter is concluded with exploring customer-centric strategies and customer accounting.

2.1 Management accounting methods in SMEs

2.1.1 Definition of management accounting and management accounting methods

Management accounting encompasses the practices of measuring, analysing, and reporting both financial and non-financial information, which is instrumental for managerial decision-making, strategic planning, and organizational control. Unlike financial accounting, which is focused on documenting transactions for external reporting, management accounting is an internal process aimed at equipping managers with the necessary data to achieve the company's objectives and strategy. (Bhimani et al., 2015; Horngren et al., 2013). Management accounting as a definition is not defined by set rules, but the focus of using these methods should lie in improving managerial effectiveness and whether its benefits justify its expenses (Horngren et al., 2013). Thus, management accounting can be seen as a dynamically tailored set of practices and methods that serve to inform strategy formulation, communication, and execution of strategic plans, and facilitate the coordination and performance evaluation of a company's operations (Bhimani et al., 2015).

The term management accounting methods refers to several kinds of management accounting systems, analytical methods, and information (Armitage et al., 2016). Drawing upon literature in this field (e.g., Armitage et al., 2016; Bhimani et al., 2015; Chenhall & Langfield-Smith, 1998; Horngren et al., 2013; Najera Ruiz & Collazzo, 2021) the following have been identified as examples of management accounting methods: cost accounting, various forms of analysis, long and short-term planning, budgeting, benchmarking, and performance evaluation. Thus, while management accounting refers to all the practices and methods, management accounting methods can be defined as a particular process, system, or practice. Management accounting methods are decision-making methods which are intended to enhance performance by effectively managing complexities and various business scenarios (Shields & Shelleman, 2016). These methods include management accounting practices with both a forward-looking planning approach and a retrospective control approach (Armitage et al., 2016; Bhimani et al., 2015; Shields & Shelleman, 2016). In this study, the terms management accounting “methods”," "tools,", “techniques” and "systems" are used interchangeably. While various studies may refer to the concept of management accounting methods differently, these terms are defined as synonyms within the context of this research.

2.1.2 Importance of management accounting methods in SMEs

Multiple studies on SMEs have found a relationship between management accounting methods and overall performance enhancement and more effective decision-making in SME context, as they play a significant role in aiding the success and competitiveness of SMEs (Ahmad, 2017; Broccardo, 2014; Esparza-Aguilar et al., 2016; Lee & Cobia, 2013; López & Hiebl, 2015; Shields & Shelleman, 2016). There is a recognized necessity for SMEs to have access to management accounting information that is both timely and precise, due to their significant role in the economy and that large corporations have initially grown specifically from SMEs (Nandan, 2010).

Research on Italian SMEs conducted by Broccardo (2014) emphasizes the significance of comprehensive usage of management accounting systems in SMEs. The study demonstrates a positive association between the implementation of structured management accounting systems and a company's inclination to investment and expansion (Broccardo, 2014). This may suggest that a robust management accounting system equips SMEs with the necessary insights to commit to substantial, long-term financial engagements.

Findings from a study on micro-SMEs by Lee & Cobia (2013) and a systematic review by López & Hiebl (2015) indicate that employing comprehensive management accounting systems has a positive effect on SMEs performance and advancements in critical areas crucial to business success. By facilitating detailed tracking and reporting of financial data, these systems allow SMEs to manage resources more effectively (López & Hiebl, 2015). As SMEs tend to have limited human capital, and information resources compared to larger enterprises (Broccardo, 2014), the importance of managing resources more efficiently becomes even more evident.

However, the potential benefits of implementing management accounting techniques are linked to, and often limited by, these same resource constraints that characterize SMEs (Broccardo, 2014; Najera Ruiz & Collazzo, 2021; Neubauer & Mayr, 2012). Inadequate utilization of appropriate management accounting tools can often be linked to the lack of success or failure of SMEs (Ahmad, 2017; Nandan, 2010).

2.1.3 Use of Management Accounting Methods in SMEs

In a field study by (Armitage et al., 2016), three primary elements are identified as influential in the adaptation and utilization of management accounting methods within SMEs: their perceived practical value for decision-making, the complexity of the SMEs operational context, and the firm's age.

While a lot of literature has made a clear distinction between SMEs and larger companies, there can also be significant differences inside the definition of SMEs (Broccardo, 2014). However, Najera Ruiz & Collazzo (2021) found that there is a lack of agreement in the literature regarding the impact of company's size on the use of management accounting methods. While Shields & Shelleman (2016) study on micro-enterprises found that their usage of management accounting methods is frequent as well. Most studies on management accounting methods in SMEs tend to focus on micro or smaller SMEs. In this study it is assumed that small and medium-sized firms have characteristics that are similar enough, that findings from these studies can be relevant to both.

In general, it seems that most literature agrees that firm size is an important factor that increases the number and complexity of management accounting methods. Micro and small firms tend to use less management accounting methods compared to medium-sized firms (Armitage et al., 2016; Broccardo, 2014). This distinction is quite expected as medium-sized enterprises are more inclined to adopt extensive monitoring instruments, given their typically larger product ranges, managerial independence in different functions, competitive pressures, resources, and managerial structures that extend beyond family-run leadership (Broccardo, 2014). Neubauer & Mayr (2012) findings from medium-sized and large family-enterprises suggests that firm size is the primary factor that determines the adoption and use of management accounting methods. Ahmad (2017) research on Malaysian

SMEs made similar findings where medium-sized companies exhibited a greater adoption rate of management accounting practices compared to small-sized firms.

Ahmad (2017) findings indicate a widespread usage of management accounting techniques among SMEs, notably by medium-sized firms, of established methods such as costing systems, comprehensive budgeting, and performance measurement systems. The findings revealed that costing systems and performance measurement systems are popular among the SMEs surveyed. However, medium-sized firms revealed a significantly greater usage of advanced management accounting methods like budgeting, Decision Support Systems (DSS), and Strategic Management Accounting (SMA) among compared to small-sized ones. (Ahmad, 2017).

Field study by (Armitage et al., 2016) on Canadian and Australian SMEs found a significant difference between manufacturing and non-manufacturing companies in the extent of utilizing management accounting methods. Most differences were found specifically in usage of budgeting systems, financial statement analysis, and overhead cost analysis, where manufacturing companies showed higher usage of, especially, these as well as other management accounting methods. Firms with straightforward operations, perceived many management techniques as inapplicable compared to their counterparts in organizations with multifaceted business activities. (Armitage et al., 2016). Thus, while SMEs are generally similar in structure, it may be important notice that they might exhibit significant diversity in their management accounting practices due to factors beyond size. These could include industry, complexity of operations, and the specific needs of different types of businesses.

Broccardo (2014) case study found that SMEs often encounter challenges when applying more complex methods, and despite their importance for strategy, they tend to favour traditional and more straightforward methods. In a field study consisting of both SMEs and larger enterprises, Chenhall & Langfield-Smith (1998) observed that management accounting methods are created in accordance with a company's strategic emphasis. Their research suggests that enterprises pursuing differentiation strategies may benefit from utilizing management accounting tools, such as benchmarking, comprehensive performance metrics, and employees-focused measures, over conventional financial accounting methods. Chapter 2.2 will continue to dive more into the strategic aspects of management accounting in SMEs.

2.1.4 Company Lifecycle

According to newer literature "strategic management accounting" methods as a term is not seen as a relevant description anymore (Langfield-Smith, 2008). However, research done on strategic management accounting methods can be interesting considering the subject of this thesis, we'll be using findings from these studies regardless of the term's relevance in contemporary literature.

Pasch (2019) study on organizational lifecycle and strategic management accounting highlights that strategic management accounting (SMA) practices are tailored to the stage of an organization's lifecycle, indicating that lifecycle stage is a significant factor in shaping strategic management accounting approaches. According to Moores & Yuen (2001) management accounting systems are dynamic and evolve over the organization's lifecycle, adapting to its size, structure, and strategy. Early stages typically see informal, simple management accounting systems, which become more formal and complex as the organization grows. With each subsequent stage in their lifecycle, organizations tend to enhance the complexity and refinement of management accounting systems in response to the changing characteristics of organizations throughout their life-cycle stages. (Moores & Yuen, 2001).

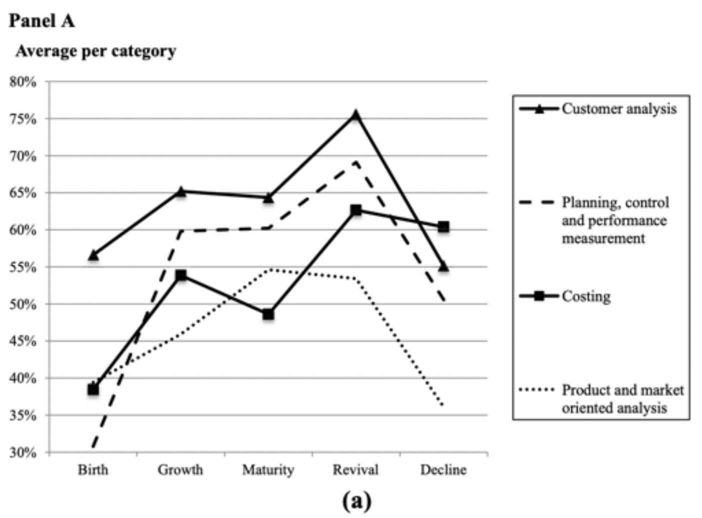

Figure 1: "Panel A: Averages of adoption rates per SMA-category" (Pasch, 2019, p. 593).

The adoption of SMA practices has been found to increase as companies move from inception to renewal phases, and later drop during the decline phase (Pasch, 2019), seen in Figure 1 where the findings from their study are presented. This is comparable to the findings from Moores & Yuen (2001) study that found similar trend, especially, regarding the formality of management accounting systems. Pasch (2019, p. 591) found that, especially, "benchmarking, value-based and residual income measures and integrated performance measurement are the SMA practices that gain the most importance between the birth and the revival stages (adoption rates almost triple)" Also, especially, the relevance of costing systems appears to increase as firms progress through their development stages, being less important in the initial phases and gaining more significance in the later stages of the lifecycle. It is somewhat unexpected that the importance of costing systems has been found to remain its importance during the decline stage as well. (Pasch, 2019,)

In the initial lifecycle stages, management accounting systems are typically simple and informal due to the organization's relatively low complexity. However, during growth stages, management accounting systems start evolving into more structured frameworks that incorporate more sophisticated techniques to support decision-making and management. (Moores & Yuen, 2001). As new firms grow and their organizational structures become more complex, their adoption of strategic management accounting practices also evolves and formalizes (Pasch, 2019). When a company reaches maturity, its management accounting systems are generally sophisticated and comprehensive, and provide integral support for strategic planning and operational management. In contrast, during the decline phase, organizations might either streamline their MAS or may seek innovative accounting strategies to rejuvenate the business. (Moores & Yuen, 2001).

Pasch (2019) also found that companies that align SMA practices with the optimal profile for their lifecycle stage tends to lead firms to perform better in comparison to those that deviate from this. Interestingly, the negative impact on performance was found to be significant only for firms with insufficient SMA practices, while over usage of SMA practices did not lead to a similar negative effect (Pasch, 2019).

2.2 Strategic Management in SMEs

This part of the literature review will summarize how strategic management can be seen in SMEs and how this is linked to firm performance and the usage of management accounting methods. Some of the research in this section is not specifically in SME context but may be extended to SMEs as well.

2.2.1 Management accounting methods and strategy

Bhimani et al. (2015) and Langfield-Smith (1997) highlight the importance of management accounting methods in tracking and aligning a firm's activities with strategic goals. According to Langfield-Smith, 1997, management accounting methods should be specifically shaped to align with and reinforce a firm's strategic objectives. Such alignment can be instrumental in cultivating competitive advantage and enhancing overall performance (Guilding et al., 2000; Langfield-Smith, 1997).

Chenhall & Langfield-Smith (1998) study found a linkage between firms' strategic priorities and management accounting techniques and their effects in performance. Usage of specific management accounting practices can be affected by managerial mindsets associated with strategies of differentiation and cost leadership. Their findings indicate that firms employing differentiation strategies likely benefit more from management accounting approaches, particularly, benchmarking, balanced performance measures, and employee-based measures, as opposed to traditional financial accounting methods. (Chenhall & Langfield-Smith, 1998).

For instance, benchmarking is suggested as a method for companies to recognize and promote best practices of doing business (Chenhall & Langfield-Smith, 1998). In Chenhall & Langfield-Smith (1998) study, benchmarking emerged as one of the most beneficial management accounting method among those surveyed to enhance performance and strategy alignment. Their findings indicate that benchmarking is effective in shaping strategies that focus on either customer service or cost competitiveness. According to a study by Cassell et al. (2001) in SMEs where benchmarking was implemented, it was seen as highly effective across all evaluated metrics, yet those SMEs which were not already employing benchmarking exhibited little interest in adopting it.

Key performance indicators (KPIs) are another example of management accounting method which help with measuring performance, as well as synchronizing operational activities with strategic objectives (Zaitsev, 2023). KPIs continually define and measure firms' progress toward organizational goals by providing an overview of performance, which help to identify areas needing improvement and adjust strategies based on market conditions (Nastasiea & Mironeasa, 2016; Zaitsev, 2023). In SMEs, where resource constraints can significantly influence the effectiveness of strategic decisions, only a limited number of KPIs should be utilized. Focusing on essential KPIs that are directly linked to achieving the organization's goals as it ensures that attention is on the most important metrics. (Nastasiea & Mironeasa, 2016; Zaitsev, 2023).

In addition, balanced performance measures (balanced scorecard and nonfinancial performance measures) and employee-based measures emerged as one of the most beneficial management accounting methods for differentiation strategies. These approaches not only enhance team and individual performance through non-financial metrics but can also increase employee engagement, aligning the entire organization towards unified strategic objectives (Chenhall & Langfield-Smith, 1998). Thus, these management accounting methods may help firms with identifying and adopting best business practices and that all parts of the company are working towards common strategic objectives.

2.2.2 Customer centric approach

"The effective implementation of customer- focused strategies may require employees at the operational level to adopt a strong customer orientation (Hamel & Prahalad, 1994; Storey, 1995). Employees are more likely to develop a customer focus if a high degree of empowerment is encouraged (Hamel & Prahalad, 1994)" (Chenhall & Langfield-Smith, 1998, p. 246). Expanding from the idea from the previous chapter of the importance of aligning employee activities with broader strategic goals, this chapter delves into customer-centric strategies and management accounting methods.

There is a growing interest in research on customer accounting which refers to accounting methods that utilize customer data (Matsuoka, 2020). It is commonly believed that enhancing customer satisfaction can positively impact business profitability and performance by strengthening customer loyalty. An increasing interest among accounting research in evaluating non-financial performance metrics and customer-related measures including market share, customer loyalty, customer satisfaction, and customer complaints underscore the interest in this topic. (McManus & Guilding, 2008).

Customer relationship management is a strategy that enhances customer loyalty and satisfaction with the approach to identify, develop, and maintain profitable customer relationships. (Mozaheb et al., 2015). Findings from Mozaheb et al. (2015) research revealed that firms often lack an understanding of their customers, leading to a negative customer experience. They suggest that SMEs should implement management tools to better integrate customer data. Focusing on the market and customers with customer relationship management tools can increase firm performance and competitive advantage in SMEs (Mozaheb et al., 2015). According to Holm et al. (2016) deploying management accounting methods, like customer accounting systems for resource allocation, can provide a competitive advantage. Customer satisfaction positively influencing long-term business performance is also a fundamental principle in marketing theories (McManus & Guilding, 2008).

However, Holm et al. (2016) research indicate that management accounting methods such as customer accounting systems provide a temporary, not lasting, competitive advantage. Their study found that the performance boost from the implementation of customer accounting systems for resource allocation does not persist in the long term and was found to be most notable only in the first two years following their adoption.

Comparatively, Eggers et al. (2013) study on the value of customer orientated and entrepreneurial oriented strategies for leading the growth of SMEs, found that the impact of customer orientation on performance is typically short-term. Entrepreneurial-oriented firms are defined by their risk appetite, proactiveness, and innovativeness. Conversely, customer-oriented firms are defined by their strategies that prioritize responsiveness to competitors and customers. Entrepreneurial orientation promotes firm growth – essential for long-term performance –by emphasizing proactiveness, while customer orientation may not add new value-adding insights it due to its reactive focus.

Eggers et al. (2013) results indicate that for sustainable growth, SMEs need to have a higher entrepreneurial orientation and a lower responsive customer orientation. Although firms with higher entrepreneurial orientation and lower customer orientation were found to experience more growth, financial constraints typically push SMEs towards increased customer orientation. In challenging economic times, however, the stability and revenue gained by customer orientation might momentarily outweigh the need for growth. Thus, their study agrees on the general marketing theory idea that focus on customers increases sales, however, they disagree that it would lead to better performance in the long run. (Eggers et al., 2013).

In a dynamic environment, being customer-led is unlikely to yield a competitive advantage, as it does not provide the significant innovation needed for coping with discontinuous change. However, being customer-led can be an effective strategy in stable environments. (Eggers et al., 2013). This could indicate that the ideal proportion of customer vs entrepreneurial orientation may vary depending on the specific industries or market environments where the firm operates. Compared to the results of Eggers et al. (2013) where the highest growth rates for SMEs can be achieved when a high level of entrepreneurial orientation is paired with, specifically, a low level of customer orientation.

3 Method

3.1 Research Design

This research uses a qualitative case study to find out how management accounting methods are used in SMEs. Qualitative research, transcending the traditional 'textbook' view of management accounting, offers depth and flexibility essential for understanding the nuances of strategy and decision-making in the real-life context (Vaivio, 2008; Yin, 2009). The qualitative case study is a valuable tool for exploring areas not fully illuminated by existing theory (Dubois & Gadde, 2002). The case study approach not only accommodates an in-depth analysis of the case SMEs' but can also enable a possibility for theory refinement.

The empirical data was gathered primarily through semi-structured interviews, which allow for both depth and flexibility in exploration. Remaining receptive to new insights and avoid an excessively structured approach is emphasized, highlighting the importance of flexibility in research methods (Ferreira & Merchant, 1992; Vaivio, 2008). This method is selected over structured interviews or surveys to enable a richer, more comprehensive collection of data. This way the semi-structured method may ensure more conversational depth, encouraging interviewees to share information beyond superficial 'yes' or 'no' responses.

Non-linearities in the research process are acknowledged, as due to the lack of a solid theoretical framework it is anticipated that research questions and the analytical framework may shift in response to new empirical findings. In line with the principles of systematic combining (Dubois & Gadde, 2002), the research is approached with abductive reasoning, dynamically evolving theory with empirical observations. This non-linear, abductive approach offers capacity for theory development, where theoretical assumptions are continuously refined against the insights derived from empirical observations (Dubois & Gadde, 2002). The approach encourages an expansion of the theoretical framework when new, relevant themes emerge from the data (Dubois & Gadde, 2002), allowing the theory to evolve as the study progresses and to resonate with the complexity and nuanced reality of management accounting practices in SMEs.

When conducting a case study some issues, such as observer-caused effects, observer bias, data access limitations, and complexities and limitations of the human mind, can possibly interfere the reliability and validation of the results (McKinnon, 1988). In this study the most relevant issue is likely complexities and limitations of the human mind. Natural human biases and errors, such as forgetting, can distort their statements, alternatively, some might intentionally mislead to present themselves in a better light (McKinnon, 1988). To reduce the impact of this bias, during the interview answers were presented back to the participants to verify the accuracy and some questions were repeated with different wordings. This allowed the interviewees to correct or expand on the answers if needed.

During this research, a series of two in-depth semi-structured interviews were held, each extending from 45 to 55 minutes. The interviews were based on a set of preliminary questions. (See Appendix). However, as planned, the questions were indented to direct the interview themes and the conversation did diverge from structure to learn more about insight that surfaced during the actual interview.

3.2 Research material description

The interviews are represented anonymously due to the other company's wishes. Therefore, the case companies will be referred to as Company X and Company Y.

Company X's business activities include retailing and manufacturing within the watchmaking and goldsmith sectors. Company Y's activities centre around the restaurant and café industry, offering health-conscious products across its locations. Company X was founded over 50 years ago, while company Y was founded around 15 years ago. (Kauppalehti, n.d.).

As stated earlier, under the EU definition of SMEs, medium-sized enterprises are those which employ more that 50 but fewer than 250 persons, have an annual turnover of more than €10 million but no more than €50 million, or an annual balance sheet total more than €10 million but not exceeding €43 million. Under this framework, the case companies, X and Y, with turnovers of €13 million and €14.2 million and staffing of 70 and 166 respectively (Kauppalehti, n.d.), qualify as medium-sized enterprises.

For the case study, the interviewees were selected based on their roles within the company. Their responsibilities directly relate to the topics being studied, making them suitable candidates for providing relevant insights. The first interviewee, representing Company X, is the Chairman of the Board of Company X. Bringing over two decades of experience in the industry, he has been instrumental in steering the company for the last three and a half years. His role involves overseeing the strategic direction of the company and ensuring the integrity of its operational and financial practices. The second interviewee, representing Company Y, is the company's Business Controller, who has been with the company since 2020. Prior to this role, the Business Controller served as an accountant within the same organization and have also managed financial and production tasks at another company. Their responsibilities include financial oversight, ensuring the economic health of the company, and supporting strategic business decisions.

4 Findings and analysis

This chapter presents the findings from the two interviews, explaining how the interviewed SMEs employ various management accounting methods, how they support the companies' strategic processes and the reasoning behind choosing these methods. The representative of Company X will be referred to as "the Board Member" and the representative of Company Y as "the Business Controller".

4.1 Integration of strategic planning and management accounting

Company X is a Finnish family-owned firm established in the 1970s, operating as a multi-brand retailer for mid-range watches and jewellery. Company X distinguishes itself by running the second-largest e-commerce store for jewellery in Finland and owning a store network situated in the country's major shopping malls. Additionally, they produce their own jewellery brand, manufactured in their own atelier. The company was founded on the concept of offering handcrafted diamond jewellery targeted at the middle-class demographic in Finland. Their brand and product portfolio strategies are to offer customers an adequate and appealing selection of both traditional and fashionable jewellery and watches in the price range of 2-300 euros up to 2-3 thousand. Their pricing strategy is never to be the cheapest on the market but to provide customer service and sales strategy to compensate for the price point. Their store network strategy is either to be in the best location or not to be there at all. As the Board Member summarizes their strategy: "we offer the customers the best location, the best brand portfolio, the best store design concept".

Company Y, founded in the 2010s, operates in the restaurant and café industry, with a specialized focus on health-centric offerings. The emphasis on selling a healthful and tasty product is reflected in their product offerings and branding. According to the Business Controller, the company's strategic focus is in creating a positive atmosphere for both employees and customers. Their product strategy is to offer a product that is healthy and delightful. However, their main strategy is customer centric, where the idea is to create a customer experience where a positive atmosphere among employees radiates positivity, and this way creates a unique customer experience.

According to the Board Member, in Company X, management accounting methods are aligned with the company's strategic goals, as they can be used to navigate the business slightly. However, the Board Member points out: "So actually, more important than accounting is to see the future in terms of trends and what customers are willing to buy.”. This comment reflects a perspective within the company that, while management accounting methods are linked to strategic initiatives, they are not viewed as the most crucial element in guiding these efforts. Instead, these methods are primarily used in performance review and operations. Therefore, while management accounting provides a retrospective look at performance, it may not always be seen as the pivotal tool for forward-looking strategic planning, where understanding broader market dynamics and customer desires takes place.

“One is a strategy of course, because we need to calculate the cost of some capex investments like enlarging our store network or what we need to invest but the other one, and more important, is the operations. It's very relevant that you use management accounting to control and plan your operations. I mean that's the most important thing.” – the Board Member

According to the Business Controller, management accounting at Company Y is not explicitly strategic in nature. Operational and regulatory reasons are the main driver for utilizing management accounting methods at Company Y. According to the representative strategy is seen more as a “common thread”, which is not directly in the accounting methods, but an indirect outcome of their focus on the operational and external aspects of the business. Company Y focuses on customer experience, which, while integral to their strategy, it is not directly addressed through management accounting methods.

"It (strategy) is not directly visible in our calculations. We mainly follow sales. The point is to create as much profits as possible. We want to offer a healthy product and a positive and fun feeling for the customer. If the reported sales are good, we know that we have at least partially succeeded (with the strategy).” – The Business Controller

Thus, Company Y's approach to management accounting is primarily operational, with an emphasis on sales tracking and understanding external factors that may impact business performance. Their use of management accounting is geared more towards operational needs. They further emphasized that the tools in use, serve to analyse and optimize current operations rather than direct strategic planning. "We tend to rely on these tools for a deeper dive into our sales patterns and customer feedback, which naturally aligns with our strategic goals over time," the representative shared.

Although sales tracking remains central, the company strives to discern factors affecting sales beyond their control, such as economic downturns or other external challenges, thereby maintaining a strategic perspective aligned with their operational goals.

"If sales have declined from the sales targets, we discuss the reasons for this, which usually are external. In meetings we look at measures like sales, then we in a sense reflect them to our strategy. In the end, it becomes clear, whether we have succeeded in implementing our strategy. Or if there have been other reasons for reduced sales but we have still in our part succeeded in implementing our strategy." – the Business Controller

4.2 Budgeting and cost management techniques

According to the Board Member, Company X does annual budgeting for sales, marketing, sales margin, and overheads. "But mostly for revenue and marketing costs because those are two variables which you can influence mostly"- the Board Member.

Company X mentioned challenges in developing adequate management accounting methods. Despite their concerted effort to optimize cost accounting, the reality of retail unpredictability poses a significant challenge, particularly with staff scheduling:

"An example where we are still struggling and learning: We've got roughly 60 people working in our stores. And the stores are open from 10 o'clock in the morning until 7 in the evening mostly, on seven days per week. — So, for us it's really difficult to foresee the customer flows. — To optimize the sales staff, to match the needs of the customers is a constant challenge for us." – the Board Member

The company sees importance of using cost accounting to help in identifying underperforming assets or cost centers. They acknowledge the financial implications of staffing inefficiencies, recognizing that "small mistakes cumulate over the year," potentially affecting profitability substantially. They seem to find cost accounting an important management accounting method in maximizing sales while eliminating unnecessary cost streams. They distinguish between capital and operational expenditures, as well as use activity-based costing:

"We differentiate a lot between what is capital expenditure and operating expenditure. So, this is what we do as well as activity-based cost accounting. However, we have still got a lot to learn on that front because we exceed often cost budgets and where we should be more rigorous with spending money."- The Board Member

Adversely, at Company Y, cost accounting does not get much emphasis and importance in their use of management accounting methods. According to the Board Member, Company Y, does both annual budgeting as well as quarterly forecasts for budgeting. While cost accounting is somewhat part of the used management accounting methods, greater emphasis is placed on the budget and forecasts. As expressed by the Business Controller, "We do cost accounting to some extent, but the focus is more on the budget and forecast, and the cost calculations are more for our CFO to handle."

Quite expectedly, the Board Member of Company X added that having their own manufacturing activities have a significant effect on the extent of using management accounting methods. *"If you run your own production, only the labor cost is 450,000 a year. Plus, you need to source raw materials for another half a million. Operating a production costs you a million a year. If we didn't have our own production, and we would just source the products in, let's say, Italy or another country, like a similar place, then we would have to work less and analyze less. To have your own production, especially in Finland, it's very work-intensive and it costs a lot of money."- the Board Member*

4.3 Performance measurement and benchmarking

The approach to performance measurement and benchmarking further highlights differences between the two companies.

Company X's approach to performance measurement is multifaceted and relies on a wide array of KPIs to monitor different aspects of their operations. They have several KPIs divided between their three business units. All in all, the Board Member says the company uses a minimum of 30 to 40 KPIs.

In retail, Company X takes a comprehensive view of performance, measuring turnover margins, stock rotation and value, cash flow and sales performance. *"We've got several KPIs. In retail, we use, of course, turnover margin, stock rotation, stock value. — And then, in the retail side, another KPI is* *our cash flow, of course. Then in the retail, we also look at average sales per brand. So, because we've got like 20 brands in every store, we need to have some KPIs for their sales performance. But some stores are bigger than others, so we then balance, we establish some indexes for the sales performance per store, which we then utilize in other stores as well." - the Board Member.*

In production they monitor production backorders, raw material sourcing, and capital utilization.: *"In the production, we've got KPIs for backorders. We follow our backorders closely and the output of products. Another KPI in the production, an important one, is the amount of raw materials which we source because we need to source raw materials from abroad and it is quite capital intensive. So, it uses up a lot of our capital. So, we need to be careful with that." - the Board Member.*

In managing their online presence, Company X tracks the number of website visitors and the conversion rates to gauge customer behaviour and potential for sales: *"On the internet e-commerce platform, we, of course, look at the number of visitors, the conversion on the website, the behavior of the customers or potential customers on the website. Then we, of course, look at the turnover margin, conversion, number of repeating customers, how many come back to the website within a year. Then we look at our CRM (customer relationship management) KPIs. We try to enlarge our customer portfolio, which is not so easy." - the Board Member.*

Company Y focuses on KPIs that relate to sales, customer satisfaction, and employee engagement. They measure metrics such as product sales from display cases, individual products, which are all pivotal KPIs according to the Business Controller: "We have quite a lot of them. Mainly linked to the products. — One KPI, for example, is how much sales of ready-made products we have. Then we monitor, for example, the sales of many individual types of products."

In line with their strategy customer feedback is monitored through a Net Promoter Score (NPS) score, which is a survey that measures customer satisfaction. The Business Controller mentions, "It's really important to us every time we look at the NPS that it was at a really good level from last week, so we also usually read through all the feedback."

They also track employee satisfaction levels and number of sick leaves: *"Also, we monitor, for example, the number of sick leaves. We have a target level of what it should be, but unfortunately sometimes it's a bit higher. Then we have job satisfaction, which is also measured. Then we have NPS. We* *have quite a lot, but these are the most important. — In addition to these KPIs we also have an app where we can track the number of loyal customers and acquired customers." - the Business Controller.*

Benchmarking is part of Company X's regular routine, aimed at ensuring a competitive edge in the market by continuously being up to date on competitors' actions. According to the Board Member, they engage in activities like regular mystery shopping, comparing stores, analysis of competitor's space usage, customer service, customer relationship management (CRM) methods, and sales volumes. Benchmarking is extended to the e-commerce side, where Company X compares competitors' brands, product portfolios and pricing. They also do frequent Google search rankings on products and brands to see how they rank in searches of specific products on Google searches. As the Board Member puts it, " Yes, we benchmark every day. Life is about benchmarking."

At Company Y benchmarking is not used much now according to the Business Controller: "Yes, but nowadays in slightly smaller quantities. We have previously used it more. Recently, we have talked about taking part in research that ranks companies in the restaurant industry in responsibility. Which is also important for us since we are also carbon neutral and the goals are to be environmentally friendly and responsible." Previously they have compared occupational well-being with other companies. Even though not used now these focuses seemed to have been linked to their strategic initiatives.

According to the Business Controller, they utilize benchmarking to some extent, but it is not a central management accounting method in Company Y, and they do not do any extensive analysing on competitors. As the Business Controller notes that it "depends on the resources". However, it is important to mention that the Business Controller noted that benchmarking is not their main responsibility in the company. Thus, someone else in the company might know about it in more detail.

4.4 Decision-making and analytical tools

Decision-making at Company X is a process that leverages advanced cost-benefit analysis tools, as they emphasize the significance of KPIs in their strategic deliberations. As mentioned, before they use cost-benefit analysis tools, and they consider KPIs before making any significant business decisions. The use of activity-based costing provides insights into the profitability of specific activities, guiding decisions on where to invest or cut back. They also consider opportunity costs and how decisions align with their strategic framework. As the Board Member explained their decision-making process:

"You cannot make any decisions without those tools. That's why they were invented. All the KPIs are always on the table before taking any decisions. Then on the cost benefit, we try to look at a one-to-three-year perspective. So, basically, if we take a decision now, then we analyze the cost and the benefit of this decision over like one to three years. We also think if it's within our strategy or not. And one of the most important decision-making analysis is also the opportunity cost." - the Board Member

Company X's inventory management strategy includes what they refer to as the "freshness calculation". This management accounting methods reflects their product strategy to ensuring their product stock aligns with consumer demand and trends as well as eliminate dead stock. The Board Member explained:

"Our stock value is between five and a half and six million euros. And the cost of that stock is quite high, as you can see, if you go up to these millions. — We call it the "freshness calculation". So, we try to analyze how fresh our stock is. Because usually when you buy new products, there is a big group of customers who only want to buy the latest products. So, each spring and in autumn, we receive new products from all the brands. And then we try to analyze the weight of these new products within our sales. And when we do this, we learn more about the products which are not selling so well. We try to then liquidate them somehow. — So, if your stock consists of mostly new products, then you can serve a clientele which is more aware of trends and what is happening on all the brand markets. But then there are many who buy a product after it has been on the market for a few years because they still needed time to make up their mind. So, we try to match our stock to the needs of the customers. And eliminate the dead stock. It's a never-ending game. It takes a lot of resources and work to manage that." - the Board Member

Further elaborating on their decision-making philosophy, when asked about using intuition to guide decision-making, the Board Member stated:" There must be a vision for something in all what you do. — You know you can optimize your business through accounting and it's totally relevant to operate your business rationally but the big instinct, the vision, the hinge must be in someone's gut of course."

They, however, highlight the necessity of validating intuition with analysis: *"Whatever you cannot match with numbers should not be done. There is no way your instincts will just guide you through business life successfully. No chance. — it's easy to say with intuition that we can get a good business out of this. But in all the realities, it has to be justified through Excel. That's really important. You can't just trust intuition; you have to be realistic. If you don't do this, you're lost, there's no chance you can succeed in business life." – the Board Member*

Company Y's approach to decision-making incorporates analytical tools like PowerBI to process and data. According to the Business Controller these tools are crucial for the company to formulate marketing strategies and manage promotional campaigns, ensuring alignment with customer behaviour and preferences.

"For example, when we have a lot of campaigns, we measure and analyse them. We will see how these campaigns performed. Whenever that campaign is over, it is then analysed, because it is very important to know what needs to be done, what are their results, has it brought more customer flow and how useful has it been. If a customer were part of the customer group, have they become even more active through this campaign. We analyse stock and purchase behaviour in connection with many of our marketing campaigns, perhaps on a larger scale." - the Business Controller

According to the Business Controller they do not necessarily use balanced scorecard on a regular basis. However, in yearly management and board meetings they go through a comprehensive set of metrics that are similar to balanced scorecard.

"No, but on a larger scale, we do look at all perspectives. — So that we usually have such strategic meetings towards the end of the summer for our management team and the board, where these aspects of these dimensions are reviewed in more detail and then the financial department analyses it. But I couldn't say that this would be something that would be looked at on a monthly basis. I would say that it is involved in the company's operations and directs the operations, but in daily operational work, it is not the kind of metric I use for my work." – the Business Controller

Company Y has quite a similar view with Company X on to using intuition to guide business decision-making. They do seem to emphasize more spontaneity in certain decision-making scenarios, particularly when quick action is required or when operational decisions do not necessitate extensive analysis. However, for more significant decisions that involve substantial financial implications, they rely on calculated assessments and reports to guide their choices.

"Sometimes we have to make quick decisions. For example, the turnover of employees is quite high because we have a lot of young employees, and our recruitment process is quite time-consuming and burdens HR a lot. We had this "speed dating" recruiting event which we set up spontaneously, with intuition. We were surprised how popular this event was. — If there is such a quick decision that can be made without much analysis, we have also had such spontaneous decisions. — We have a lot of spontaneous decision-making, but all bigger decisions that involve more business and money are usually based on calculations and reports." – the Business Controller

4.5 Adoption of management accounting methods

For Company X's practicality and clarity is an important factor in the choice of management accounting methods. According to the Board Member the complexity of their business, which spans production, brand management, retail, and e-commerce, requires straightforward methods. When asked about balanced scorecard the representative from Company X articulated, " I don't use that, not even in any of the board meetings." Also, the introduction of a balanced scorecard is seen as potentially overwhelming for board members, who are also company owners and may need significant time to adapt.

"When I prepare the meetings, I need to be really clear on each of the subjects. If I take this balanced scorecard, it will probably, in the beginning, require a lot of time for all the other board members to adapt to it. They expect others to operate the business. And if you come up with more complicated scorecards, then it will cost time and confuse people in the beginning. " - the Board Member

The Board Member points out that management accounting methods are primarily used to guide operations: "there isn't pretty much anything that the accounting can do for you in real economy other than showing how well you've performed.".

In Company X there is a reluctance to complicate the decision-making process unnecessarily, trusting that the current level of KPIs and accounting methods suffices. *"We don't increase our management accounting methods. I think they are they are at a sufficient level today. We're not lacking any KPIs. We're not lacking any information for decision-making; we don't lack any of those to succeed in our in our work. We don't lack any information as such or accounting methods to operate the company successful" - the Board Member*

When discussing decision-making, Company X emphasizes the adequate level of KPIs, and information derived from accounting as critical. However, they also recognize that having numerous KPIs does not inherently enhance the reality of business outcomes:

"In order to improve our decision-making. You can't take decisions without a sufficient level of KPIs and information and derive it from accounting. However, it's also clear that once you are using your 30 to 40 KPIs then the reality doesn't improve by staring at them more. You also need to just take a decision and believe that it will carry you through and that it was the right one to take." - the Board Member

At Company Y, while open to evolving their tools in response to significant business changes or increased resources, they feel no current need to expand their methods. The Business Controller expresses contentment with their current suite of management tools: "We have quite good strategic management tools that we use. They are quite clear." Despite this satisfaction, they noted that the primary barrier to expanding the use of management accounting methods is a lack of resources: "If there was much more resources and time, then of course, we could add more, but in this situation, unfortunately, there is not."

4.6 Lifecycle perspective

Management accounting methods at Company X are already well-established and developed over the years. Currently, the company's focus is not in enhancing their systems but more in driving sales. *"Just for now, because, I mean, the company was established a long time ago. We're quite proficient in the activities that we do. Our biggest challenges are not in management accounting or cost accounting. Our biggest challenges are more on how to activate customers, how to attract more people* *into the stores, basically how to generate more store traffic. So, our needs are not managerial, they are more needs like marketing and sales needs, which we are focused on now." - the Board Member*

At Company Y, the representative noted a short-term stability with some advancements in recent years: *"I have been with the company for over five years, and the main methods are quite the same. However, in the last couple of years, some new methods and particularly tools that help us generate various reports have become more precise and better. We have more tools which have helped in making analyses, which has refined our management accounting methods. One example is the inventory. Tracking it and analysing purchase prices have refined our pricing methods. Most recently, customer loyalty accounting and tracking have developed and become more precise, giving us a better understanding of how much and what products our regular customers purchase" – the Business Controller*

The methods have become more established, and their application has become more formal than before. According to the representative the methods used are established, and their use is regular. The Business Controller concluded: *"The goal is always to improve and streamline operations but considering resources. In summary, I believe that the use of methods has evolved positively with the company's development, and the tools, i.e., reporting systems, have thus improved, becoming more transparent and reliable."*

5 Discussion and conclusions

This chapter synthesizes the empirical findings and compares these results with existing literature to address the central research questions. The study is concluded by summarizing relevant findings and discussing limitations and future research directions.

The aim of this study was to answer the following research questions:
(Q1) How management accounting methods are used and implemented in the context of SMEs, and to what extent these methods are employed for strategic reasons?
(Q2) How the use of management accounting methods supports strategic processes in SME context?
(Q3) What motivates or drives the adoption of specific management accounting techniques within SMEs?

The empirical findings from the interviews with Company X and Company Y, along with insights from the literature, reveal the multifaceted use of management accounting methods within SMEs. The published data highlight that management accounting methods are vital for SMEs for aiding decision-making and strategic planning (Bhimani et al., 2015; Horngren et al., 2013). Consistent with the literature, both companies demonstrate strategic use of these methods, although in varied capacities and different focuses.

Company X employs management accounting mainly for operational efficiency as well as monitoring the performance of strategic initiatives. Company X uses KPIs to control diverse business units effectively, which aligns with literature that sees management accounting as crucial for supporting strategic processes by providing information necessary for performance evaluation and strategic alignment (Guilding et al., 2000; Langfield-Smith, 1997). This is seen also, for example, in the linkages in benchmarking for pricing, location, and customer strategies, the "freshness calculation" for product strategy etc. Company X seems to be motivated by their strategy to maintain a competitive edge and need for operational efficiency, which reflects a strategic orientation towards using comprehensive management accounting systems. SMEs, especially at different lifecycle stages, may prioritize management accounting differently (Moores & Yuen, 2001; Pasch, 2019). Differences in focus align with findings from Company Y, as they have a developing approach focused mainly on operational support and regulatory compliance. Both companies, however, acknowledge the indirect strategic benefits through operational support, such as tracking sales.

Company Y integrates some management accounting methods with strategic initiatives, particularly evident in their use of customer-related strategies such as NPS and employee focused strategies through monitoring employee survey metrics. Interviews suggest that while Company Y attempts to align management accounting systems with strategic and operational goals, this integration is not yet fully defined or optimized. Although they are currently focused on more operationally oriented methods, strategy remains a common underlying theme. This observation suggests that the connection between management accounting methods and strategy within Company Y is still evolving and has not yet fully established state. This indicates that the application of these methods within the company may still be under development, lacking clarity and full integration into their strategic framework.

This study further explores how lifecycle stages influence the adoption and refinement of management accounting methods. Company X, being at more mature stage, integrates established and extensive use of management accounting methods, like benchmarking, capital and operational expenditure calculations and cost-benefit analysis as well as more extensive use of KPIs. Which is further supported by findings in the literature that, especially, benchmarking, and integrated performance measurement are the strategic management accounting methods that significantly increase in importance from the birth to the revival stages of a firm (Pasch, 2019). Conversely, Company Y demonstrates a still evolving use of management accounting methods as it has in recent years progressively formalized and expanded its use of management accounting techniques. This is typical to less mature companies and in line with the findings that lifecycle affects, especially, the formality and refinement of management accounting systems (Moores & Yuen, 2001; Pasch, 2019).

Also, for example, cost accounting is used significantly more in Company X while in Company Y they did not get much emphasis. This further supports Pasch (2019) findings, that the importance of costing systems tends to grow as the lifecycle stages evolve, with these methods becoming more used in later development stages and less significant during the early phases of a firm's lifecycle. Company X finds cost accounting an important method for maximizing profitability by eliminating unnecessary costs, aligning with the literature that use of management accounting methods support strategic processes in SMEs by helping manage resources more effectively (López & Hiebl, 2015).

SMEs often encounter challenges in applying more complex methods, and despite their importance for strategy, they tend to prefer traditional or simpler methods (Broccardo, 2014). The motivations for adopting specific management accounting techniques are largely influenced by perceived benefits, resources, and organizational needs. Company Y faces resource constraints that limit its use of management accounting methods to a level below their desired level, indicating a misalignment between potential benefits and the perceived costs, particularly evident in their lack of interest in regular benchmarking. These findings from SMEs in the literature do not fully align with the empirical observations from Company X, which employs an elaborate range of management accounting methods, not just simple ones. This difference highlights the issue in research which tends to generalize SMEs, and often neglects the variations within the SME category itself, such as differences in size or lifecycle-stage. Furthermore, in Company X, the introduction of balanced scorecard was considered potentially overwhelming for board members consisting of family members owning the firm. This observation reinforces the idea that the choice of management accounting methods is complex, as numerous factors influence not only SMEs in general but specific factors within SMEs.

Research by Mozaheb et al. (2015) shows that many firms do not fully understand their customers, and they recommend that SMEs adopt management tools to better integrate customer data, as this focus can enhance performance and competitive positioning. Company X follows behavior of customers, potential customers, and customer turnovers, while Company Y monitors customer feedback through NPS scores. Both companies see the importance in these methods to control and guide their initiatives, in line with their customer-oriented strategies.

Both companies consider customer perspectives central to their strategy, though in different ways. Company X integrates customer preferences into strategic decisions, aligning with the customer-centric strategies discussed by Chenhall & Langfield-Smith (1998) and (Matsuoka, 2020). In contrast, Company Y's focus is more on creating a positive customer and employee experience, aligning with insights from Holm et al. (2016), who noted the importance of customer relationship management in enhancing performance. Incorporating a customer perspective to strategy, Company Y emphasizes customer experience and satisfaction, which influences its selective use of management accounting methods focusing on customer metrics like sales and feedback. Company X, while also customer-oriented, uses more comprehensive methods to ensure customer needs are met across various operational facets, from product offerings to service delivery.

Eggers et al. (2013) suggested that in dynamic markets, a customer-led approach may not confer competitive advantages due to insufficient innovation for rapid changes, while it remains effective in stable settings. This suggests that the balance between customer focus and entrepreneurial orientation should adapt to specific industry and market conditions, which could explain the indications from the interviews. As Company X operates in a relatively stable industry, due to its maturity, this stability supports their customer-oriented approach, which proves effective in such an environment. Conversely, Company Y, a business in an earlier stage of its lifecycle and thus more dynamic market, adopts a more entrepreneurial orientation, emphasizing employee engagement and brand development.

To summarize, both studied SMEs implement management accounting methods to improve operational efficiency and support strategic decision-making. The adoption of such methods is largely influenced by perceived benefits, strategic orientations, and resource availability. The companies implement management accounting methods at different extents mostly due to different lifecycle stages and resource capacities. The company with larger resources and at a later lifecycle stage uses more complex methods to ensure competitiveness and operational efficiency, while the younger company with limited resources, is still developing its use of management accounting methods and focuses mainly on operational alignment. The findings are in line with organizational lifecycle theories on management accounting methods, as the adoption and refinement of methods were found to increase with maturity.

The study acknowledges limitations due to its reliance on a limited set of data from only two companies, which may not represent all SMEs. The qualitative data from the case study may limit the findings applicability for quantitative analysis in further applications. The research method and subjective interpretation of the qualitative data may have introduced several biases. Since this study focuses on Finnish SMEs, the findings may not be applicable to SMEs in other regions. Also, the scope and length of this study was restricted and for this reason relevant information may have been overlooked.

However, future research could supplement findings in this case study by conducting comprehensive qualitative research on the topic. Further studies could explore how different lifecycle stages influence the adoption of management accounting methods in SMEs. This could help define how use of methods evolve from startup phase through maturity and decline phases. Further studies could also investigate the effects of strategic orientations on the choice management accounting methods in SMEs. Investigating how SMEs, with significant resource constraints, can effectively improve and adapt their usage of management accounting methods could offer valuable insights for managers of

SMEs. Further studies could use a wider set of data to find similarities inside different sizes, strategic orientations, and lifecycle stages to build a clearer framework for the use of management accounting tools in SMEs. This could help managers find best ways to utilize these methods. Overall, this thesis enriches the understanding of how SMEs utilize management accounting methods in varied contexts, providing a foundation for further inquiry into the alignment of these practices with broader business strategies and operational needs.

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Figures

Figure 2: Panel A: Averages of adoption rates per SMA-category. (Pasch, 2019, p. 593). Pasch, T. (2019). Organizational lifecycle and strategic management accounting. *Journal of Accounting and Organizational Change*, *15*(4), 580–604. https://doi.org/10.1108/JAOC-10-2018-0108

Appendices

Appendix A: Case study interview questions

1. What are your responsibilities and roles in the firm and how much experience do you have in this industry or role?
2. Describe the company's activities and purpose.
3. Do you use strategy in guiding your business activities?
4. How do you / do you integrate strategic planning and objective-setting in your business operations?
5. Do you use budgeting? For which time horizon is it made?
6. Do you practice cost accounting?
7. Do you use key performance indicators (KPIs) or other performance measurements? What are your KPIs?
8. Do you do benchmarking?
9. Do you follow or analyse your competitors in other ways?
10. Do you use Balanced Scorecard?
11. Do you use any analysis methods for decision making?
12. Are there any other management accounting methods that you use that haven't been mentioned yet?
13. For what reasons do you use management accounting methods? Do you use them mainly for operational, strategic, or external/regulatory reasons?
14. Do management accounting practices align with and support your firm's strategic goals? In what ways?
15. Based on your personal experience, what are the key factors for increasing the use of management accounting methods, especially in the context of SMEs?
16. Do you find management accounting methods useful? Would you either increase or decrease their use and why?
17. Are there any other aspects of management accounting practices you think is important to mention?