

Saimaa University of Applied Sciences
Faculty of Business Administration, Lappeenranta
Double Degree (Bachelor)
International Business

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**Characteristics of management accounting in
small and medium-sized enterprises.
Case: Rantalinna Oy**

Thesis 2014

Abstract

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Small and medium-sized enterprises (SME) are more prone to failures than large organisations. Together with the dynamic times and complexity of business environment, management accounting as a decision support system that serves the management becomes increasingly important. The purpose of this study was to examine what management accounting in SMEs looks like. A goal was to analyse whether SMEs actually use management accounting and to which extent they apply it.

The information for the theoretical research was mainly gathered from academic books, scientific research papers and business journals. Some current figures were also collected from the Internet. The empirical part was a case study where qualitative research methods were being used to conduct a semi-structured interview with the hotel and restaurant manager of Rantalinna Oy.

The result of this study was that due to specific characteristics of SMEs they generally use management accounting to a smaller extent than large companies do and management accounting instruments are not as well developed. Rantalinna Oy in particular faces difficulties in applying operative instruments such as budgeting or variance analysis and mainly uses insufficiently developed strategic instruments.

Keywords: management accounting, controlling, SME, hospitality industry

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Appendix 1 Interview questions

Abbreviations

AIS	Accounting Information System
BSC	Balanced Scorecard
EC	European Commission
ERP	Enterprise Resource Planning
HOTREC	Hotels, Restaurants and Cafés
IT	Information Technology
MA	Management Accounting
MbO	Management by Objectives
MAS	Management Accounting System
MIS	Management Information System
MS	Microsoft
P&L	Profit and Loss Statement
R&D	Research and Development
SME	Small and medium-sized enterprise

1 Introduction

1.1 Background of the study

Nowadays, companies increasingly face numerous problems, which results from changing economic, social, ecological, political, and technical requirements. Some examples of these new challenges are a general raw material and energy shortage, an increased awareness of the environment, shorter product life cycles or tough and internationalised competitive environment. Thereby it is not only the fact of changing environments, but rather the pace of change and the simultaneous appearance of several factors which cause the difficulties for companies today. (Kosmider 1994, p. 1.)

As a result of the increasing discontinuity, dynamic times and complexity of the business environment, the number of parameters to be considered for decision-making are constantly rising. To be able to keep up with the environmental changes, but also to benefit from the opportunities that arise, there are greater demands being placed on small and medium-sized companies. In addition, the advancing intrinsic complexity of the companies itself put an increased demand on the management. The resulting complexity of growing business units requires a delegation of managerial functions and calls at the same time for planning, information and control mechanisms to address the enhanced coordination of problems in the business process. These are the reasons why management accounting (MA) is required nowadays. To cope with this growing complexity, MA as a management instrument experienced an intense spreading in the business practice within the last couple of years. This circumstance is equally relevant for large and small businesses. However, in recent years it became evident that especially SMEs do not react to that situation and management instruments are not being used or used only to a small extent. (Kosmider 1994, pp. 1-2, Klett & Pivernetz 2014, p. 4.) Even though SMEs make up the vast majority of the business population in the European Union and contribute two-thirds to the European employment, research about management accounting in SMEs has rather been neglected in the years before 2000. Since then, more and more literature about that topic has emerged. However, results stay fragmented to a great extent and no overall

representative image of MA aspects in SMEs has yet appeared. This might be due to the fact that findings on the topic have so far concentrated primarily on studies from particular regions of the world or on particular techniques of MA. (López & Hiebl 2014, p. 2.) Based on this deficit and the unquestionable high value of SMEs for the economic development, a detailed empirical analysis of management accounting in SMEs appears to be necessary.

Besides, it became apparent that most of the time, mistakes made by the managers are responsible for business bankruptcy. These mistakes consist only of responses instead of actions to the daily business. That means that the companies' operational activities take up a lot of time, with the result that there is no more time for future oriented management and thus support in decision-making. (Ederer 2005, p. 130.) In addition, SMEs are less capable to cope with wrong decisions made by the management, which is due to the low financial puffer SMEs usually have (Kosmider 1994, p. 49). What is missing here is MA to support the managers of SMEs in their decision-making processes.

1.2 Objectives and research questions

The objective of this study is to detect the main characteristics of management accounting in SMEs. A goal is to examine whether SMEs actually use MA and to which extent they do it. The purpose of the research is to gain an understanding of how MA in small and medium-sized enterprises works.

In particular, this thesis examines the following research questions, which are based on the objectives outlined above:

1. What are the main characteristics of management accounting in small and medium-sized enterprises?
2. If the theory is compared with the practice, are the results consistent with each other?

1.3 Delimitations

The topic of this thesis examines MA in small and medium-sized companies. Large-scale enterprises will not be approached and might only be mentioned for comparison purposes. As MA is primarily forward-looking, financial accountancy

analysing past figures is only kept to a minimum in this analysis. Furthermore, this thesis focuses on MA and cost accounting is mentioned only to a small extent. However, it has to be mentioned that both, financial accounting and cost accounting, are part of MA. That means it will be referred to them as important parts of management accounting, but it is not exclusively explained what these accounting types are about and there will not be too much details about them. In addition, the topic is not limited to a certain country, but mainly focuses on the European Union, as MA seen on a global scale is not overall applicable. Furthermore, this thesis will not take corporate governance into account, even though it has a high influence on MA. Corporate governance and management accounting together would extend the topic in a way it could not be addressed in a bachelor thesis. Moreover, this research paper will not cover how to implement MA or concrete plans how to develop management accounting, as this would go beyond the constraints of this thesis.

1.4 Limitations

A limitation of this study is that it compares the current situation of management accounting in SMEs only with the aid of one company. Therefore, it is questionable how representative the results, reliability and validity of the empirical analysis are. Furthermore, all industries are considered applicable. However, there are certain characteristics that might affect and influence the respective industries concerning the status and use of MA. In addition, it cannot be guaranteed that the results gathered from the hotel industry can be transferred to other industries. Another limitation is that there might be differences within the various European countries regarding the importance and progress of MA, which is not considered in that study, but might provide avenues for further research.

1.5 Theoretical framework

The theoretical framework is predominately based on the Contingency Theory of MA. The theory suggests that there is no overall suitable management accounting system (MAS). Instead, the correct choice of management

accounting systems depends on the respective circumstances or contingencies. (Otley 1980, p. 413.)

Furthermore, MA seeks to change employee's behaviour, as it aims at conducting business more efficiently. That means management accounting helps managers to identify problems and solve those. Therefore, a theoretical foundation explaining the behavioural aspects of employees is necessary to use MA successfully. In conclusion, the Behavioural Based Approach of Control is another theoretical framework for this thesis. (Hutzschenreuter 2009, pp. 63-65.) A combined version of these two theories will be applied to connect the existing knowledge to the topic of this thesis.

1.6 Research method

For the theoretical framework of this thesis about MA in small and medium-sized enterprises information was gathered from academic books, scientific research papers and business journals. Some data also was collected from the Internet such as current figures of the European Commission about SMEs.

The empirical part is a case study where qualitative research methods were used to conduct a focused interview. The method was chosen due to the objective of this study. The data collection method for the empirical part is the analysis of a semi-structured interview with the manager of the case company Rantalinna. The goal of the qualitative approach was to explore the view and insight of the interviewee by letting her talk so that common patterns of theory and practice can be found. Therefore, certain assumptions for MA in SMEs will be defined in the theory part as a basis for the comparison.

1.7 Case company: Rantalinna Oy

Rantalinna Oy is a small 4-star hotel and restaurant at the shore of Saimaa Lake in Ruokolahti. Rantalinna was founded in 2012 and currently employs four full-time and four part-time employees. Their annual sales in 2013 were 166.000 euros. The hotel has 14 rooms and is a historic castle in the Art Nouveau style. It was built in 1912 and was the summer residence of Prince Alexander of Oldenburg. On the first floor of the castle is the restaurant. It can host up to 70

people and has a large banquet room for big events or cosy rooms for dining in private. The company also offers the possibility to arrange meetings and events at their venue. Moreover, Rantalinna has a bath complex including a lakeside sauna and a barbecue for 45 people. Another source of revenues for the hotel is their luxury lakeside cottage, which can be rented with all possible amenities. Furthermore, Rantalinna offers indoor and outdoor leisure activities for their guests during all seasons.

1.8 Structure of the study

A logical order of the thesis is required to address the research questions and to answer the objectives. Therefore, the structure has four main parts, which are presented in Figure 1.

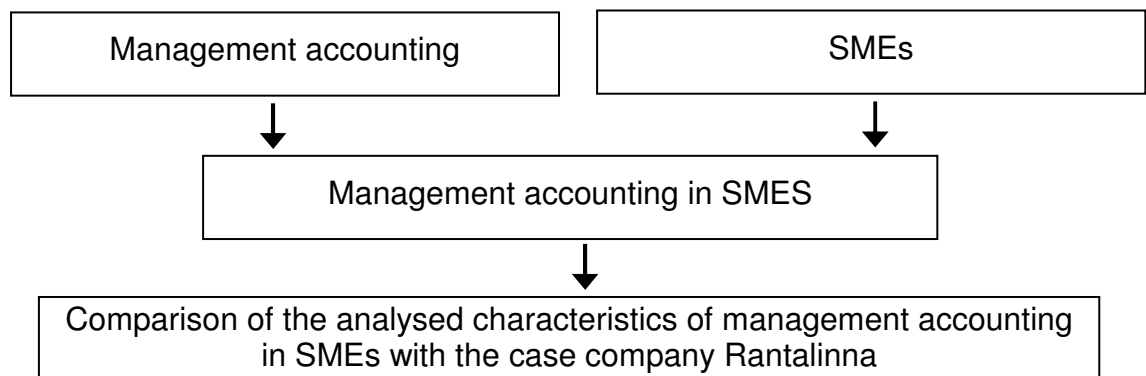


Figure 1. Study structure

The first three parts after the introduction chapter discuss the theoretical framework of the study. The first of these chapters explains the term management accounting as well as the key concept, scope, instruments, and limitations of it. The chapter finishes with the contingency theory and the behavioural management accounting approach. The definition of SMEs, their economic relevance, and typical characteristics of these enterprises are shown in the following chapter. The third part addresses the main content of the study and deals with the characteristics of management accounting in SMEs. Recent research papers particularly attributed to SMEs have been analysed. These papers help to identify the correct form and staff for MA. The instruments SMEs are using and the problems they are facing are highlighted as well. In the end, hypotheses are formulated, which will help to evaluate the empirical analysis. The fifth chapter gives an impression of MA in the hotel industry, specifies the

research design and the collection of the empirical data. Finally, the analysed characteristics for SMEs using management accounting are compared to Rantalinna's daily operations in the hotel and restaurant management. It will be figured out if Rantalinna considers the same elements as important as this thesis has identified them to be when it comes to MA. The thesis closes with a summary of the overall study and its findings.

2 Management accounting

This chapter focuses on management accounting. Section 2.1 explains what management accounting means and section 2.2 outlines the key concept of MA. The subsequent section 2.3 gives information about the respective extent. Section 2.4 presents operative and strategic instruments MA benefits from and section 2.5 describes certain limitations of MA. Finally, the last two sections address the contingency theory and behavioural management accounting, which have an essential impact on MA.

2.1 Definition of management accounting

The following chapter firstly determines what management accounting is and secondly emphasises certain characteristics of MA.

Management accounting deals with the provision of financial and non-financial information for the management to ensure an efficient and successful performance of an organisation (Madegowda 2007, pp. 2-3). MA identifies, measures, analyses and accumulates accounting information, which is communicated to the management who in turn plans, evaluates and controls the company's resources (Arora 2009a, pp. 1.8-1.9). It is a decision support system that serves the management at all levels (Granlund & Lukka 1998, p. 194) and can be regarded as a value-adding continuous improvement process (Ederer 2005, p. 132). In general, it can be said that MA enables organisations to receive precise information about changes within individual departments and their effects on other departments and the organisation as a whole (Posluschny 2010, pp. 6-7). MA detects problems at an early stage, enables the management to make better business decisions, increases the overall

performance as well as advances the planning and controlling process and helps to solve problems (Byrne & Pierce 2007, p. 484). The main objective of MA is therefore to provide high-value information about the company to facilitate decision-making for the management (Schmid-Gundram 2014, p. 7).

Statutory requirements. Even though MA is not obligatory under company law and tax laws, its usefulness makes it highly desirable to adopt it for an organisation. Furthermore, MA is not committed to any accounting standards. (Arora 2009a, p. 1.12.)

Past and future data. MA supplies a company with historical as well as future-related data. Even though it focuses on what is likely to happen in the future, MA uses past data for future projections. (Madegowda 2007, p. 5.)

Party to be served. MA primarily supports internal users (Arora 2009a, p. 1.11), however it may also satisfy requirements of external users such as banks (Klett & Pivernetz 2014, p. 5).

Status in organisation. Since MA is a service function for management, it is often integrated as an executive department with advisory vote, however, without any power to direct. MA is positioned immediately under the management in a company's hierarchy in order not to be subject of other departments' interest. (Ossadnik, Barklage & van Lengerich 2003, p. 21.)

Need for MA. There are many reasons why MA is needed nowadays. Not only because of the advancing complexity of managerial decisions, but also because relevant information is needed on time by the management to make the right decisions. In addition, companies are getting bigger and bigger and problems arising from this fact are inevitable. (Madegowda 2007, p. 4.)

Demands on MA. MA must satisfy several requirements. For example, there must be a regular availability of management accounting systems. This means the update of all information must be done with minimum time lag between incurring the latest information and its presentation. In addition, transparency and accuracy of management accounting systems are very important. Transparency means that the origin of the data must be traceable and accuracy

includes correctness, representativeness and precision of the data used. (Schmid-Gundram 2014, pp. 7-12.) Moreover, MA is required to be objective, complete and reliable (Leitner 2012, p. 36).

2.2 Key concept of management accounting

Management accounting is generally understood as a process that deals primarily with planning, aiding in decision-making, controlling and providing feedback to the planning unit (Arora 2009a, p. 1.13, Agrawal 2010, p. 8). The exact formation of the management process is illustrated in Figure 2.

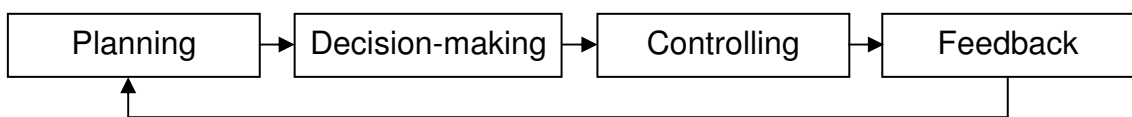


Figure 2. Management accounting process

Planning is the first step of the MA process and is characterised by three main features. According to Hahn (1985), planning involves the examination of the future, concrete and systematic checking of alternative opportunities for action as well as rational selection of an alternative for action. (Kosmider 1994, pp. 23-26.) Planning includes a systematic definition of targets and the need to meet them. It is important to achieve a company's objectives, systematic and positive economic development of the organisation as well as satisfaction of future-oriented information needs of external stakeholders. Planning is based on concrete business objectives (Klett & Pivernetz 2014, p. 5) and is done to comprehend business transactions and economic events, which might affect the company in the short- or long-term (Riahi-Belkaoui 2002, p. 2). MA prepares and submits necessary reports to the management for supporting them in the process of planning and forecasting. Therefore, MA uses techniques like budgeting, probability, standard costing, etc. (Arora 2009a, p. 1.10.)

Correct decision-making is essential for a company's business success. MA provides information for managers to make the best possible decisions (Leitner 2012, p. v). Decision-making will realise the planning phase (Kosmider 1994, pp. 23-26) and together with certain techniques, such as differential costing, marginal costing or discounted cash flow, MA is able to support decision-

making of the management for issues such as pricing of products, make-or-buy decisions, or discontinuance of specific products (Arora 2009a, p. 1.11).

Furthermore, MA supplies management with necessary information. In addition, MA does not only communicate information to managers but also controls the performance met with this provided information. (Leitner 2012, pp. 11-12.) Hence, MA controls the performance resulting from decision-making of the management with techniques like budgetary control, internal audit or control ratios (Arora 2009a, p. 1.10). The aim of controlling is to influence future behaviour or events (Berens, Pütke & Siemes 2005, p. 190). It is conducted by comparing actual with targeted figures. Controlling also detects the cause responsible for a bad performance. Therefore, the management is able to take corrective measures. (Madegowda 2007, p. 6.)

The identified variances in the target-actual comparisons are not only forwarded to the management, but also to the unit that did the planning (Madegowda 2007, p. 6). With this feedback, they are able to adjust their current targets to achieve fewer variances in the future and thus a more accurate operating result.

2.3 Scope of management accounting

The scope of MA is very comprehensive. Consequently, it covers not only financial and cost accounting, but also reporting to management, forecasting and budgeting, tax planning, procedures of cost control, internal control and audit as well as financial analysis and interpretation (Arora 2009a, p. 1.10) and statistical and quantitative techniques and tools (Madegowda 2007, p. 7).

Financial accounting. Although MA concentrates on what might happen in the future, it uses past and present data for future projections and thus mainly gets its information from cost accounting and financial accounting (Ossadnik et al. 2003, pp. 11-23). The latter supports the management by preparing a profit and loss statement (P&L) and a balance sheet to reveal the income and financial position of a company (Arora 2009a, pp. 1.10-1.12). However, since financial accounting creates historical data, it is only beneficial for aims of controlling and planning. Nevertheless, it is the foundation for further reports and functions as guidelines for the future. Even though MA and financial accounting differ from

each other and serve different parties, they are interrelated with each other. This means MA is not able to work properly without an appropriate financial accounting system. (Madegowda 2007, pp. 7-13.)

Cost accounting. Another important information source for MA is cost accounting, which advises the management how to do business in the most cost efficient way. It goes more into detail than financial accounting and is not restricted to the past. Cost accounting is mostly about determining different kinds of past and present costs of manufactured products or supplied services. (Arora 2009a, pp. 1.1-1.9.) Furthermore, it gives information about generated revenues. MA cannot exist without cost accounting, which is a necessity for the smooth functioning of it. (Madegowda 2007, pp. 7-13.)

Reporting. Management accounting aims to gather, analyse and record beneficial information to report the data to the respective managers for decision-making purposes (Leitner 2012, p. 11). Reporting to management takes place at all levels of management and to ensure successful decisions on time, there has to be an effective reporting system for MA (Arora 2009a, p. 1.10). Hereby, reports are being forwarded to the management identifying a company's successes and failures as well as weak and strong fields of business and advantageous and disadvantageous facets of the company. The management decides how often they want to receive reports, for example, once a year, every quarter of the year, monthly, etc. Managerial reports are usually not published, but only handed around within the company from manager to manager. (Madegowda 2007, pp. 7-12.)

Forecasting. The process of estimating what might happen in the future is called forecast and can therefore be seen as assessment of probabilities. This statement of likely events is supplied to the management before the preparation of budgets. (Arora 2009a, p. 11.2.) Together with budgeting, it supports MA in performing budgetary control. Forecasting and budgeting are very important to determine future business operations. (Arora 2009a, p. 1.10.)

Budgeting. Based on the pros and cons of forecasting, budgeting is the preparation of a comprehensive quantitative plan for a defined period of time in

the future. It is a financial plan of operations that an organisation aims to achieve during a certain period. (Madegowda 2007, pp. 416-417.)

Tax planning. With the help of tax accounting and planning an organisation can keep the amount of tax liabilities at an absolute minimum. This exploitation of tax policies are utterly within the law. (Arora 2009a, pp. 1.10-1.11.)

Cost control procedures. Factors like labour, overhead, budget, or inventory have to be controlled and thus cost control processes constitute an integral part of management accounting (Arora 2009a, p. 1.10).

Financial analysis and interpretation. Management accountants analyse, evaluate and interpret financial data in an easy way for the management to understand. As the managerial personnel may not be familiar with the technical language of the financial data, accountants put everything in a report, in which technical knowledge is not required, to give them an insight into the profitability, solvency, or liquidity of the company. (Madegowda 2007, p. 6.) This kind of analysis helps to comprehend the data and accomplish management objectives in an efficient way (Arora 2009a, p. 1.10).

Statistical and quantitative techniques. Several statistical and quantitative techniques are included in the scope of MA and are used to illustrate complex problems faced by a company. The different techniques are linear programming, regression analysis or sampling techniques, just to name a few. They help management accountants to provide the management with more accurate and helpful reports. (Madegowda 2007, p. 7.)

2.4 Instruments of management accounting

An organisation using MA usually benefits from different instruments to accomplish their objectives. The instruments can be divided into two categories in terms of their orientation in time and objectives. Thus, there are strategic and operative instruments. While strategic MA instruments cover especially the market and competitive positioning of the company's own organisation and reveal potentials for improvements, operative MA instruments work with operating targets like liquidity, profitability and efficiency. Thus, strategic

instruments are medium and long-term oriented, while operative instruments are based on a shorter time frame of maximum one year. (Posluschny 2010, p. 7.) Some typical instruments for each type are listed below.

Strategic instruments include strategic planning, vision and strategy formulation, shareholder value analysis, SWOT analysis, balanced scorecard, product life cycle analysis, weak point analysis, competitor analysis, gap analysis, investment controlling, portfolio analysis, scenario analysis, benchmarking, etc.

Operative instruments contain for example operative planning, budgeting, key performance indicators, ratio analysis, reporting, cash flow statement, contribution margin calculation, cost-volume-profit analysis, break-even analysis, cost-benefit analysis, activity based costing, analysis of overhead costs, variance analysis, which can also be referred to as target-actual comparison, etc.

2.5 Limitations of management accounting

Even though management accounting is a very beneficial management tool, there are some limitations. Nevertheless, nearly all of them can be eliminated if the managerial personnel can be convinced that MA is of essential need for a company. (Madegowda 2007, p. 15.)

Personal bias and missing objectivity. Prediction reports of management accountants and their interpretation of financial information are affected by their own opinion. Hence, there is a high probability that personal bias is involved in the analysis and conclusion of managerial reports, which might affect the decisions in the end. Therefore, the reports for the management are influenced by personal judgements of management accountants and thus are more subjective than objective. (Madegowda 2007, p. 15.)

High cost for installation and operation. A further limitation is that being a costly affair, MA might not be within the reach of all organisations, especially of small ones. Merely professionals, who in turn are quite expensive, are able to handle management accounting systems (Agrawal 2010, p. 7) and particularly

in the beginning, when a MAS is implemented, high costs will arise (Madegowda 2007, p. 15).

Dependency on financial and cost accounting. Another reason why there are limitations for MA is the fact that financial accounting and cost accounting essentially contribute to the data used for MA. All false or inaccurate information gathered from them cause significant impacts on the quality of reporting and thus on management decisions. Consequently, certain limitations of management accountants are a result of being dependent on cost and financial accounting for accurate information. (Madegowda 2007, p. 15.)

Wide scope. The boundary of MA can hardly be described since knowledge of financial accounting, cost accounting, economics, taxation, statistical techniques, mathematical programming, and quantitative techniques as well as different aspects of a company like manufacturing or marketing knowledge are required to establish a management accounting department. A missing expertise on these subjects might influence the quality of MA. (Madegowda 2007, p. 15, Arora 2009b, p. 1.9.)

Resistance. The effective implementation of MA depends on the willingness of the management to cooperate, as it includes essential modifications within a company, but also the position of the management towards detecting and solving a problem. Managerial personnel, who may look at MA as a needless disturbance of their daily activities, are reluctant towards change raised by management accountants. As a matter of fact, the department of financial accounting and cost accounting may also regard MA as an unnecessary tool that will add to their work and responsibilities. Hence, they will rather obstruct than support the implementation of it. (Madegowda 2007, pp. 15-16.) However, this also means that MA is not very helpful, if there is no backup in the organisation itself (Agrawal 2010, p. 7).

2.6 Contingency theory

This chapter explains the theory of contingencies and the effects on the implementation and scope of management accounting.

This theory assumes that there is no universally appropriate MAS that suits every situation; instead the contingency theory suggests that the correct choice of a MAS depends on the respective circumstances (Otley 1980, p. 413, Reid & Smith 2000, p. 428, Riahi-Belkaoui 2002, p. 139, Coombs, Hobbs & Jenkins 2005, p. 203).

Otley argues that the contingency theory is often used in the context of organisational and behavioural aspects of MA. However, the theory was originally developed to explain how certain factors influence the organisation in its entirety. Since its adoption to accounting literature before the mid-1970s, the contingency theory has linked particular features of MA with particular circumstances, assuming that organisation, structure and functions of a certain MAS depend on specific contextual variables. The model upon which the contingency theory is based is shown in Figure 3. The numerous propositions as investigated by Otley follow from one another in a linear manner. Several contingent variables are assumed to influence the organisational structure and a corresponding and well-suited accounting information system (AIS) will develop, which in turn leads to effective performance. (Otley 1980, pp. 419-420.)

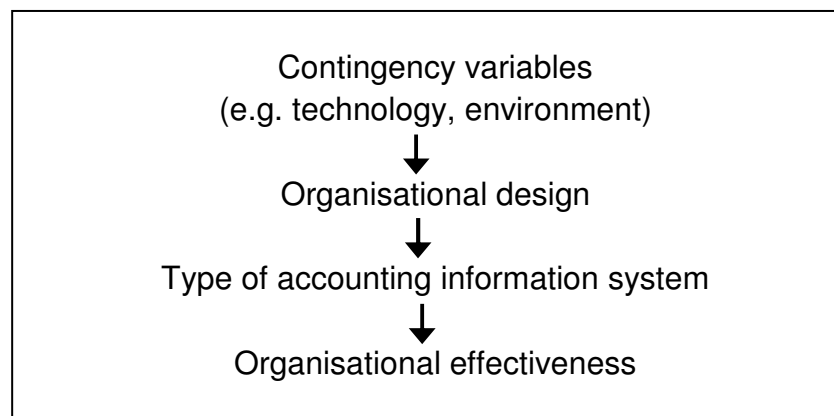


Figure 3. A simple linear framework for AIS design (Otley 1980, p. 420)

However, the organisational effectiveness depends on how well the MAS matches the environment in which it operates (Coombs et al. 2005, p. 203).

There are several circumstances that shape the form of management accounting systems. The size of a company is a typical contingency factor in organisational research (Flacke & Segbers 2005, p. 2, Hutzschenreuter 2009, p.

58). Complexity of operations is also an important contingent variable (Otley 1980, p. 423) as well as technology, organisational structure and environment (Otley 1980, p. 414, Riahi-Belkaoui 2002, p. 139, Flacke & Segbers 2005, p. 2). Furthermore, the contingency theory considers the effects of particular internal and external factors like management style, competitive strategy (Reid & Smith 2000, pp. 427-430), strategic orientation, national culture, and IT development (Flacke & Segbers 2005, p. 2). All these contextual factors significantly contribute to explain the large range of structures, sophistication and use of instruments of MAS observed in practice. For example, an intense business competition is a factor that increases the usage of management accounting systems (Reid & Smith 2000, p. 443) as it generates a higher necessity for information (López & Hiebl 2014, p. 17). In this context, the application of MA does not always depend on the company size, but also on environmental aspects such as the strong competitive surrounding in the hospitality industry. This circumstance creates a rising need for cost reduction (Gewald 2001, p. 1) and thus not only large hotels but also almost all small and medium-sized hotels work with cost accounting (López & Hiebl 2014, p. 15). Moreover, Burns and Waterhouse (1975) discovered that setting up budgets is influenced by organisational independence, level of hierarchies and environmental business uncertainty (Reid & Smith 2000, p. 429).

All these factors generally affect companies of all sizes; however, specific characteristics of SMEs are not included in the contingency theory. These types of companies are often strongly influenced by the owner. Jensen and Meckling (1976) found that SMEs therefore do not show the standard incentive problem, which usually exists between the owner and manager in a large-scale company. Hence, together with the fact of being a small or medium-sized firm, the owner has a high influence on all decisions being made. Therefore, the entrepreneur has a strong effect on the usage of MA within the SME and the design of MAS is attributable to his or her character. (Flacke & Segbers 2005, p. 1.) Reid and Smith identified also other contingencies that might cause either an introduction or a further development of MAS in small and medium-sized firms. The major pressure for change can be caused if a SME suffers from cash flow crises, experience shortfalls of finance or innovation and thus growth in sales. These

contingencies could be considered long- or short-term crises that encourage SMEs to develop more sophisticated management accounting systems because they must reduce costs. (Reid & Smith 2000, pp. 423-443.) Other influential key events in the life of a SME could be a change in the organisational structure like an introduction of a new level of management that increases the use of MA or missing skilled management accountants (Mitchell & Reid 2000, pp. 386-387). Still another key event could be a decline in economic activity, which in turn has a negative influence on the intensity of MA (López & Hiebl 2014, p. 18).

In summary, there are various circumstances that cause a higher utilisation of management accounting systems in SMEs, including poor performance, growth, competition and increasing complexity of business processes or organisational structures. In contrast, lack of resources and economic crisis are negatively influencing the level of MA usage in SMEs. In addition, the identity of ownership considerably influences the utilisation of MA. SMEs are organisations that need sensitive management to satisfy and balance internal needs and to adapt to environmental circumstances. There is no best way of organising, but the best form depends on the kind of task or environment a SME is dealing with. Different types of MA are required in different types of environments.

2.7 Behavioural management accounting

For this study, an appropriate theoretical framework was chosen in order to explain and change employees' behaviour towards a more proper management accounting. Since MA works in a behavioural environment affected by the behaviour of management accountants as provider of information, managers as the internal users of this information react as desired by management accountants. Awareness of these manners conduces to success and efficiency of MA in serving the objectives of the company.

With behavioural accounting, a direction of MA has been established, which puts human action and behaviour in the focus of attention to explain the effects of accounting information on it and derive predictions about behavioural effects. In the end, it should foster the correct design of management accounting

systems. (Gillenkirch & Arnold 2008, pp. 128-134.) Behavioural MA detects and reduces problems of motivation and deficits in rationality of the management. Thus, it incorporates psychological and sociological findings and methods. (Hirsch 2007, p. 262.) The goal is to direct managers' actions and behaviour towards the corporate objectives of the respective organisation (Gillenkirch & Arnold 2008, pp. 128-134, Landes & Steiner 2013, p. 673). Therefore, MA as a system to control behaviour has to be adjusted to the various characteristics that form individuals within a company and affect their performance (Riahi-Belkaoui 2002, p. 18).

In addition, MA requires a good comprehension of motivation theories to understand how individuals react in certain situations and to modify MA accordingly. For example, an adaption of MA is needed if the organisation seeks to increase the shareholder wealth by maximising yield and determining earnings objectively before the financial situation is represented to the owner. This is done because the owner or manager can elect the respective management accountants and may not be satisfied with the real numbers. Hence, budgeting and control standards have to be implemented for MA purposes. On the contrary, management accountants might not merely want to maximise the wealth of the shareholders but rather their own welfare. They work towards their own benefits and do not follow the objective of the owner, which is usually a maximisation of the profit. In this case, the persons performing MA rather want to increase sales or growth rates as they are being paid according to these met targets. (Riahi-Belkaoui 2002, pp. 18-20.)

Atkinson, Kaplan and Young found out that if the performance of employees is measured according to achieved targets, the behaviour of them would change. Employees respond to that pressure by concentrating merely on the measured variable and neglect the factors not being measured. Thus, management accountants may perform in an unexpected and undesirable way. (Atkinson, Kaplan & Young 2004, p. 18.) Consequently, control standards and budgeting is accepted to a lesser extent in order to manipulate the disclosure of the company's financial situation in the most favourable way for the management accountant. Therefore, MA needs to set up correct and realistic goals and

targets. A maximisation of welfare might also be demanded by the surrounding pressure of a company and the individual interest groups. Therefore, environmental, social and human issues have to be included in the company's objectives and social reporting is needed by management for adequate decision-making. (Riahi-Belkaoui 2002, pp. 20-23.)

In addition, there is a desire of employees to be challenged and to be creative. Most people do not want to stagnate or get bored at work but rather achieve something. Here, certain MA techniques need to be introduced to encourage and facilitate the performance of these highly motivated people. Besides, in an organisation there is always the risk that employees feel disadvantaged when it comes to rewards. MA has to reduce conflict by ensuring precise and exact measurement for a fair and equitable reward system. (Riahi-Belkaoui 2002, pp. 26-27.)

To sum up, as irrationality in an organisation has to be avoided, institutions have to be created. These include a system of rules and guidelines, which controls behaviour in accordance with the corporate objectives of SMEs. In this context, MA itself is such an institution, which incorporates rules for decision-making, course of action, processes, information sharing and controlling of these rules. (Landes & Steiner 2013, p. 673.)

Using two theoretical frameworks in an integrated way allows this study to deal with the characteristics of MA and to derive hypotheses for aspects of successful management accounting in SMEs. Both theories are valuable especially in their combination, as they both cover rich areas of management accounting and together they form the conceptual underpinning of this thesis.

3 Small and medium-sized enterprises

This chapter provides an understanding of small and medium-sized companies and therefore section 3.1 gives the official definition of these company types. Their contribution to the economy is elaborated in section 3.2 and how they can be characterised is shown in section 3.3, wherein SMEs are differentiated between quantitative and qualitative characteristics.

3.1 Definition of SMEs

As this thesis is not limited to a certain country, the most suitable definition of a SME is the one from the European Commission (EC) of the year 2005. According to the EC, SMEs can be divided into three categories: micro, small, and medium-sized companies. A micro company employs less than 10 people, while the turnover or the total balance sheet cannot exceed 2 million euros. A small company engages less than 50 employees and has a turnover or total balance sheet up to 10 million euros. A medium-sized company in comparison employs up to 250 employees while having a turnover up to 50 million euros and a balance sheet up to 43 million euros. Table 1 provides a good overview to determine what a micro, small and medium-sized company is.

Enterprise category	Number of employees	Annual turnover	Annual balance sheet
Micro	< 10	≤ 2 million euro	≤ 2 million euro
Small	< 50	≤10 million euro	≤10 million euro
Medium-sized	< 250	≤ 50 million euro	≤ 43 million euro

Table 1. Definition of SME (European Commission 2005)

Summarized, SMEs employ between 1 and 250 people and make turnovers less than 50 million euros or have a balance sheet total up to 43 million euros.

3.2 Economic relevance of SMEs

Daily news reports give the impression that the European economy is mainly controlled by large-scale enterprises. The news is full of expansion plans of global enterprises or spectacular bankruptcies of multinational companies. However, most of the people following the news do not know that over 99% of all European companies are actually SMEs. SMEs are said to be the motor of the European economy. They significantly contribute to the economic growth and wealth, and are responsible for new R&D and innovations. SMEs generate two-thirds of the private sector jobs and add a great amount to the total value-added created by businesses in the EU.

In 2013, there have been 21.6 million SMEs in the European Union (EU28) employing around 88.8 million people. This implies that SMEs provided 66.8%

of all European jobs in 2013. In addition, all European SMEs that do not belong to the financial economy sector are responsible for 58.1% of the gross value added for that year. (Muller, Gagliardi, Caliandro, Bohn & Klitou 2014, p. 14.) SMEs are also important when it comes to economic issues of welfare. Small and medium-sized companies do not only generate a lot of jobs, they also support competition on the merit, broad diversification of services, and avoidance of concentration of power. Due to their high adaptability, they compensate aggregated demand fluctuations and spread structural and economic risks. (Ossadnik et al. 2003, p. 8.) All in all it is obvious that SMEs play an important role in the European economy.

3.3 Characteristics of SMEs

This chapter deals with quantitative and qualitative characteristics illustrating the nature of small and medium-sized companies.

Despite the political and social importance of SMEs, the reflection of their characteristics and specific challenges have earlier remained rather low in economic research. For a long period of time, the content and issues of business administration had been following the model of large companies. Examining and writing typical challenges of SMEs had been almost entirely omitted. This has changed in the last two decades. Step by step, it was recognised that SMEs should not be considered as mere miniature versions of large-scale enterprises. Due to their inherent characteristics, they operate and behave in a manner different from that of large organisations. There is now a growing awareness that the management, and thus management accounting in SMEs requires a specific instrument, which is customised to meet the requirements and challenges of SMEs. (Reinemann 2011, p. 1.) To respond to these needs, the individual characteristics of SMEs should be pointed out first.

Quantitative characteristics

The definition of SMEs is usually based on quantitative and qualitative characteristics. In the field of quantitative characteristics headcount and annual sales as illustrated in chapter 3.1 are being used as criteria to differentiate between SMEs and large companies. (Kosmider 1994, pp. 33-34.) In addition,

the European Union (2005) applies besides staff headcount and annual turnover another criterion. They detected the annual balance sheet to be very helpful for the determination and verification of an enterprise.

Qualitative characteristics

SMEs also can be classified by a number of qualitative aspects and characteristics based on the size of the company. However, these aspects cannot sufficiently be transferred to all SMEs due to their heterogeneity in practice. (Krämer 2003, pp. 8-9.) The main aspects to identify a SME are presented subsequently.

Ownership. The entrepreneur and owner of a SME is often also the manager of the company. This often leads to permanent intervention from the owner. Consequently, the company is characterized by the sense of responsibility of the owner who bears all the risks of an entrepreneur. The owner's livelihood is influenced by the continuity and economic success of the company (Kosmider 1994, p. 31). The owners usually supply the organisation with the majority of capital needed for business operations and thus are heavily involved with personal assets (Nandan 2010, p. 69). According to Pichler (1997), owners, who act at the same time as managers in their company, are often emotionally involved, which can result in an accumulation of decision-making authority or deficiencies in decision processes (Hutzschenreuter 2009, p. 61). Hence, a plenitude of power can arise and venturous decisions as well as mistakes can be encouraged (Ossadnik et al. 2003, pp. 5-6).

Patriarchal leadership style. According to Freiling, the close ties among ownership and management in SMEs have strongly influenced the leadership style in those companies (Freiling 1980, pp. 19-20). SMEs are rarely belonging to a group; instead, they are often family-owned and owner-operated. This also explains the value conservative and patriarchal leadership style that is often associated with SMEs (Haufe Akademie 2007, p. 8). Staehle (1999) argues that the owner as a patriarch is committed to loyalty and care towards his or her employees and expects faithfulness, gratitude, loyalty, and obedience in return. Group decisions or delegating decisions play a secondary role in SMEs. (Ossadnik et al. 2003, p. 5.) These characteristics may seem to be stereotyped,

and of course, they cannot reflect the total heterogeneity of SMEs. However, SMEs are still characterised by a more traditional structure according to the aspects mentioned in this chapter. (Reinemann 2011, p. 17.)

Insufficient management skills. Mistakes made by the manager are often caused by missing business competence training. Hence, wrong decisions are based on organisational and conceptual deficits. (Keuper et al. 2009, p. 61.) Economic thinking and its implementation in the form of instruments and structures at the management level are often identified only after striving for technical perfection (Ossadnik et al. 2003, p. 5). Günzel (1975) shows that although the qualification of management is crucial for the performance of a company, management training and education in SMEs are only thought to be of secondary importance. As a result, there are often poor management skills in SMEs and gaps in knowledge of the business. (Kosmider 1994, p. 41.)

Low equity ratio. Another typical characteristic of SMEs is the fact that they usually have a low equity ratio and return on sales, and an extremely slight return on capital employed. The circumstance that the personnel expenses ratio in SMEs is quite high does not help either. (Ederer 2005, p. 130.) Hence, if the company does not make enough profit, continuous R&D and innovations are not possible. Consequently, the competitive position in the market is jeopardized due to the thin equity base of SMEs. (Mäder & Hirsch 2009, p. 15.)

Constrained investment monitoring. A further characteristic of SMEs is their discontinuous behaviour towards investment, which can cause a threat to the company's continued existence if the investment is relatively high compared to the size of the company, argues Legenhausen (1998) (Keuper, Brösel & Albrecht 2009, p. 58).

Limited resources. In general, SMEs have a shortage of financial and human resources (Krämer 2003, pp. 8-9). Thus, the existences of SMEs are more threatened than those of large enterprises when it comes to sudden changes such as market and economic fluctuations. This is because they do not only have comparatively low resources to overcome restructuring measures but they

are not able to flinch from the pressure of competition (Kosmider 1994, pp. 49-50).

No control of market pricing. The increased pressure of competitors combined with the requirement to cut costs is another current challenge of SMEs. This development is faced by all companies, but especially SMEs have, for example, a minor influence compared to large companies on the procurement market. According to Tegel (2005), price advantages through higher purchase quantities can rarely be achieved due to order related and often irregular procurements. As a consequence, SMEs have no chance to establish a certain market power. However, SMEs are able to occupy a strong position in the sales market through a specialised product range and the occupation of niche markets. (Keuper et al. 2009, pp. 56-57.)

Difficulties engaging qualified staff. Based on the outlined risks connected with aspects such as low income, poor perspective for economic development, and a low level of customer awareness, it is increasingly difficult for SMEs to recruit qualified employees in the labour market (Mäder & Hirsch 2009, p. 8). With only one hierarchical level and hardly any personnel development programs, problems to train qualified employees and trainees arise for SMEs. Furthermore, SMEs are often not able to pay professional and highly qualified personnel adequately. Usually the result is that there are considerable difficulties in acquiring new talents in the market. (Kosmider 1994, pp. 40, 83.) Moreover, recruiting of leaders can turn out to be a restriction for human capacity since large companies might appear more attractive as employers. Thus, the more unknown and smaller a firm is, the more it has to invest in the recruitment of suitable personnel. However, SMEs should be aware that highly qualified staff is very important if they want to stay competitive. (Schmid-Gundram 2014, p. 65.)

Small board of management. The number of managers in SMEs is initially limited to one or a few persons. All management functions are focused on this person/s, which often results in a high degree of direct dependence of the entire business operations on these few people. Therefore, the management is of significant importance for the company. (Kosmider 1994, p. 39.) According to

Maser (1998), the centralisation of decision-making with a small number of hierarchy levels results in a heavy strain on the management, which involves the risk to neglect managerial responsibilities that cannot be delegated (Ossadnik et al. 2003, p. 5). Having all these details described and referring to the fact stated by Dowling and Drumm (2003) that founders and owners are often experts in their field, for example in the IT sector, software development, science or engineering, it becomes evident that a serious hazard of deficits arises in respect of corporate governance (Mäder & Hirsch 2009, p. 7). Nevertheless, the concentration of managerial functions to just a handful people can also be a success factor of SMEs. All decision-making is in the hands of a small management team. In this context, managerial behaviour becomes more important for SMEs and significantly influences the behaviour of each employee. (Ossadnik et al. 2003, p. 4.)

Owner-based corporate culture. Gantzel (1962) considers the entrepreneurial personality as the central position, which is often linked to a personal relationship of trust between owners and employees (Mäder & Hirsch 2009, p. 15). Another qualitative characteristic of SMEs is that instructions are usually given in person by the owner; the employee's scope of responsibilities is comprehensive and rarely limited to individual functions. This ensures a better overview and together with the acknowledgement by the employer and the relationship of trust, it fosters strong employee motivation. (Klett & Pivernetz 2014, pp. 4-5.)

Owner-based corporate objectives. However, not only the corporate culture is influenced by the owner, but also the objectives of a SME, which are set by the entrepreneur. They are influenced by the personal values, individual risk appetite, and objectives such as independence or personal fulfilment. Unlike large, listed companies, there are usually no investors or supervisory boards intervening in SMEs. Entrepreneurs can set their own economic goals without being restricted by any control committees or other shareholders' financial interest. This individual freedom is only limited by legal requirements as well as minimum requirements on the company's profitability when it comes to investors or creditors. (Klett & Pivernetz 2014, p. 4.)

Great operational flexibility. SMEs are characterised by flat hierarchies and short decision-making processes (Keuper et al. 2009, pp. 58-59). Furthermore, they show transparent organisational structures. This is linked to a low degree of formalisation and direct lines of communication. (Mäder & Hirsch 2009, p. 15.) SMEs are considered very flexible and adaptable to changes, which in turn is related to their simple organisational structure (Mitchell & Reid 2000, p. 385). Besides, the improvisation is extremely high, which can bring certain advantages, but can as well be seen as the cause of many problems for SMEs (Kosmider 1994, pp. 31-32).

In summary, these detected characteristics can be used to identify SMEs besides the quantitative aspects. However, they can also be restraining factors for SMEs and can affect the process of decision-making in a negative way. Therefore, they are classified as critical success factors for the quality of decisions and for the success of a company. (Mäder & Hirsch 2009, p. 15.)

4 Characteristics of management accounting in SMEs

This chapter addresses the main features of management accounting in SMEs. Section 4.1 discusses how to staff MA and section 4.2 displays MA instruments for SMEs. Obstacles SMEs are facing with MA are the subject of section 4.3 and section 4.4 summarises the main characteristics of this chapter in a table. Finally, all these characteristics help to set up hypotheses for the evaluation of the empirical part. These hypotheses are listed in section 4.5.

Importance of management accounting for SMEs

Most SMEs believe that MA is only needed in large-scale enterprises and the argument that small companies usually do not have enough time to do the paperwork involved in MA does not help either. In addition, there is a certain level of indolence to think about the future of a company, especially if business is going well. Some managers are also afraid of writing down exact business information about the situation of their company. However, a complete overview of SMEs and problems involved is only visible, if all relevant information for MA is written down. (Ederer 2005, pp. 130-131.)

The lack of MA in corporate practice is often seen as the main problem of SMEs today. Studies show that non-existent management accounting is responsible for the breakdown of a number of companies. (Ulrich 2011, pp. 53-54, López & Hiebl 2014, p. 27.) There are many reasons why SMEs have a high tendency to become insolvent. Often, mistakes of an organisation's management and control jeopardise the existence of a company. Other reasons are lack of competitiveness, missing investors, but also miscalculations in order planning. However, it becomes obvious that a majority of reasons for insolvency can be avoided by professionally executing MA. (Keuper et al. 2009, pp. 59-61.) There are also other reasons why SMEs should use MA besides avoiding potential insolvency risks. Currently there are three main problems in the economic decision-making process of SMEs. First of all, the existing data is outdated. The second problem is that the existing data is rarely standardised, which does not allow comparative analyses or only with an enormous amount of time. The third problem SMEs are facing is that existing data does not contain any non-financial information relating to critical success factors such as customers, employees, and products. Furthermore, the data is usually not in correspondence with business procedures. (Posluschny 2010, p. 8.) These problems should encourage SMEs to implement management accounting systems to avoid these issues in their daily business.

MA in SMEs differs fundamentally from MA in large enterprises. Management accountants in SMEs have to be allrounders who know what they are doing in every aspect of business administration. This means they have to know everything from multi-annual strategic business planning to monthly financial plans. There is usually only one person executing MA in small firms who must support the owner of the company with business decisions. For that purpose, management know-how and extensive knowledge of the interrelations and processes of accounting are necessary. (Ederer 2005, p. 139.)

In addition, management accountants are very familiar with internal processes and know exactly how to change something. Thus, they are not restricted to any analysis function, but they become a coordinator, mediator and communicator in the company and support the management in the implementation of

measures. In contrast, in large companies it is usually not that easy to change something and to get a clear picture of internal processes. (Hegglin & Kaufmann 2003, p. 359.) For competing with large-scale companies, it is essential for SMEs to manage their limited resources by using suitable information and control systems (Mitchell & Reid 2000, p. 386).

Some SMEs use MA predominately for external information purposes. This means that they do not use MA for decision-making but only for providing information to external institutions such as banks. These findings suggest that SMEs use management accounting systems for considerably different purposes than large businesses. (Marriott & Marriott 2000, pp. 475-492.) However, this only applies to the minority of SMEs, as most small firms use it as internal information supply for the management and well-justified decisions (Keuper et al. 2009, pp. 59-61, Leitner 2012, p. 1, Schmid-Gundram 2014, pp. 5-6). Using MA to be able to provide information for external stakeholders such as banks or suppliers has become relevant for SMEs only in the last 10 to 20 years. Rating criteria of financial institutions (Basel II / Basel III) and the increased importance of rating agencies contributed to that development. (Berens et al. 2005, p. 186, Schmid-Gundram 2014, p. 6.) Some SMEs have a rather low equity ratio and require liabilities of investors. Hence, a detailed financial planning is needed to meet the requirements of the investors. (Keuper et al. 2009, p. 61.) However, reporting for external stakeholders such as financial institutions should only involve as little as possible, but as much information as necessary (Schmid-Gundram 2014, pp. 21-22).

Form of management accounting in SMEs

There is the decisive issue of how MA should look like; implying what forms it should take in SMEs (Mitchell & Reid 2000, p. 386). To use MA for a successful and sustainable development, managers are required to address management accounting in an extensive way. MA can only work properly, if it is tailored to the needs of the management. (Schmid-Gundram 2014, p. 5.) Besides, empirical studies revealed a significant correlation between the level of development of a MAS and the efficiency from the management point of view. This means the higher the management accounting of a SME is developed, the more it

contributes to the overall success of a company. (Exner-Merkelt & Keinz 2005, pp. 15-21, Weber 2006, pp. 62-69.) Hence, the owner or manager should not simply use any MAS or the existing one, but actively adapt MA to their own needs and define an individual MAS (Schmid-Gundram 2014, p. 13). SMEs that do not work with a customised MAS suffer additional work and costs in case they want to apply for a loan. Consequently, all SMEs without MA are double disadvantaged. Firstly, they run their companies less professionally, and secondly, they might have issues receiving attractive loans due to a lack of available data. (Posluschny 2010, pp. 2-3.)

Strategic management accounting of SMEs

For a long-term future of a SME, it is necessary to operate both with strategic and operative MA. With strategic MA, managers of SMEs should be able to understand the current situation of their company in order to take the necessary strategic measures and to provide a forecast for the next 12 months to make medium-term decisions such as staffing and investment decisions. In addition, the entrepreneur will be able to develop a vision and to manage the company's long-term strategic direction by providing a forecast for the next three to five years. (Schmid-Gundram 2014, p. 3.) Moreover, a comprehensive MAS should also consider evaluating the business environment and market development to identify strengths and weaknesses (Klett & Pivernetz 2014, p. 5). Strategic management accounting has to support the management with strategic planning and control and supply them with relevant information (Holland-Letz 2009, p. 21). Consequently, MA is a requirement and foundation of a strategic corporate management, which in turn is necessary for a successful development of a SME.

Operative management accounting of SMEs

In comparison to strategic management accounting, operative management accounting is needed to understand the cost structure of a SME, to detect cost increases at an early stage and to identify cost drivers in order to implement necessary cost cutting measures (Schmid-Gundram 2014, pp. 3-4). However, instead of complicated and time-consuming cost accounting systems, simple

and practical relevant systems should be favoured for SMEs (Klett & Pivernetz 2014, pp. 5-6). Moreover, operative management accounting is required to evaluate continuously the performance efficiency, to lead employees, and to execute an enterprise resource planning (ERP). Operative management accounting is also useful to assess the SME's operative success and to initiate prompt countermeasures in case the results are not satisfactory. Summarising, MA is very important in operative day-to-day business and every SME should define and determine operative data and key performance indicators, which show the company's performance and complement the strategic economic and financial data. (Schmid-Gundram 2014, p. 4.) In the end, strategic management accounting is about qualitative information and operative management accounting provides quantitative information (Dahms & Siemes 2005, p. 229).

Risk controlling in SMEs

Management accounting is expected to become even more important for many companies. Especially the scope of MA in projects, sales, finances, and risk will take on greater significance in the future. Thus, it is expected that SMEs will be increasingly confronted with the issue of risk management (Haufe Akademie 2007, p. 20), because an efficient risk management system contributes to the increase of value for an organisation (Dahms & Siemes 2005, pp. 229-230). In general, risk management is an instrument to support the management and shall detect future developments with inherent risks to ensure consistent adjustment of the enterprise to the constantly changing business environment as well as securing the future success of the company (Diederichs 2010, pp. 12-13). Correspondingly, it can be observed that there is a strong connection between an efficient risk controlling and a company's success. SMEs that estimated their efficiency of their risk controlling as high, achieved above-average results in business success. The assessment of different types of risk, which is connected to the development of new markets, is required for an outstanding business success. Effective risk controlling creates possibilities for new market opportunities without exposing too much in the market. (Haufe Akademie 2007, pp. 31-32.) However, risk management as a sub-area of MA is not or extremely rarely been used by SMEs (Dahms & Siemes 2005, p. 230, Lucas & Lowth 2013, p. 8).

The main function of MA is to improve the quality of management decisions. Thereby flexibility, which is a typical characteristic for SMEs mentioned in section 3.3, should not be restricted by MA. In addition, the entrepreneurial instinct or gut feeling should not be suppressed, but rather be supported by MA instruments. (Kosmider 1994, p. 80.) Correspondingly, the application of management accounting in SMEs will improve overall business performance, as the business can apply the information provided by MA for better decision-making (Marriott & Marriott 2000, p. 486, Schmid-Gundram 2014, p. 5).

4.1 Staffing management accounting in SMEs

In the following section it is explained which persons are adequate to perform MA in SMEs. Besides, trends of current staffing options for SMEs are identified and requirements for management accountants are addressed.

When SMEs reach a certain size, the management cannot rely merely on their intuition to run the company anymore (Keuper et al. 2009, p. 62). In addition, the characteristics of SMEs mentioned in chapter 3.3 lead to the issue that most of the management accounting systems that are described in today's literature are originally designed to meet the needs of large-scale companies. In some cases, the described MA instruments are not suitable for SMEs and have to be adapted or even newly designed. Management accounting design has to be in accordance with the slogan of Welsh and White (1980) "A small business is not a little big business". (Klett & Pivernetz 2014, p. 5.)

Separate MA department

There are many options for staffing MA in SMEs. To execute MA in the first place does not require setting up a MA position or department, which brings quite some advantages for SMEs. Not least because the set-up of a MA department initially seems for SMEs to be an investment that is not affordable in the long run. In addition, the tasks assigned for MA are often not enough to occupy a position completely. (Kosmider 1994, pp. 83, 136-137, Ossadnik et al. 2003, pp. 25-26.) This may apply to micro companies; however, for a company with more than 25 employees, a MA position can easily be implemented. This position supports the managers who do not have enough knowledge or time to

do the MA tasks themselves. This one-man show has the full responsibility for MA and the strategic and operative management. This range of duties obviously goes beyond the normal range of management accountants in large companies. Instead of generating merely business analysis, this position has an advisory function and the assessment of all business activities is in the centre of attention. (Schmid-Gundram 2014, pp. 59-63.)

Financial accounting employees or head of accounting

However, there are also other options how to perform MA in SMEs. As mentioned in the third chapter, SMEs usually face limited human resources, and therefore, very often use the option of transferring MA tasks to already existing personnel. Either employees of financial accounting or the head of accounting are qualified for handling MA tasks. (Ederer 2005, p. 139, Becker & Ulrich 2009, pp. 312-313.) If employees of the financial accounting department are chosen for that part, the management of SMEs has to keep in mind that classical accountants often have difficulties with MA tasks. This originates from the fact that accountants may understand numbers very well, but they work with historical data and usually do not have to convince somebody with their numbers or objectives. (Ederer 2005, p. 139.)

If the entrepreneur or the management of a SME decides to use financial accountants to perform MA tasks, it is very important that these employees participate in suitable trainings and get to know MA instruments. This also applies if the head of accounting is chosen to do these tasks. (Ederer 2005, p. 139.) If employees of the finance or accounting department do not get the crucial training to introduce sophisticated MA techniques, they will obstruct both usage and benefit of MA in SMEs (López & Hiebl 2014, p. 23).

External institutions

Particularly for MA employed staff does not pay off for SMEs in most cases. Hence, another option is to hire external institutions. SMEs usually do that, if personnel or financial resources and organisational conditions do not allow the use of internal institutions. A consultant is recommended especially in smaller companies. He or she usually works on an hourly basis and contributes to the

strategic planning. Moreover, the external consultant creates the business planning together with forecasts as well as the monthly financial planning; he or she carries out the monthly target-actual comparison and communicates it to the management. On top of this, an external consultant also executes profitability accounting and calculations. Together with the bookkeeping office, the external consultant is substantially involved in creating the annual financial statement. (Ederer 2005, p. 139.) The capabilities of doing MA with an external consultant are also limited when it comes to the essential need of communication between SMEs and the external consultant as well as the general cost of outsourced services and the critical factor of trust between both parties (Jacobs, Letmathe, Urigshardt & Zielinski 2009, pp. 46-47). Doing management accounting with external institutions will not play an important role for SMEs in the future. MA functions are obviously regarded as a core competence that needs to be developed. Therefore, it is not reasonable to outsource this very important function of coordination and consultation of the management to an external consultant. (Haufe Akademie 2007, p. 21.)

The organisational possibilities how MA tasks can be performed are shown in Figure 4. However, no general statement about the optimal organisational design of MA can be made because the scope and extent of MA depends on internal factors such as the size of a company, organisational structure, and financial and human resources. (Kosmider 1994, pp. 74-75.)

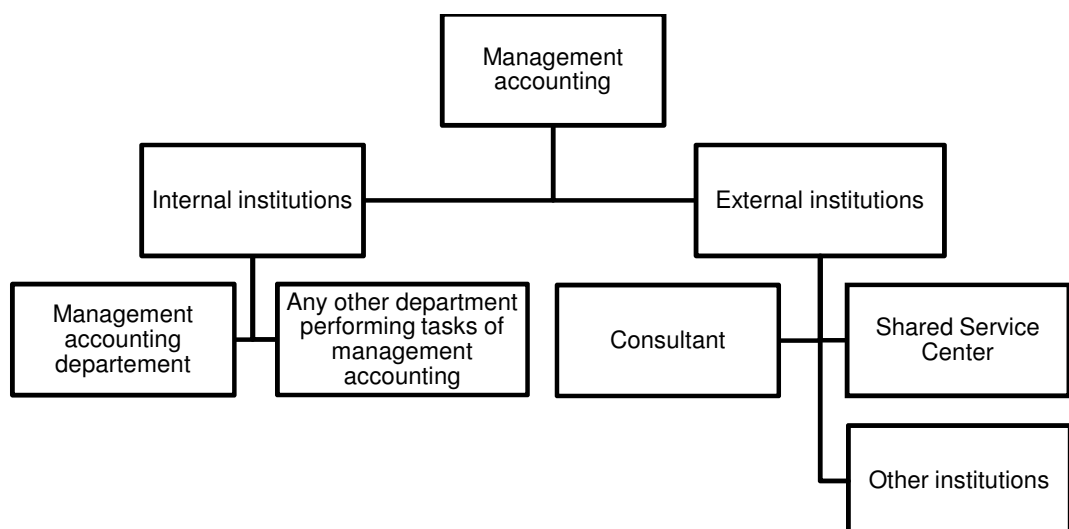


Figure 4. Options for staffing MA in SMEs (Hoogen & Lingnau 2009, p. 106)

Owner / manager

The option not displayed in Figure 4 is that the management or owner of the company does MA tasks himself. This kind of MA requires the management to do the functions of MA as an additional task to their daily operations. In doing so, managers perform MA tasks of their area of responsibility themselves. Managers are usually not qualified management accountants and in addition to the required knowledge and skills, managers of SMEs are often not able to cope with exercising various functions (Jacobs et al. 2009, p. 46, Mäder & Hirsch 2009, p. 17). For example, they may not have enough know-how to monitor the market, might be confronted with an abundance of information they are not able to process or focus just too much on gut decisions. (Mäder & Hirsch 2009, p. 17, Lucas & Lowth 2013, pp. 8-9.) In addition, the willingness of managers to perform MA can be questioned. This is usually the case if the manager is not the owner of a company and follows different interests than the owner. (Mäder & Hirsch 2009, p. 17.)

Taking a different perspective, Becker and Ulrich identified that the presence of non-owner managers is associated with higher adoption rates of management accounting systems. These managers import external control and accounting expertise and thus lead to an increased usage of management accounting systems. (Becker & Ulrich 2009, pp. 308-316.) According to Peemöller (2005), the critical distance between the MA object and subject, as it exists in MA functions done by others than the management, is missing, if the owner performs MA tasks himself. Besides, in this situation the owner or manager is not able to discover opportunistic behaviour and much less prevents it. (Jacobs et al. 2009, p. 46.) Furthermore, if the manager or owner of a company is doing MA, opportunity costs incur since the time of the management might be better invested in other areas such as developing new products, sales, and marketing strategy (Lucas & Lowth 2013, p. 5). In addition, if a company's management performs MA tasks, it means that a manager would have to generate his or her own management support (Kosmider 1994, p. 140).

Executive assistant

The accomplishment of MA tasks by the executive assistant is a common practice for SMEs. This form of execution appears appropriate especially at the beginning of MA, since such a position is aimed at supporting and assisting the corporate management. (Kosmider 1994, pp. 83-84.)

Staffing depends mainly on the size

Which of the above-mentioned organisational alternatives is applied depends on the specific circumstances affecting a SME (Klett & Pivernetz 2014, p. 6). However, there are evidences that with a rising company size, MA tasks will be performed by a separate MA department (Berens et al. 2005, p. 187, Becker & Ulrich 2009, p. 313). In addition, management accountants will be responsible for more and more tasks the bigger the firm gets, which also causes an increased specialisation of the management accountants. In small companies, management accountants take care of all MA tasks, while in medium-sized companies the various fields of MA can be assigned to different management accountants. (Becker & Ulrich 2009, pp. 315-316.) Moreover, the involvement of the management decreases accordingly (Berens et al. 2005, p. 187). This phenomenon is displayed in Figure 5. The figure implies that a higher turnover stands for a higher company size.

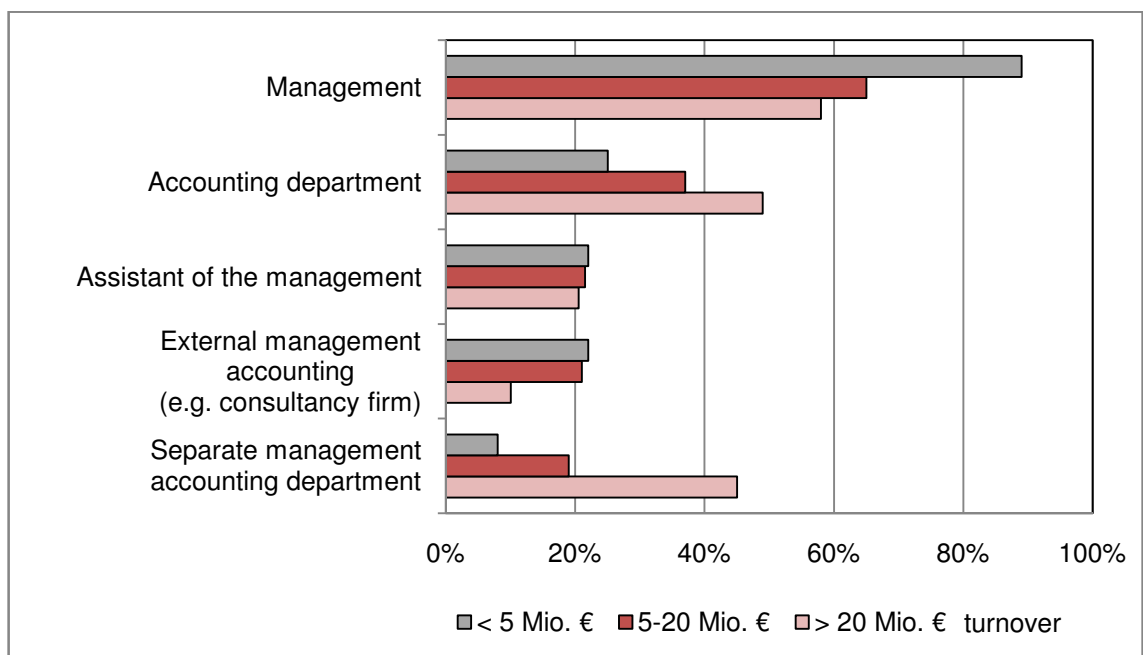


Figure 5. Execution of MA tasks (Berens et al. 2005, p. 188)

According to Schmid-Gundram, employing enough professionals for MA will pay off for SMEs in the medium run. Further, he argues that it is not possible for managers to do MA tasks in addition to their daily work, which they can barely cope with. This does not even work for micro companies. A solution would be to generate capacity for the manager by transferring administrative activities for example to a part-time employee. To implement MA for small companies with 25 or more employees, at least one part-time employee should exclusively be responsible for it. This person has to be employed in addition to the other employees or work tasks have to be rearranged in a way that a skilled employee is able to execute MA tasks. Medium-sized companies with 75 or more employees should have at least one full-time employee who does nothing else but MA tasks. However, the number of management accountants in detail depends on the specific scope of the MAS and the strategic and operative requirements of the management. (Schmid-Gundram 2014, pp. 59-62.)

Bookkeeping office and accounting firm

The accounting of SMEs is often done by an accounting firm. The preparation of the annual financial statement and the tax declaration is prepared by a bookkeeping office. As a consequence, the bookkeeping office is often better informed about a company's performance than the owner is. However, having only the bookkeeping office's point of view is not enough for an integrated control of the whole company. In case the management decides to implement MA in an organisation, they have to ensure that there is no rivalry between the employees of MA and the bookkeeping office. It is important to promote a team spirit and to create an atmosphere of togetherness. Bookkeeping offices and management accountants use the same management instruments; however, they pursue different objectives. The task of the bookkeeping office is to create the annual financial statement, which consists of balance sheet and profit and lost statement, from the tax point of view. In the end, their main objective is to save taxes. On the contrary, management accountants prepare profit assessment and control in the course of the year. Their objective is to ensure the long-term success of the company. (Ederer 2005, p. 137.)

Trend of accomplishing MA functions

According to some studies, most SMEs do not have a separate management accounting department (Berens et al. 2005, p. 187, Dahms & Siemes 2005, p. 229, Rautenstrauch & Müller 2005, p. 201). Normally the owner or manager performs the tasks of MA in addition to his or her other duties. This is due to the fact that SMEs show a strong centralisation of the managerial functions and decision-making authority. (Berens et al. 2005, p. 187, Posluschny 2010, p. 3.) This was the state of knowledge until 2005. Nowadays, there is a change in management accounting for SMEs. Several SMEs have employed a management accountant who is responsible merely for MA tasks; however, it still depends on the size of the company. (Haufe Akademie 2007, p. 13, Becker & Ulrich 2009, p. 312, Schmid-Gundram 2014, p. 62.) Medium-sized SMEs have a higher percentage to operate with a separate MA department than micro and small SMEs (Kosmider 1994, pp. 98-99, Ossadnik et al. 2003, p. 77). For example, SMEs with a turnover of more than 20 million euros usually have a five times higher chance of having a separate MA department than a SME with a turnover of less than five million euros (Berens et al. 2005, p. 188). It is associated that with rising size of a company, an increased division of labour and work specialisation of individual employees as well as a higher need for coordination and information is required. Thus, it can be assumed that the design of MA in micro and small SMEs is hindered primarily by the problem of workload and financial resources and due to better overview of small firms, it is not considered necessary. (Ossadnik et al. 2003, p. 77.)

Requirements for management accountants

Since no one wants to be made aware of their mistakes, management accountants or the respective person who performs management accounting tasks must be sensitive, objective, respectful, and has to show sociable behaviour. The criticism of management accountants must always be constructive and supportive. Employees should not be offended, especially as everyone makes mistakes every now and then. (Freiling 1980, p. 151.)

Besides, there are certain characteristics a management accountant needs. Very important are communication skills, IT and technical skills, monitoring skills

and business knowledge as well as a certain degree of flexibility. (Byrne & Pierce 2007, pp. 480-482.) However, it has to be mentioned that without adequate know-how and motivation of the management accountant, MA will never be successful. The minimum requirement for a management accountant operating in a SME is thus a basic training in accounting and business administration as it is offered by conventional institutions of further education. (Klett & Pivernetz 2014, pp. 6-7.) Management accountants in SMEs should only report to the director or owner. This puts management accountants on an equal level with the heads of department with whom they are in constant interaction. Furthermore, they should provide guidance to achieve the objectives and act as consultant for the owner. Management accountants have to perform tasks of the financial accounting, cost accounting and stock accounting. (Huber 2000, pp. 57-59.)

Rautenstrauch and Müller figured out that with an increasing size of the company there is a rising share of university graduates working for SMEs. However, smaller firms are aware of that fact and try to close the knowledge gap. (Rautenstrauch & Müller 2005, pp. 195-196.) SMEs consider that MA develops more efficiently with professionals and therefore want to hire employees that are more skilled. These companies indicated already in 1988 that the vast majority of them wants a further development of their MA. For that purpose especially small companies want to use primarily their already existing employees and only intend to use the service of consultancy firms from time to time. Consequently, the vast majority of SMEs aims to set-up their own MA department in the long-term. (Kosmider 1994, pp. 141-143.) Besides, some companies could imagine using external institutions for support in that area. Here, mainly bookkeeping offices and auditors are asked for help as they usually have built up a relationship of trust with them over the years. Less important seem to be banks, the chamber of commerce, consultancy companies, and universities. (Rautenstrauch & Müller 2005, p. 196.)

4.2 Management accounting instruments for SMEs

This section addresses MA instruments for small and medium-sized firms and proposes some instruments that every type of SME should utilise. In addition, the actual situation of instrument usage in SMEs is revealed.

Management accounting instruments are very complex and difficult to apply to small firms. MA has not achieved its purpose, if some explanations or remarks are too comprehensive for SMEs. Therefore, MA cannot be a collection of complex tools; instead, these tools have to be used in a simplified manner in SMEs. The following figure shows the interaction of different MA tools. More useful instruments can be added or excluded if necessary. (Hegglin & Kaufmann 2003, pp. 359-360.)

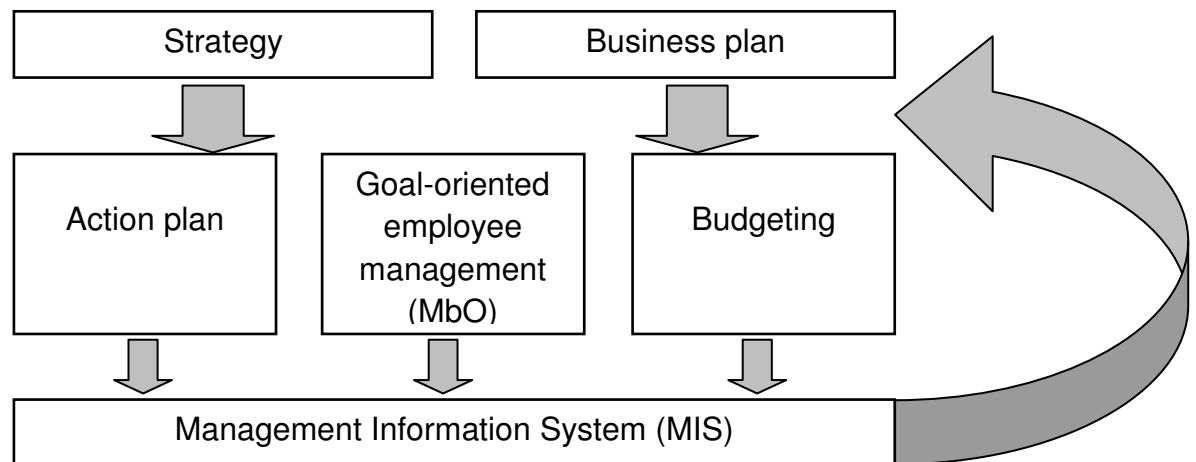


Figure 6. Systematic M tools for SMEs (Hegglin & Kaufmann 2003, p. 360)

In order to maintain a competitive edge in the market, entrepreneurs have to know their strengths and opportunities. For that reason, a good strategy is necessary. There are many ways to find the correct strategy and to define it. However, most challenging might be to implement the strategy, which especially SMEs tend to avoid by rather concentrating on the daily business. (Hegglin & Kaufmann 2003, p. 360.)

The balanced scorecard (BSC) is a useful instrument to eliminate that behaviour of SMEs and it helps to increase the communication and implementation of strategies. The idea behind a BSC is to define strategic objectives and key performance indicators within the sections of customers, employees, processes and finances. The target figures are evaluated by

analysing if they have been accomplished or not within a certain period. BSC can be used as a management and information instrument due to the combination of late- and early-warning indicators. Thus, it is also possible to react to the developments in an appropriate way and on time. (Hegglin & Kaufmann 2003, p. 360.) However, it has to be mentioned that a BSC is less suitable for SMEs and is more used in large companies (Ossadnik et al. 2003, p. 79).

A business plan records information about a company's management, strategy, markets and other main factors about a company. It is a MA instrument used for the documentation of a medium-term planning and the achievement of the set objectives. A business plan serves as the basis for the action plan and the yearly budgeting. (Hegglin & Kaufmann 2003, p. 362.)

The action plan adds the objectives of the vision and strategy with the necessary actions. The detailed measures have to be clearly personalised and timed. (Hegglin & Kaufmann 2003, p. 362.)

Management accounting can be seen as a holistic corporate management approach. Hence, leadership of employees is an important part of MA. The concept of management by objectives (MbO) is considered particularly suitable to promote the implementation of monetary and non-monetary goals. Here, SMEs agree with their employees on certain objectives and actions that have to be accomplished. The achievement of objectives can be tied to a success-related and performance-related pay. (Hegglin & Kaufmann 2003, p. 362.)

Budgeting is of central importance for SMEs. Using budgeting, managers are able to formulate how short-term and medium-term objectives should be implemented. Budgeting begins with the sales budget. Necessary direct and indirect costs can be estimated. After that, liquidity planning shows which financial resources are required. In addition to new investments in fixed assets, the change in current assets should not be forgotten. Growth usually ties up capital not only in fixed assets, but also in current assets. (Hegglin & Kaufmann 2003, p. 362.)

However, it has to be pointed out that budgeting is only possible if SMEs do not only evaluate current figures, but also generate budget figures. This is the only way to create a variance analysis. Without a variance analysis, current figures are neither adequate for operative nor strategic management, but can only be used for information purposes. This is emphasised because there are still many SMEs, especially small firms and companies of the craft sector that consider it as merely sufficient to look at the company figures once a month, but they do not evaluate them in any way. These figures are often generated by their bookkeeping office and only refer to the profitability of the company. In the best case, a statement about whether the SME made a profit or loss in the current year can be made with that information. Naturally, this is not enough even for micro companies, no matter what industry they belong to. (Schmid-Gundram 2014, pp. 25-26.) Besides, budgeting in small companies usually only fulfils the function of forecasting and planning, but not control, communication, or motivation, which are advantageous roles of budgeting (Lucas & Lowth 2013, p. 7).

With a customized management information system (MIS), all MA requirements will be met. The MIS provides crucial information at the right time and in the desired form. The distributed management information is being discussed, comments are being made and the information will be adjusted to the company's strategy and objectives. No everyday routine is allowed in management accounting. Data that is really needed by the management for decision-making has to be collected and evaluated. It is important that the recipient understands the data. Furthermore, it is important to install early-warning indicators like market share of sales accounted by new products or market satisfaction index. A successful MIS should be solution-oriented and include countermeasures and causes for variances. (Hegglin & Kaufmann 2003, p. 363.)

However, the reality for SMEs looks different. Due to the extensive investment and maintenance costs for a MIS, the solution for SMEs is usually called MS Excel. (Schmid-Gundram 2014, p. 13.) In the context of standard applications for management accounting in SMEs, the spreadsheet software MS Excel plays

a significant role (Kramer & Valentin 2009, p. 86). Since almost any software used in a company is able to export to Excel, this solution offers the best conditions to merge all relevant MA data and to use it for reporting or variance analysis. Excel allows setting up an extensive MAS that is entirely sufficient for the majority of SMEs. Moreover, all enterprise systems for SMEs, which have been introduced over the last ten to twenty-five years, have a very different technological level. (Schmid-Gundram 2014, pp. 13, 72.)

The integration of all different enterprise systems into a MIS can only be realised with a lot of expenses, as the interfaces to the central database respectively to the MIS must be created by an IT consulting company. Frequently it also turns out that some systems are simply outdated and cannot accomplish the requirements of a MIS. According to Schmid-Gundram, the implementation of a MIS is currently not relevant for the majority of SMEs and might only be interesting for companies with more than 1 000 employees. (Schmid-Gundram 2014, p. 51.)

There is a chance that SMEs do not realise or only too late realise specific development needs concerning their management instruments. Thus, MA is responsible not only for developing individual instruments but also for drawing the management's attention to the requirement of the respective appropriate instruments at an early stage. (Kosmider 1994, p. 133.) Besides, quite often, the implementation of MA instruments is connected with a change in the corporate culture. However, it is not true that the corporate culture will change because of the implementation of MA. If MA instruments will be implemented with this in mind, it will not work out. (Hegglin & Kaufmann 2003, pp. 365-366.)

Recommendation of MA instruments

There are different suggestions for SMEs, when it comes to MA instruments. According to Schmid-Gundram, a micro company should process aggregated data about profit and loss, receivables and payables and cash balance. Information about the quotation and order situation should be monitored and the firm should be aware of the current productivity and performance. This can be accomplished with target and actual figures and a monthly variance analysis including some trends. In addition, the development of the market should be

monitored. Reporting should be clear and concise on one page, and variances and trends should be coloured. (Schmid-Gundram 2014, pp. 14-15.) Becker and Ulrich go along with Schmid-Gundram and identify the above-mentioned operative key performance indicators as the most frequently used instruments for micro companies. They also determine contribution margin calculations as very important. (Becker & Ulrich 2009, pp. 314-315.)

The necessary scope of MA rises considerably for small companies at the latest with approximately 25 employees and annual sales of five million euros. The aggregated data of micro companies can be used, however, with more details involved. The variance analysis should include monthly projections and a forecast should be done at least every six months. In addition, small companies should define a vision and mission and provide employee management information. Reporting should be a summary of all important values, trends and developments displayed on one page complemented by detailed variance analysis concerning profitability and liquidity. (Schmid-Gundram 2014, pp. 15-16.)

Medium-sized companies have to consider the same scope of MA as small companies, however, more details, visualisation and future orientation is required. In addition to the monthly projections and at least quarterly forecasts, a graph displaying the performance should be generated. Moreover, not only the market development, but also competitors and suppliers should be monitored. Here, the main task of reporting is to display the huge amount of MA information in a clear way and to offer different forms of detail intensity. (Schmid-Gundram 2014, pp. 16-17.)

Furthermore, MA should not only be adapted to a company's size, but also to the situation and the industry it operates in. For example, in the craft sector a special focus should be on the profitability of individual contracts and the performance of utmost efficiency. The MAS in the service sector should mainly concentrate on the labour intensity and customer satisfaction. In the trade and distribution sector, SMEs should focus on sales and the development of sales with their MAS and the manufacturing industry might be interested primarily in production figures and processes. (Schmid-Gundram 2014, pp. 18-19.)

Much like the industry sector of a SME, the company's situation puts special requirements in the focus of management accounting systems. In the first years after founding a SME, the focus is on a tight cost control and careful planning of available liquidity. While growing fast, the focus is similar to that of the company's founding. Even with a strong growth, there is a need to invest in additional staff, machines etc. Hence, a tight cost control and accurate liquidity planning is important here. In addition, the focus on accurate analysis of operative performance measures and ratio should be added to ensure the availability of resources and thus the ability to supply goods and customer satisfaction. In a stable situation, there should be a balanced MAS and reporting, which focuses only on the company and industry sector. If the current situation of a SME is not satisfactory or if there is a lack of growth, it is always possible to add focus areas for the reporting such as more details about the profitability or about the current profit situation of the company. In a crisis, the MAS needs to be adapted and has to focus on the strategic and operative causes of the crisis. (Schmid-Gundram 2014, pp. 19-21.) The stage of MA development is not a matter of when the SME was founded. Even though the experience increases as a company gets older, there might be some internal resistance in old-established firms, which can restrict the development of MA. In addition, it can be assumed that young companies have a more flexible structure, which in turn promotes the development of MA. (Ossadnik et al. 2003, pp. 90-92.)

SMEs should only implement management accounting systems, which they are able to supply with data and which they are able to analyse. In addition, the existing controlling instruments should be geared to each other and aligned to the vision and strategy of the organisation. (Hegglin & Kaufmann 2003, p. 367.)

Current management accounting instrument situation in SMEs

Besides these recommendations, management accounting instruments are generally not very common and sparsely used in SMEs (Berens et al. 2005, p. 188, Dahms & Siemes 2005, pp. 227-229). Of the instruments referred to in section 2.4, operative planning, cost accounting, reporting and determining key performance indicators are the most significant tools for SMEs in the operative

field of MA (Ossadnik et al. 2003, pp. 61, 82, Dahms & Siemes 2005, pp. 229-228, Haufe Akademie 2007, pp. 5, 30, Becker & Ulrich 2009, pp. 313-314).

The high degree of automation in the past caused an increased share of fixed costs compared to the overall costs. The higher the fixed costs the more necessary is a correct allocation of costs. Cost accounting therefore becomes of vital importance. (Hegglin & Kaufmann 2003, p. 364.) Especially cost centre and cost unit accounting are often applied by SMEs (Berens et al. 2005, p. 188, Haufe Akademie 2007, p. 25). In small firms, a simple division calculation can be performed for example with spreadsheet calculations. The more complex a company and its processes gets, the more important is an integrated cost accounting system. Modern software solutions enable even small and medium-sized companies to post to cost centres and to evaluate these. (Hegglin & Kaufmann 2003, p. 364.) Even though cost accounting is one of the most important operative MA instruments, not all types of cost accounting are being applied. Activity-based costing, target costing and life cycle costing are very rarely been used in SMEs. Thus, SMEs also need to catch up with some operative instruments. (Haufe Akademie 2007, p. 25.)

In addition to cost accounting, SMEs also take advantage of several other instruments. Target-actual comparisons (Rautenstrauch & Müller 2005, p. 199, Haufe Akademie 2007, p. 30) and calculations of contribution margin (Ossadnik et al. 2003, p. 61, Becker & Ulrich 2009, p. 314) are widely spread within small and medium-sized companies, while budgeting, forecasting and break-even analyses are occasionally used by SMEs (Ossadnik et al. 2003, p. 61, Becker & Ulrich 2009, pp. 313-314).

However, there are also other findings. Lucas and Lowth regard cost variance analyses for SMEs as not necessary because they are usually too aggregated and originate not early enough to favour operational control sufficiently. In large companies, they are being used by the top management to monitor middle or lower management, but for SMEs, there is no need for it. (Lucas & Lowth 2013, p. 7.) Besides, the allocation of overhead costs is usually not being applied by SMEs (Lucas & Lowth 2013, p. 7), but cash flow statement is conducted on a constant to occasional basis (Ossadnik et al. 2003, p. 61) and cost-benefit

analysis is performed only occasionally (Ossadnik et al. 2003, p. 61, Becker & Ulrich 2009, p. 314). However, it can be noticed that in large medium-sized companies, operative and strategic management accounting instruments are on a higher level of development than in small and medium-sized SMEs (Ossadnik et al. 2003, pp. 77-78).

In general, SMEs focus on operative MA instruments and consider strategic MA instruments only of secondary importance by rather neglecting them (Berens et al. 2005, p. 189, Dahms & Siemes 2005, p. 228, Haufe Akademie 2007, p. 22). Consequently, several empirical studies detected that SMEs show deficits using strategic planning and control systems (Berens et al. 2005, p. 186, Klett & Pivernetz 2014, p. 4). In addition, strategically oriented instruments such as weak point analysis, investment-controlling (Becker & Ulrich 2009, pp. 313-315), gap analysis, BSC, benchmarking, portfolio analysis and scenario analysis are still relatively poor developed (Ossadnik et al. 2003, p. 61, Berens et al. 2005, p. 191, Dahms & Siemes 2005, p. 231). After all, the SWOT analysis and competitor analysis are applied by a few SMEs (Berens et al. 2005, p. 190, Dahms & Siemes 2005, p. 231).

According to an analysis of the Haufe Akademie, more than half of all SMEs use no strategic instruments at all. In addition, even within the range of strategic instruments, there are huge differences regarding their importance in SMEs. The most meaningful instruments are shown below in Figure 7. (Haufe Akademie 2007, p. 22.)

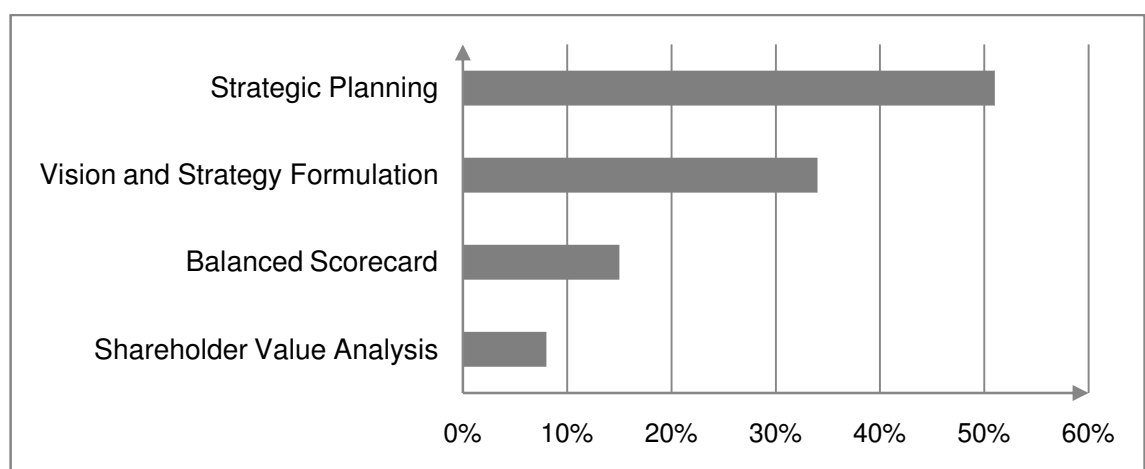


Figure 7. Strategic MA instruments used by SMEs in % (Haufe Akademie 2007, p. 22)

The significant differences between the individual strategic instruments seem surprising. Vision and strategy formulation is way behind strategic planning. Balanced scorecard and shareholder value analysis are even less relevant for SMEs. The small percentage shows that apparently the capital costs play no major role for the management of SMEs, which is certainly not always true. In addition, it does not make sense to develop a strategy, if the BSC is missing to implement the strategy. (Haufe Akademie 2007, p. 22.) However, other empirical studies also detected a lack in practical relevance for the BSC (Ossadnik et al. 2003, p. 79, Byrne & Pierce 2007, p. 483). According to Ossadnik et al., the BSC is rather qualified for SMEs with more than 200 employees. The low level of complexity and thus the high transparency of SMEs are reasons why they might not use the BSC with its low level of awareness. A missing strategy of small firms is another reason why the BSC is not necessary for them. (Ossadnik et al. 2003, pp. 79-80.)

Even though the comprehensive BSC is not applied in most SMEs, analysing non-financial information, which is also included in the BSC, is essential. A detailed evaluation of a SME's performance implies an equal focus on financial and non-financial measures. Johnson and Kaplan (1987) already identified in early years that focusing only on financial indicators would obstruct the survival of a company. (Lokman & Anoop 2001, p. 117.) Non-financial information can be collected concerning a firm's productivity, innovation, employee motivation, customer satisfaction, prices, market share, etc. These measures are referred to as critical success factors and SMEs should consider them of high importance to measure their performance. (Granlund & Lukka 1998, p. 197.) Non-financial information can be measured by analysing and monitoring customer complaints, met delivery dates, prices compared to competitors' prices, quality issues, etc. (Atkinson et al. 2004, p. 9). Urquidi and Ripoll analysed that three of four large companies collect non-financial information (Urquidi & Ripoll 2013, p. 77). Nevertheless, Sainaghi, Lokman and Anoop identified that firms generally put more emphasis on financial than on non-financial performance indicators (Lokman & Anoop 2001, p. 124, Sainaghi 2010, p. 928). Many SMEs need to know their employee productivity to set up deployment plans and some of these companies analyse prices of their

competitors for example from the Internet. Thus, it can be assumed that non-financial information is collected in SMEs. However, this also depends on the industry sector. E-commerce sector, hotel sector or service sector in general focus on customer satisfaction and often ask for their feedback, while SMEs in other sectors will concentrate less on non-financial information.

Summarising, strategic MA instruments are inadequately represented within SMEs and thus they have some catching up to do (Kosmider 1994, p. 98, Dahms & Siemens 2005, p. 227, Haufe Akademie 2007, p. 23).

4.3 Problems SMEs are facing with management accounting

The above-mentioned characteristics of management accounting in SMEs involve several problems and limitations, which are explained here in detail.

Lack of resources. SMEs are often not able to afford skilled management accountants, or even conventional full-time accountants. Their resource constraints are also often reflected in a partial or complete lack of MA and accounting skills, which is also influenced by inadequate training among the SME staff or the owners. (Mitchell & Reid 2000, p. 386, Dahms & Siemes 2005, p. 229.) Together with the additional workload of operational management tasks, it is often not possible to react to necessary changes identified by MA (Berens et al. 2005, p. 187, Posluschny 2010, p. 3). Furthermore, a lack of human, especially management resources, restricts SMEs in their controlling efficiency. Managers are barely able to devote themselves to the topic of MA, while they have to take care of various other tasks like manufacturing operations, HR issues or the development of a strategy. (Hutzschenreuter 2009, p. 60.)

However, these limitations are not only applied to management activities but are also tied to data systems. Limited or inadequate financial resources also lead to a lack of elaborate processes in MA or sophisticated ERP systems to provide data for accounting activities. (Hutzschenreuter 2009, p. 60.) Consequently, financial decision-making tools and systems are either less sophisticated and less formalised in SMEs than in large enterprises or not used at all (Quinn 2011, pp. 351-352, Lucas & Lowth 2013, p. 7). The owner or manager thus lacks

valuable information for management planning and control. In the absence of professional advice, financial decisions taken by the management are sometimes based solely on personal opinion and intuition. (Kosmider 1994, p. 48, Berens et al. 2005, p. 188, Klett & Pivernetz 2014, p. 4.) At this point, it is necessary to illustrate the SME management of this deficit through advisory support and to convince them of the disadvantages and risks of insufficient information systems (Kosmider 1994, p. 48). The preparation of MA information should ideally be done with the aid of reporting. Together with the implementation of appropriate instruments, SMEs are able to reduce management mistakes. (Berens et al. 2005, p. 188, Keuper et al. 2009, pp. 58-59.) However, the reports do not serve its purpose if they do not include enough information or if they confuse the management with too many details. This can easily be achieved, as the management of a SME is normally not used to draw conclusions of comparative analysis of numbers or to identify the substance of a trend. (Freiling 1980, pp. 158-159, Mitchell & Reid 2000, p. 386.) While obtaining information, SMEs face the problem of even receiving relevant external information and to bring those that are available in connection with the decisions to be taken. However, information can be directly obtained due to the closer proximity to the market of small firms, argues Kellerwessel (1984). Nevertheless, the problem usually is the insufficient processing of the received information due to work overload. (Kosmider 1994, pp. 46-48.)

No strategic direction. Also due to the lack of resources, management accountants are not able to deal with strategic issues as they first take care of operative issues and then there is usually no time or capacity for other issues. Furthermore, with a decreasing size of company, strategic issues are even more forced into the background whereas daily operations become more important. (Berens et al. 2005, p. 189, Dahms & Siemes 2005, p. 229, Haufe Akademie 2007, pp. 22-23.) The missing strategic focus of the management jeopardises the adjustment to all available opportunities and risks. The lack of strategic direction can only be explained with a weak understanding of the management or limited availability of capacities. (Dahms & Siemes 2005, p. 230, Haufe Akademie 2007, p. 24.)

Correspondingly, most investment decisions made by SMEs are only based on the management's experience, even though decisions on investment are often of vital importance. Since investments tie up capital for a long period, capital budgeting should be given great attention. The aim of capital budgeting is to substantiate specific multi-period decisions with information. (Berens et al. 2005, p. 189.) This shortcoming of capital budgeting was already discovered in 1988 and has not significantly changed until today (Kosmider 1994, p. 98). However, this specific investment behaviour of SMEs can quickly become a threat to the company's existence. The management can be supported by model-based planning and monitoring of investment projects that simulate financial consequences and thereby reduce the risk of bad investments. Financing and investment problems are the main reasons for insolvency of SMEs. Often, there are financially attributed mistakes identified when an emerging crisis is detected. This is the reason why liquidity planning in addition to the investment planning and monitoring is very important. The application of appropriate MA instruments will contribute recognising future liquidity shortage in time. (Keuper et al. 2009, p. 58.)

Conflict of involvement and independence. Another problem is that management accountants of SMEs often suffer an inner conflict when it comes to involvement and distance keeping at the same time. They have to know everything about the SME, be familiar with the business, and understand the management. However, they also have to maintain distance from the management and act independently from them to guarantee a critical perspective and impartial performance. For large medium-sized companies there is often a concentration of power being observed. By actively participating in the MA process of setting up corporate objectives and policy, the decision-making authority of management accountants increases substantially. It can be assumed that the necessary independence of management accountants for decisions, which have to be prepared, coordinated and controlled, does not exist anymore. Such an accumulation of power and influence conflicts with the support and advisory character of MA. The conflict between involvement and independence of SME management accountants cannot be solved; however, it

might improve the situation if the management is aware of the conflict and addresses it explicitly. (Weber & Schäffer 2008, pp. 109-111.)

Stubborn owners. Lucas and Lowth discovered that entrepreneurs of SMEs do not know what management accountants can actually contribute to the business success and have a rather narrow-minded image of them. Furthermore, owners are unwilling to engage qualified management accountants since they want to keep control and sole and complete access to their enterprise related data, which might be partly sensitive. Owners also consider reports created by management accountants too summarized and not specific enough to get the big picture of the company's current business situation. If they did the analysis of data themselves, it would require less control of the reports and provide a better insight, so their chain of thought. (Lucas & Lowth 2013, p. 5.)

Mistrust in MA. At the beginning of MA, right after the implementation, the system usually is sceptically regarded as the inflation of the administration. However, this notion is wrong as not the effort but the cost-benefit ratio is determinative. (Ossadnik et al. 2003, p. 22.) The secured decision-making, greater knowledge, savings resulting from analysed mistakes, time saving from tactical alternative actions and the benefit of a delegating management style should convince sceptics of the contrary (Freiling 1980, pp. 64-65). The management of a SME needs to understand MA as support and not as threat to their position of power (Ossadnik et al. 2003, p. 26). Even though the management might understand the necessity of MA at a certain point, many employees might not. Tasks that are assigned to MA usually do not enjoy great popularity in SMEs since they merely mean additional work without compliments. In addition, these tasks involve the danger to discover negative insights for their own department. (Schmid-Gundram 2014, p. 61.)

Consequently, the allocation of MA tasks and the delegation of responsibilities for MA issues can only be made by the management. These appointed management accountants are frequently regarded by their colleagues or supervisors as cost savers and sometimes business unit managers judge them negatively and employees of other departments even avoid them. The negative implication of management accountants is the reason why they are directly

reporting to the management independently of the hierarchy in the SME. It is the duty of the management to provide the necessary support for MA, which includes communicating the status and benefits of MA to increase the reputation of the involved employees. (Schmid-Gundram 2014, p. 61.)

4.4 Summary of the most important characteristics

Table 2 gives a better overview of the wealth of information mentioned above and will help to determine adequate hypotheses for the empirical analysis. The individual characteristics of SMEs usually depend on certain criteria such as the size of a company, the industry sector they operate in or how much financial or human resources the firm has. Classified by these criteria the table below shows the most essential characteristics of management accounting in SMEs.

Characteristics of MA in SMEs	Dependency factors
1. MA is also used for external stakeholders (e.g. to receive a credit).	Size of the company, limited financial resources
2. MA must be carefully adapted to the needs of SMEs to work properly.	Size of the company, growth phase, industry sector
3. The higher developed MA is the more it contributes to the overall success of a SME.	Size of the company
4. For a long-term success, SMEs have to operate with a strategic and operative MA.	Size of the company
5. Risk controlling is not performed by SMEs.	Size of the company
Staffing	
6. Different staffing options for MA: <ul style="list-style-type: none"> ➤ Management accountant (has to be an omnisciently allrounder; takes care / has full responsibility for all MA tasks in the firm; usually is a one-man-show; range of duties beyond normal range of MA tasks in large companies; separate MA department often not affordable for SMEs) ➤ Employees of finance department (have difficulties with MA as they work with historical data; require suitable training to perform MA) ➤ Head of accounting (requires suitable training to perform MA) 	Size of the company, human and financial resources, ownership, limited resources, strong centralisation of managerial functions and decision-making authority, industry sector, organisational structure

<ul style="list-style-type: none"> ➤ External consultant (trust is a critical factor; outsourcing of MA being a core competence is not an issue for SMEs) ➤ Owner manager (MA is often done by the owner, however, he lacks the critical distance and knowledge; owner basically has to generate his own management support) ➤ Non-owner manager (has higher adoption rate of MAS than owner manager; manager has to generate his own management support) ➤ Executive assistant 					
<p>7. SME's accounting (preparation of the annual financial statement and tax declaration) is sometimes also done by a bookkeeping office → bookkeeping office is better informed about SME's performance than owner.</p>	<p>Size of the company, limited resources, organisational structure</p>				
Instruments					
<p>8. General MA instruments have to be used in a simplified manner for SMEs.</p>	<p>Size of the company, limited resources</p>				
<p>9. Several SMEs consider it sufficient to merely look at company figures, but do not evaluate them.</p>	<p>Size of the company, limited resources</p>				
<p>10. Instead of a MIS, Excel is entirely sufficient for majority of SMEs.</p>	<p>Size of the company, financial resources</p>				
<p>11. Use of operative instruments:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> <p>Often or occasionally:</p> <ul style="list-style-type: none"> ➤ Cost accounting ➤ Operative planning ➤ Reporting ➤ Key performance indicators ➤ Target-actual comparison ➤ Contribution margin ➤ Budgeting ➤ Forecasting ➤ Break-even analysis ➤ Cash-flow statement ➤ Cost-benefit analysis </td> <td style="width: 50%; vertical-align: top;"> <p>Not or very rarely:</p> <ul style="list-style-type: none"> ➤ Activity-based costing ➤ Target costing ➤ Allocation of overhead costs </td> </tr> </table> <p>Use of strategic instruments:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> <p>Often or occasionally:</p> <ul style="list-style-type: none"> ➤ SWOT analysis ➤ Competitor analysis ➤ Strategic planning ➤ Vision and strategy Formulation </td> <td style="width: 50%; vertical-align: top;"> <p>Not or very rarely:</p> <ul style="list-style-type: none"> ➤ Weak point analysis ➤ Investment controlling ➤ Gap analysis ➤ BSC ➤ Benchmarking ➤ Portfolio analysis </td> </tr> </table>	<p>Often or occasionally:</p> <ul style="list-style-type: none"> ➤ Cost accounting ➤ Operative planning ➤ Reporting ➤ Key performance indicators ➤ Target-actual comparison ➤ Contribution margin ➤ Budgeting ➤ Forecasting ➤ Break-even analysis ➤ Cash-flow statement ➤ Cost-benefit analysis 	<p>Not or very rarely:</p> <ul style="list-style-type: none"> ➤ Activity-based costing ➤ Target costing ➤ Allocation of overhead costs 	<p>Often or occasionally:</p> <ul style="list-style-type: none"> ➤ SWOT analysis ➤ Competitor analysis ➤ Strategic planning ➤ Vision and strategy Formulation 	<p>Not or very rarely:</p> <ul style="list-style-type: none"> ➤ Weak point analysis ➤ Investment controlling ➤ Gap analysis ➤ BSC ➤ Benchmarking ➤ Portfolio analysis 	<p>Size of company, limited human resources, industry sector, company's situation</p>
<p>Often or occasionally:</p> <ul style="list-style-type: none"> ➤ Cost accounting ➤ Operative planning ➤ Reporting ➤ Key performance indicators ➤ Target-actual comparison ➤ Contribution margin ➤ Budgeting ➤ Forecasting ➤ Break-even analysis ➤ Cash-flow statement ➤ Cost-benefit analysis 	<p>Not or very rarely:</p> <ul style="list-style-type: none"> ➤ Activity-based costing ➤ Target costing ➤ Allocation of overhead costs 				
<p>Often or occasionally:</p> <ul style="list-style-type: none"> ➤ SWOT analysis ➤ Competitor analysis ➤ Strategic planning ➤ Vision and strategy Formulation 	<p>Not or very rarely:</p> <ul style="list-style-type: none"> ➤ Weak point analysis ➤ Investment controlling ➤ Gap analysis ➤ BSC ➤ Benchmarking ➤ Portfolio analysis 				

<ul style="list-style-type: none"> ➤ Non-financial information ➤ Scenario analysis ➤ Shareholder value analysis ➤ Life cycle costing 	
<p>12. MA instruments are not generally very common and sparsely used</p> <ul style="list-style-type: none"> ➤ More than half of all SMEs use no strategic instruments at all. ➤ Operative instruments have a higher role than strategic instruments. 	Size of the company, limited resources, industry sector, organisational structure
Problems	
13. Managers are barely able to devote to MA with their huge daily workload of operational management tasks.	Size of the company, limited resources
14. SMEs usually have no strategic direction as operative issues come first.	Size of the company, limited resources
15. Management accountants suffer an inner conflict of involvement and distance keeping .	Size of the company, organisational structure
16. Several owners do not know what MA can contribute for a SME's business success. (They want to retain control and are unwilling to engage qualified management accountants.)	Size of the company, ownership
17. Management and employees might regard MA sceptically in the beginning.	Size of the company, ownership

Table 2. Most important characteristics of MA in SMEs

4.5 Hypotheses for empirical part

The theoretical framework about characteristics of management accounting in SMEs that was presented in this chapter of the thesis allows the determination of research hypotheses. With these assumptions, the analysis of the structure and progress of MA in Rantalinna shall be facilitated. Considering these findings prior to the interview has resulted in formulating the following hypotheses:

- Management accounting is performed by the manager and not by a qualified management accountant
- Rantalinna might use some operative management accounting instruments, but no strategic instruments
- Tasks within the scope of cost accounting are the most important management accounting instrument for Rantalinna.

These assumptions will be verified as a part of the paper, through a semi-structured interview conducted with Rantalinna. However, the empirical part will not only be based on these hypotheses, but also other issues of MA will be analysed. For example, it will be investigated if there are certain contingencies, which have influenced the development of MA or which MA instruments are being used by Rantalinna and which are not. These issues cannot be formulated as hypotheses yet since further details of the case company are unknown, but will be ascertained during the interview.

5 Empirical research

To illustrate the current condition of MA in the micro company Rantalinna, some information about the hospitality industry and MA in hotels is necessary beforehand and will be shown in section 5.1. The research method is described in section 5.2 and how the respective empirical data is collected and analysed will be explained in section 5.3. Eventually section 5.4 reveals the empirical findings and compares them to the theoretical review.

5.1 Economic relevance of management accounting in the hotel industry

The hospitality industry employs 10 million people in the European Union, which is 4.7% of the overall workforce in Europe. According to the organisation HOTREC (2014), hotels, restaurants, and cafés alone created 2.5 million additional jobs between the years 2000 and 2010. Moreover, 99% of the enterprises involved in that industry are small firms with less than 50 employees. Taken as a whole, the industry is an important employer of labour and has an essential position in the economy.

The hotel industry is characterised by a high competitive pressure, which will not decrease in the near future. The extremely competitive environment prompts the hotel management to meet their customers' expectations much more closely to ensure the survival and long-term success of the business. This pressure also exists in the small and medium-sized hotel industry, as this industry is burdened with enormous intensity of investment. To counteract this pressure, an exact planning of the future and all the processes within an

organisation are required, especially the planning of financial processes. (Gewald 2001, pp. 1-2.) Strategic management accounting is also used in the hotel sector for planning, monitoring market conditions, and for the analysis of competitors' price structures and costs. Strategic plans are usually made for up to five years in advance, however, a forecast for a longer time frame than one year is made on a subjective basis and relies on many assumptions. (Collier & Gregory 1995, pp. 16-21.)

Furthermore, there is an urgent need for information about costing in the hotel sector. The used cost methods are similar to the ones used in other sectors. However, it is important to know that the hotel business is characterised by a high share of fixed costs arising from wages and salaries and a considerable lower proportion of variable costs originating only from laundry, dry cleaning or domestic supplies. Together with an irregular demand of the hotel business, a profit instability results. Thus, there are quick significant losses if the turnover is below the coverage of fixed costs, whereas the other way round there are quickly profits if the turnover exceeds fixed costs. Budgeting is also very important for a hotel. It provides an insight into the expected economic development of the organisation. In addition to these requirements, managers have to react to environmental changes in the hotel industry, which means managers do not only have to make their decisions at a faster pace, but also have to make better decisions due to the high competition in the hotel sector. (Gewald 2001, pp. 1-5, 100.) Consequently, MA can significantly contribute to the success of hotels and is today as important as marketing and sales for the hotel industry (Huber 2000, p. 53).

5.2 Research design

In this chapter, the research process is introduced more thoroughly to provide an understanding of the chosen method. The research method for the case study is a semi-structured interview and was selected due to the objectives of this study. The goal of this study was to find out the current situation of management accounting in SMEs and if it is actually applied in these types of companies. The purpose of the case study is to project a company's MA progress onto other companies' progress in the same field. The results of this

thesis might not be applicable for all SMEs in Europe or respectively in the hotel industry, but since they are based on broad theory of MA, the generalisation can be ensured (Saunders, Lewis & Thornhill 2012, pp. 383-384).

A semi-structured interview offers an insight of processes used, thoughts about MA, and the extent to which it is being used. This kind of interview style has flexible structures and the way in which the questions are placed can be changed or adapted to the course of the conversation. The aim was to approach the topic as openly and flexibly as possible to discover new phenomena without giving the interviewee too many restrictions with predetermined answers. In this context, flexible also means that additional questions, which have not been prepared prior to the interview can be asked if necessary. In addition, it enables the interviewer to change the wording of the question or ask in another way if something is not clear. Besides, it allows pursuing an additional point if it is reasonable for this thesis during the interview. Semi-structured interviews allow the quality of data obtained to be very detailed and the kind and form of questions ensure concentration on the topic. (Saunders et al. 2012, pp. 374-375.)

The conducted interview is a focused interview in which the interviewer exercises greater direction over the interview while allowing the interviewee's opinions to emerge as the respondent answers the questions of the researcher. This approach is especially qualified to examine the current situation of management accounting in SMEs, as it is possible to analyse the dominant aspects of MA in Rantalinna and the impacts they have on the case company. Even though a pre-planned agenda is prepared beforehand and should carefully be followed, the interviewer needs to be flexible and has to adapt to the existing situation. An exact question wording or exact word order is not necessary, but all the questions must be covered. If the interview is handled well, it sounds almost like a normal conversation between two people. (Robson 2011, pp. 280-290.) In addition, the interview with the responsible person of the case company is accomplished on a one-to-one basis, which means only two persons are involved in the conversation (Saunders et al. 2012, p. 375).

Furthermore, a qualitative approach was used in this study as an interview mainly generates non-numerical data. A qualitative research also allows interpreting and explaining phenomena with words. Moreover, qualitative research is generally linked to the inductive approach. This approach starts by collecting data with the help of an interview to increase the understanding of the current situation of MA in SMEs. After collecting enough data, patterns can be found and a theory can be set up. Besides, the information derived from the interview is mostly about feelings, behaviours, or subjective views of the interviewee. Thus, this data cannot be measured in numbers and consequently rigid hypothesis cannot be formulated as it would be the case with a deductive approach. (Saunders et al. 2012, pp. 143-147, 161-163.)

In a qualitative interview like the focused interview, the most challenging part is the interpretation of the information gathered from the interviewee. There are no specific instructions how the interpretations should be made, but it should be noticed that the answers are just personal opinions of the interviewee.

5.3 Data collection and analysis

The first interview was a face-to-face interview and was conducted from 2.00 pm to 4.00 pm on October 31 at the premises of Rantalinna. The second interview was done via Skype from 6.00 pm to 7.30 pm on November 8. The interview partner in both interviews was Aljona Kähler. She is the responsible person for hotel and restaurant management at Rantalinna and performs MA. The interview contained 135 questions with some additional sub-questions. Notes were taken during the interview and the conversation was captured by audio recording. As the interview was semi-structured, the question order varied. Due to the nature of the conversation, some additional supplementary questions were made. After gathering the data, it was transcribed by listening to the audio recording and typing the information of what the interviewee said into word. The written version of the interview was sent to Aljona Kähler in order to receive her approval. (Saunders et al. 2012, p. 550.)

Marshall and Rossman (2006) argue that the nature of a semi-structured interview might raise concerns about the reliability of data since it is not

guaranteed to reveal identical information if the research would be conducted again. Issues about reliability involve also biases on both the interviewer and interviewee side during the interview as a semi-structured approach is not fully standardised. To reduce problems with reliability, the interviewer focused on acquiring enough knowledge about the theoretical framework and the interviewee to develop trust and credibility. Besides, the interviewer tried not to vary the tone on individual questions or non-verbal behaviour during the interview in order not to have an impact on the interviewee's answers. The validity of the interview is ensured, as questions were conducted carefully by exploring the knowledge of Aljona Kähler with the help of open and probing questions. In case of vague responses, further questions were asked and meanings of some responses have been checked. Proposing or leading questions have not been used to avoid bias of the interviewee. Questions containing theoretical concepts or jargon have also been avoided since the interviewee might have a different understanding of such concepts or might not be familiar with the terms and therefore might feel intimidated during the interview. (Saunders et al. 2012, pp. 381-393.)

As the collected data was large in volume and complex in nature, an analysis, summary and transformation were necessary to answer the research question and confirm or confound the hypotheses formulated in section 4.5. Categories according to this thesis structure were developed and linked to each other. Then, the written interview was read over and over again to find meaningful parts of data, which had also been identified in the theory part of this thesis. (Saunders et al. 2012, pp. 546-548.)

5.4 Empirical findings and comparison to the theory

It is intended to identify whether SMEs use MA in practice. This is accomplished by analysing how far MA in the case company is advanced and what instruments are being used. Thus, it can be checked whether a conceptual understanding regarding MA exists and how well it is developed. Therefore, the first part of the empirical study provides general information about Rantalinna. Subsequently it is revealed why the hotel applies MA and how far its risk management is progressed.

Rantalinna is based in Eastern Finland and the region serves as a recreational area for many Russian tourists. It is both a summer destination and a winter destination. However, their high season is during the summer months. The hotel mainly depends on revenues from leisure tourists and revenues from their à la carte restaurant. Most guests book the Rantalinna hotel online through www.booking.com.

Rantalinna Oy was founded in 2012 and thus represents a young company. In comparison to a company with greater age and broader experience, which might influence MA in a positive way, a younger company age can also lead to being more open-minded to new and modern instruments and not to being stuck in decades of daily routine (Kosmider 1994, pp. 168-169).

MA within Rantalinna is mainly used to get a better overview of the financial situation and to support the management with better decision-making. Figures are calculated and reports are created for internal purposes. However, they are also used for banks, but this is not the main intention of MA of the hotel. The company uses it to apply for loans if it wants to invest in new assets. It has done this to be able to build the cottage on the lake shore. Thus, the reason why MA is used within Rantalinna matches the findings of the theory part.

Rantalinna is aware of the risks, which are connected with tourism. However, it might not consider political risks, risks of natural disasters or micro economic risks. The company is trying to get information about risks in general, but there is by no means a risk management in place. This realisation goes along with the theory part, because most SMEs do not perform risk management at all.

Staffing management accounting in Rantalinna

This part of the empirical analysis deals with the structure of Rantalinna and the person who performs management accounting for the hotel. The leadership style of the management accountant is identified as well as the contingencies that might influence the application of MA. In addition, it is explained how Rantalinna intends to get further support for MA.

Even though Rantalinna is owned by a company that owns and rents cottages, the hotel belongs to the micro enterprise category according to the definition of the European Commission explained in section 3.1. The hierarchy of the case company is displayed in Figure 8.

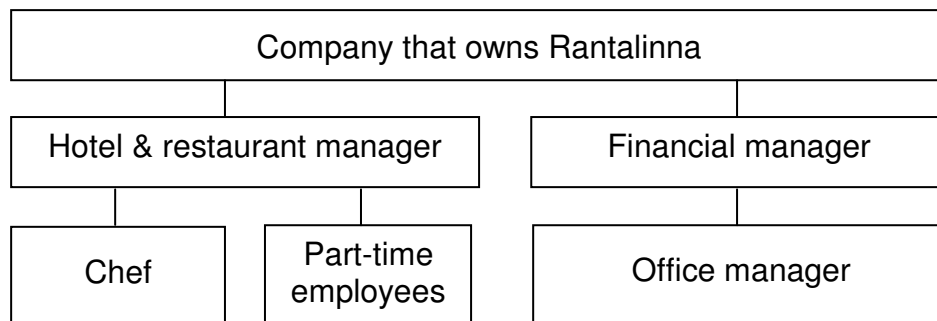


Figure 8. Rantalinna organigram

Financial manager and office manager only play a secondary role when it comes to MA. The scope of work of the office manager can be compared to that of a secretary and the financial manager is responsible for financial movements. A chef and four part-time employees are subject to the hotel and restaurant manager Aljona Kähler, being referred to as the management accountant in the further analysis as she is responsible for MA in Rantalinna. She does not only make reports and calculations for the hotel, but also organises daily work for the employees, makes market research, collects financial and non-financial information, calculates prices, orders raw materials, hires and provides training for employees, finds business partners, and implements marketing campaigns. Thus, the management accountant is an allrounder, is very familiar with all internal processes and knows exactly how to change something. These findings are in correspondence with the theory identified in chapter 4.1.

Even though Rantalinna is not owned and managed by the same person, the leadership style of the manager who performs MA was still identified to be patriarchal. She has the full power of decision and cares about her employees, however in return expects loyalty, faithfulness and conformation to the rules. The manager has full responsibility and thus has to control all processes conducted in the hotel. In addition, the information, consulting and coordination tasks are attributed greater importance and the non-owner manager provides additional know-how for Rantalinna. However, the manager is exposed to a

higher pressure to succeed and thus considers an efficient MA essential. Closely related to the management structure is the legal form of a company. It influences corporate management by improving the relationship between owner and management and by regulating the degree of public control as well as structure of management. In accordance with the contingency theory described in chapter 2.6, the separation of ownership and management enhances limited influence from the owner and clearly defined task assignments and competencies for the manager. According to Kosmider, the legal form of a company has an influence on the degree of formalisation. Consequently, corporate enterprises, as the Oy in Finland, are attributed to have a promoting effect on the development of MA. The described correlations show that these factors may be an additional reason for performing MA, but in no way reduce the need to perform it. (Kosmider 1994, pp. 162-167.)

Although executing management accounting functions as a manager is against the fundamental understanding of MA, tasks and functions of MA are performed by the management of Rantalinna. Due to the heavy workload of operative managerial functions, requirements for MA might not be met adequately. (Kosmider 1994, p. 138.) In this context, the question of professional qualifications of the management accountant is revealing. The responsible person for MA has no specific qualifications concerning business administration in general, however knowledge about interrelations and processes of accounting acquired by courses attended at business university are adopted. Thus, the minimum requirements for management accountants as analysed in chapter 4.1 exist in practice.

Rantalinna does not have an in-house accounting department, but due to the small size of the company and limited human resources it works with an external bookkeeping office. The bookkeeping office does Rantalinna's annual profit and loss statement, balance sheet and tax declaration. This option of performing accounting also was detected in chapter 4.1 and is a typical choice of micro companies. Furthermore, it provides the hotel with advice concerning accounting laws and regulations as well as labour law. Moreover, every month the bookkeeping office creates a report about the current situation of the hotel,

which ensures that Rantalinna is as well informed about the hotel's performance as the bookkeeping office.

Although MA is centrally organised within Rantalinna and is not performed by an external institution, the management accountant should always make sure to develop her scope of work to avoid lagging behind and being exposed to a strong competitive pressure of other departments like accounting or external consulting companies (Haufe Akademie 2007, p. 35). In addition, training on a regular basis, either through study of literature or participation in appropriate seminars, affects the implementation and use of MA in a positive way (Kosmider 1994, p. 169). The necessity for further development of MA also has been recognised by Rantalinna. The plan is not only to extend the knowledge of the management accountant with further training but also to employ an external professional on a part-time basis who will not only offer consulting for the management, but actively makes research, performs calculations and generates marketing plans.

Rantalinna is aware that it needs external support for the phase of development. It is interested in getting suitable facts, figures and method information. This includes for example relevant market information as well as information about the application of specific MA instruments. There are a number of suppliers for information available, however, the hotel prefers information from banks, trade associations, chamber of commerce, universities, bookkeeping offices, auditors, consultancy firms, and commercial unions connected with tourism and restaurant services. MA seminars, further education and Internet are also considered as potential information sources for support. In the theoretical part, it was identified that small firms could imagine getting support from their bookkeeping office and auditors for developing MA, as there usually is a relationship of trust. The same applies in practice with Rantalinna. However, while the hotel could imagine getting support also from various other external institutions, SMEs in other studies considered them as less important.

Management accounting instruments in Rantalinna

Essential instruments for MA cannot be assumed to exist in all SMEs. Therefore, it is the responsibility of MA to review critically the existing tools and to ensure the availability of adequate instruments. (Kosmider 1994, p. 108.) Accordingly, MA instruments of Rantalinna will be analysed in the following part and compared to the theoretical findings.

Chapter 4.2 described the interaction of different MA tools. Some of these tools are also necessary for Rantalinna. The hotel operates in a niche market and follows the focus strategy in conjunction with the differentiation strategy of Porter (1980) (Miller 1992, p. 37); however it is not aware of following these strategies. The hotel sector greatly differs from any other industry regarding the product. Even though the products may seem to be very similar, hotels never exactly offer the same product. There are always some differences concerning the product and the quality of service. This aspect makes it hard to compare prices with competitors, but provides greater possibilities for achieving price and product differentiation. This means there is the possibility to offer a better service for higher prices. However, this usually involves higher costs, too. Besides, continuous monitoring is needed to assure that the hotel guests still appreciate the product to be of good value. (Adams 1997, p. 67.) Especially price differentiation can be taken into consideration as the hotel offers a special or rarely available accommodation option. Rantalinna is in a very good position here, as it offers accommodation in a unique and historical castle.

The owner company has a business plan for the whole company, because otherwise the firm would not be able to apply for a loan at the bank for the newly build cottage. However, no business plan exclusively for Rantalinna hotel does exist. This plan could support the management accountant in medium-term planning and achievement of objectives. A business plan also serves as the basis for the action plan that in turn cannot be applied since no vision or awareness of strategy are in place.

Rantalinna uses not only a computer, but also MS Excel and a cash desk software to get support with their daily business operations and planning. A MIS

is not an issue for the micro company (Schmid-Gundram 2014, p. 13) and Excel is absolutely sufficient for Rantalinna's MA purposes. This finding offers support for the theory in chapter 4.2. In 2004 Ibrahim, Angelidis and Parsa identified that only 38 percent of small businesses in the United States of America take advantage of computers (Ibrahim, Angelidis & Parsa 2004, p. 57). This shows that firstly, a lot has changed in recent years as for technology development for SMEs, and secondly, Rantalinna adapted to the change very well by recognising that a computer based daily routine in a hotel is unavoidable. Nevertheless, the cash desk software is not especially designed for hotels or restaurants, but for the retail sector in general. For the moment, this might be enough, but as Rantalinna intends to expand in the near future, it should think about implementing customised software for their own needs, including options to print lists of rooms to be cleaned, daily reservation lists, and other reports useful for MA in small businesses.

Operative management accounting instruments applied by Rantalinna

In the following, it will be analysed which of the operative MA instruments mentioned in chapter 2.4 Rantalinna uses. According to Bromwich (1990), it is important to analyse a company's cost structure and to consider the cost structure of competitors. He also emphasises that costs have to be regarded in connection with demand factors. The hotel industry makes it easy to comply with these requirements due to the easy access in the industry to information like prices or cost structures of competitors. For hotels, it is difficult to be secretive and thus there is a certain degree of visibility. (Collier & Gregory 1995, p. 19.) Rantalinna analyses its cost situation as well as possible. The management accountant is very much aware of the hotel's fixed costs, but cannot calculate the variable costs in detail. Rantalinna classifies costs in direct costs, e.g. laundry, beverages, cleaning staff or TV and cable licences and indirect costs, e.g. advertising, accounting or insurance. The hotel has a much higher proportion of indirect costs in the form of facility sustaining like heating the castle or maintenance costs than product sustaining costs. Since indirect costs cannot be allocated to a precise product or service, an allocation of overhead costs is expedient in this case. (Lucas & Lowth 2013, p. 7.) However,

neither heating or maintenance costs nor labour costs are allocated to cost centre because the hotel does not know how to split these kinds of costs to individual departments. This seems surprising, because due to human resource planning, the manager of Rantalinna knows for example that a cleaning lady is allowed to take 40 minutes for cleaning a hotel room or how much time another part-time employee spends for breakfast in the morning. A recommendation would be to allocate heating and maintenance costs according to the floor area of each department, labour costs according to the actual working hours in each department and other indirect costs like advertising, accounting or insurance according to the turnover of the restaurant, accommodation, or sauna.

However, as accounting is executed by the bookkeeping office, cost centre accounting and overhead allocation might be performed by them, which imply a good relationship with the management accountant to get the necessary information like working hour records for cost allocation. Consequently, Rantalinna stated in the interview that cost centre accounting is not applied by them. However, cost centre accounting can only be spared if process and product structures are organised extremely simply or if the service is completely homogeneous. Rantalinna seems satisfied with the information from the bookkeeping office and does not recognise that their informational value is only of limited use for a variety of decisions to be taken. By allocating costs to products or services, the information from preliminary stages of cost centre accounting is comprehensively being used. Rantalinna omits to use cost unit accounting, however the hotel is able to allocate certain costs to individual products such as meals served or occupied bed nights. The management accountant determined calculation cards for the cost unit of meals served. These cards show how much raw materials are allowed to cost for a dish. However, personnel costs and other indirect costs of the total costs are not taken into account. The same applies to the cost unit of occupied bed nights. Here, only costs of 3.50 euros for toiletries set, slippers and hygienic set, which are standard in every room, are calculated. Other direct and indirect costs are not included. Nevertheless, 15% commission fee charged by www.booking.com for each online booking was added to the final room charge to cover at least these costs.

The hotel only sees the total expenses of the profit and loss account. In doing so, no meaningful information about profit and loss potentials of their products and services can be acquired. This is possible only with a decision-oriented income statement. Even though cost accounting can be intensified and a more detailed analysis of variable costs is urgently needed, the firm already performs cost accounting on a large scale compared to other micro companies. This might be due to competitive pressure of the hospitality industry as examined in chapter 2.6.

Operative planning, like how to increase occupancy rates in the next month and what marketing campaigns might be necessary to accomplish that, how many reservations are needed to cover monthly costs, deployment of personnel for coming weeks, what raw materials need to be purchased and so on, takes a major part of the management accountants daily work. She argues to spend 60% of her time for planning purposes.

Reporting is done on a monthly basis to the owner company. It includes information about revenues from restaurant, accommodation, sauna, leisure activities, expenses divided into fixed costs and other costs, average room income, or event revenues. According to the management accountant, Rantalinna forwards a lot of different reports such as managers' daily report, lodging report, F&B report, or sales report to the company that owns the hotel but reporting is not seen as obligation. Some reports are also forwarded every week, depending on the significance of the information. Reporting to external stakeholders except banks is not an issue for the hotel.

The management accountant calculates many key performance indicators. For example the hotel's occupancy rate, total reservations per month, average reservation growth, average income per night, average stay of hotel guests, total sales revenues, profit at the end of the year, percent of total guests who order dinner, and average restaurant check are determined. She also knows what key performance result is good, average or poor.

Prices are calculated in a rather unconventional manner. Firstly, the owner company determines minimum prices. This recommendation is then compared

to prices of other hotels in the region. In the end, Rantalinna adds a certain amount for being an exclusive and luxury hotel. Furthermore, prices are adapted to seasonal changes, for special events or according to commission ratio of business partners. The calculation is not based on their total costs, contribution margin or much less on their desired profit. There is no continuity and sometimes Rantalinna sells rooms or opens the restaurant, even though it knows that it will make loss with the arrangement. The management accountant is doing this on purpose to create a certain reputation for the hotel to get more loyal customers in the future. However, it can be questioned whether the hotel is able to cover its costs in the long-run and operate profitable.

MA can prevent a company's blindness and thus a sudden strike by current market influences. An instrument of MA to counteract this blindness is the necessity for a written formulation of objectives and a budget preparation. (Huber 2000, p. 21.) Unfortunately, neither of them exists in Rantalinna. The budget of a hotel is usually prepared for one year in advance and supplies the management with a short-term plan drawn from long-term objectives. It gives a plan for the implementation of a company's goals and objectives. The budget is not only an increase of last year's actual results, but has several purposes. One aim of budgeting is to enable the hotel to quantify future plans. Budgeting forces management accountants to be future oriented and to make short-term targets. With budgeting, the hotel would be able to detect shortfalls in sales and it supplies possibilities to implement measures to handle these problems.

Another purpose is to set performance objectives and targets. To co-ordinate departmental activities is also aimed by the budgeting process. If the management accountant would prepare a sales budget for example for the restaurant and accommodation, the two departments would be obliged to co-ordinate with each other. This is especially the case in a hotel where the sales budget of the restaurant depends on the predicted occupancy rate. (Adams 1997, pp. 84-85.) In this case, Rantalinna calculated that 83% of all their guests are having dinner. However, Rantalinna does not actively prepare budgets, which might also be due to the young company age and low level of experience as the management accountant has no figures of previous years to compare

with current figures and orientation to predict future figures. Altogether, the company cannot benefit of all the above-mentioned advantages provoked by budgeting.

Nevertheless, there is a budget existing for marketing spending and some plans what number of occupancy in percent the hotel wants to achieve for the next year, but there is no concrete budget. The plans it has or the process of estimating what might happen in the future can at the most be referred to as forecasting. However, forecasting concerning sales revenues is not entirely reliable because Rantalinna cannot accept big events as it depends on personnel that is not easy to get in the remote area where it is located. If the hotel employs permanently full-time employees, it has high costs and still it might not get orders for events so it is difficult to find the right balance of staffing, particularly as there is a high intensity of labour in the hotel sector. For instance, even if a hotel offers low budget services it has to operate at a minimum level of staffing which is higher than most other companies feature. This sets clear limits to the reduction of costs for Rantalinna. Thereby it must be considered that there is a correlation between personnel costs and quality of hotel service. That means a reduction in personnel costs cannot be achieved without negative influence on the service quality of the hotel. (Gewald 2001, pp. 4-5.) Aside from the fact that Rantalinna does not prepare budgets, the management accountant stated to target its costs. For example, she knows in October which amount of costs the hotel will have to expect in November. In addition, the management accountant sees the hotel's expenses every day and even though no Excel file exists, she checks whether actual costs are higher or lower compared to the targeted costs. Still, variance analysis of the actual and planned performance cannot be performed as there are no target projections of sales and thus inefficiencies will not be targeted and eliminated.

Contribution margin calculations are not adopted by Rantalinna yet, but might be applied by the bookkeeping office. This analysis is recommended because it is simple and can be calculated in Excel when the hotel finally determines its variable costs. The contribution margin shows the contribution to the coverage of fixed costs.

Rantalinna knows when it is reasonable to offer buffet in the restaurant (20 to 25 guests) or when to buy a hotel reservation system (with more than 50 or 60 rooms capacity). Hence, it is aware of when things will be profitable for certain sizes of hotels and pay attention to rationalisation. Moreover, the management accountant is able to calculate the hotel's profitability, which is done weekly. However, the hotel has certain difficulties to calculate its break-even point due to the mentioned problems in identifying its variable costs. The management accountant is aware of BEP calculation, maybe does not know the term, but she knows about it. Rantalinna knows that if it has 35% reservations or occupancy rate it will make neither loss nor profit. Its revenues and expenses will then be in balance provided that it offers its rooms within a certain price range. Managing the total capacity of the hotel needs a thoughtful balance between retaining room prices and obtaining maximum level of occupancy. It has to be considered whether a little increase in prices is worth a reduction in occupancy rate. Therefore, the occupancy rate is the critical parameter of success for Rantalinna. (Adams 1997, p. 68.) However, since their variable costs cannot be calculated in detail, BEP analysis is not possible. Nevertheless, the management accountant knows the costs of the hotel and how much sales revenues are needed to cover those costs at the end of the year.

Rantalinna's office manager sends bank accountant balances every day, but only if there are transactions in place. The balance of the cash register of the hotel is checked every day except when no guest has paid in cash during the day. Each cash payment will be written down in the cashbook, and in the cash desk software. Thereafter, it will be transferred to the management accountant's computer reports. If the management accountant takes cash out of the till, she has to write it in the cashbook so that all incoming and outgoing amounts are recorded. A cash flow statement is not created by the management accountant; however the owner company might calculate it for the whole company.

Monitoring of accounts receivables is not necessary as most guests pay by credit card. Rantalinna issues maybe two or three invoices per month, which can be easily monitored by the office manager. Incoming invoices are first checked for quality and amount by the management accountant and then they

are forwarded to the office manager. Incoming invoices are usually paid straight away and the office manager monitors accounts receivables.

Rantalinna executes almost all recommendations presented in chapter 4.2. This includes processing aggregated data about profit and loss, monitoring of accounts receivable and payables, and cash balance. The hotel has a good overview of the current reservation situation and the performance of the company. Target-actual comparison is not made, but the development of the market is monitored and reporting is very important for Rantalinna. The most important factors seem to be cost accounting and calculating key performance indicators. However, everything is done on a small scale, which is absolutely appropriate for micro companies.

Comparing operative instruments used in practice by Rantalinna with the current situation identified from literature, it can be said that there are several consistencies. Cost accounting, operative planning, reporting, and key performance indicators are considered most important for Rantalinna and thus support the findings in chapter 4.2. Cost centre accounting, and cost unit accounting might be performed by the bookkeeping office, which does not permit a definitive statement whether it is applied, or not. Based on the general impression the theoretical findings can be confirmed; activity-based costing and target costing are not used within Rantalinna. The literature review stating that target-actual comparison and contribution margin calculation are very common for SMEs cannot be verified as the case company is not using them. However, Lucas and Lowth consider target-actual comparison for SMEs not necessary (Lucas & Lowth 2013, p. 7) and thus it might be required much less for Rantalinna as a micro company.

Budgeting is supposed to be used occasionally by SMEs, but due to the small size of Rantalinna, it is not being applied. In addition, the management accountant does not know the break-even point in absolute numbers, but has a percentage when the company roughly makes nor profit nor loss. The theoretical findings about budgeting and BEP cannot be supported in this case. Nevertheless, Rantalinna makes some projection for the future about what it hopes to get in terms of sales figures. The findings of occasional use of

forecasting tools can be confirmed. Allocation of overhead costs is not being used by SMEs and the same was discovered at the case company. Cash flow statement and cost-benefit analysis are not implemented by Rantalinna and thus are not occasionally been used like previous studies identified.

Rantalinna indicates positive expectations in respect of MA instruments and their positive impact on the hotel's performance. However, a big issue hampering the development of MA is that Rantalinna is not separated from the owner company. This fact makes it difficult to calculate and analyse data, since it cannot be exclusively applied to the hotel. For example, equity ratio of the hotel is not possible to determine, because only the number of equity for the whole company exists. The same applies to the business plan; there is no business plan exclusively for Rantalinna. Consequently, this can also be transferred to the strategic instruments of the hotel. For many instruments with medium and long-term orientation, no information is available for further analysis of the management accountant.

Strategic management accounting instruments applied by Rantalinna

One of the main strategic instruments of SMEs is the SWOT analysis. It investigates strengths and weaknesses as well as opportunities and risks and compares them to the strongest competitor. Thus, an overall assessment of Rantalinna's position in the market and competition can be obtained and hidden potential will be identified. The information of the SWOT analysis is therefore a significant assistance correlated with the allocation of management capacity and financial resources to individual operational areas. (Kosmider 1994, pp. 123-124.) Rantalinna has a SWOT analysis but there is no written version of it. The management accountant knows Rantalinna's strengths, weaknesses, opportunities and threats exactly. However, the instrument is not developed professionally. The weak point analysis is connected with the SWOT analysis. The management accountant knows the hotel's weaknesses, but does not analyse them in detail or write them down.

Competitor analysis is performed on a large scale concerning prices, special offers and competitor's capacity. Rantalinna being a unique castle close to the

Russian border considers to have no direct competitor and thus cannot adequately compare prices. No similar accommodation is located in this region, but prices of other hotels in the proximity are analysed.

Particularly in the hospitality industry, where asset intensity and indebtedness is very high, a hotel should not be managed without strategic planning. (Huber 2000, p. 22.) Eventually, MA has to provide a formalised and efficient approach for planning activities. Strategic planning is conducted in the form of personnel planning and investment planning. The management accountant calculates labour hours for different scenarios like increasing occupancy rate and then decides whether additional staff is needed or not. Personnel planning generally is made six months in advance; however, there is neither a written plan for personnel nor for investment planning available and thus strategic planning is not developed sufficiently. A formalised approach has to be seen as a necessary first step to ensure the continuity of the planning process in Rantalinna. Internal approaches will only then be visible and are thus open to criticism and discussion. (Kosmider 1994, p. 127.)

Even today, many companies of the hospitality industry are managed with a rule of thumb. This means that there is no planning and reactions are only being made to the current situation. Very often intuition has priority for decision-making. Managers react on a short-term basis, which causes no straight way of strategic decision-making and does not bring the desired success. (Huber 2000, p. 21.) According to Kellerwessel (1984), strategic planning in SMEs usually only is in the mind of the decision maker without a written version. In addition, a rejection of strategic planning is based on the fear of the management to be committed to specific targets and to be controllable for others. However, since results of decisions are hardly verifiable without concrete planning, self-control of decision-making is possible only to a very limited extent. (Kosmider 1994, pp. 44-45.) This is also the case for Rantalinna.

Investments tie up relatively large amounts of money for a long period with the aim to achieve a benefit in the future. The assessment of possible alternative courses of action such as the continuous monitoring of the economy and investment is therefore also a necessity for SMEs. The company that owns

Rantalinna is responsible for all investments concerning the hotel. Hence, there is no further information available concerning investment controlling.

Even SMEs need a vision and a strategy to operate sustainably and achieve the objectives of the firm (Haufe Akademie 2007, p. 34). Rantalinna operates with a focus strategy in conjunction with differentiation strategy according to Porter (1980) (Miller 1992, p. 37). These strategies are suitable to achieve a competitive advantage for a special hotel. Based on Urquidi and Ripoll, Rantalinna can be classified as "Hotel with Charm". These kinds of hotels are characterised by a home-like atmosphere, small number of rooms, high-class and personalised service, and unique property and identity. The hotels are often in a remote location, enabling guests to experience and enjoy the nature and historical surroundings. (Urquidi & Ripoll 2013, pp. 75-76.) However, Rantalinna is not aware of following these strategies and thus neither a strategy nor a vision is formulated. Consequently, a BSC also does not exist as it is derived from a company's vision, strategy and objectives (Atkinson et al. 2004, p. 356). Nevertheless, the hotel collects several non-financial information such as customer loyalty, where their customers come from, main customer groups, customer satisfaction, occupancy rate, employee productivity, and most popular dishes of the restaurant. Certain information about competitors such as prices, sales campaigns, and their capacity are gathered as well. Collecting information about critical success factors not only increases Rantalinna's competitiveness, but also lowers the tendency of becoming insolvent. However, non-financial information needs some more analysis; only collecting them and not evaluating why something increased or decreased is not enough.

A product life cycle analysis is quite difficult to perform in the hotel industry as Rantalinna offers only services, which can hardly be analysed with a product life cycle assessment. Thus, it is not being applied by Rantalinna. Benchmarking also is not an issue for the case company, as firstly, it considers to have no direct competitors which it could compare the company to, and secondly, it is currently operating in minus. Comparing the performance with competitors would only be frustrating, as they probably operate with profit due to their longer business presence. Consequently, it does not make sense to benchmark

Rantalinna's performance with competitors, especially as it exactly knows its weaknesses and threats. The main barrier of growth is its limited capacity, so even if it compares its service structure and costs with other hotels or companies that are doing best practice processes the spending for benchmarking might be higher than the benefit it will gain.

Due to small amounts of purchase quantities, SMEs have very little market power when it comes to influence the purchasing prices as mentioned in chapter 3.3. Hence, it does not make sense to create alternative scenarios involving variables of the cost-volume-profit analysis. (Lucas & Lowth 2013, p. 7.) Further assessments such as gap analysis, portfolio analysis, scenario analysis, or shareholder value analysis are not necessary for a micro company (Ossadnik et al. 2003, p. 61, Haufe Akademie 2007, p. 30), however it should be considered by the owner company to perform those analyses for the whole organisation.

If Rantalinna's strategic instruments are compared with the findings of literature in chapter 4.2, the first conformity is that the SWOT analysis and competitor analysis are applied by a few SMEs and Rantalinna is one of them. Moreover, strategic planning is not only in theory important for SMEs but also for the case company, which supports the findings of the theory study. Vision and strategy formulation is a meaningful strategic instrument for SMEs according to the literature review. However, practice shows something different, as Rantalinna does not have a vision or awareness of strategy. The weak point analysis is supposed to be poorly developed but Rantalinna knows the weaknesses of the hotel very well. The instrument might not be efficiently developed, but it is used. Gap analysis, benchmarking, portfolio analysis, scenario analysis, shareholder value analysis, life cycle costing, and BSC are neither in theory nor in practice being used and therefore the theoretical findings can be supported. Even though non-financial information might require more attention in interpretation, it is gathered by Rantalinna. Thus, it corresponds with the findings in the current literature.

Problems Rantalinna is facing with management accounting

Rantalinna experiences, like every other SME, some difficulties, which are related directly or indirectly to management accounting. These difficulties are explained next subsequently.

In chapter 4.3. it was identified that SMEs often cannot afford skilled management accountants and this again results in a lack of MA skills. The same was detected for Rantalinna, although in a slightly different way. It was not mainly due to financial resource limitations that a professional management accountant was not employed, but because the hotel is so small that a professional would not be engaged for a whole day. However, the manager also indicated a heavy workload of operational tasks such as HR issues where many times other things have to be cut back. Here, Rantalinna does not only think about a cut back of MA tasks like calculating and analysing figures or writing down plans, but also about a lack of time for marketing to promote leisure activities and thus increase sales revenues. Then again if there was more capacity for MA tasks, operative and strategic instruments could be further developed and management decisions could be done without relying on intuition only.

The management accountant of Rantalinna firstly takes care of operative issues as it was identified in the literature review, but then still has time to focus on strategic issues like competitor analysis or personnel planning which was not the case in most sources. This means there is a strategic focus even though a lot of other operative tasks have to be managed. This identified theoretical problem can only partly be supported with the behaviour in practice.

A conflict of involvement and independence as indicated in chapter 4.2 might exist in every SME, but it is not a big issue for Rantalinna. The management accountant has to know everything about the hotel and business and still maintains distance from the management. To act independently from them to ensure an impartial performance is not in the least a problem, because of the physical distance of the hotel and the owner company, as the company is not located on the premises of the hotel. Furthermore, Rantalinna's management

accountant does not set up corporate objectives and her decision-making authority is not overstated.

Stubborn owners and mistrust in MA as identified in the theoretical framework that hamper MA cannot be found within Rantalinna. Firstly, the hotel is not managed by the owner, and secondly, the high intensity of assets in a hotel makes a certain degree of MA absolutely essential.

More indirectly related with MA is the indicated problem of cautiousness of Rantalinna's manager towards smaller investments and employment of new staff at the beginning of the business. This carefulness prevented Rantalinna to grow even faster and thus hampered the development of MA as growth is associated with an increase of complexity and therefore a higher need for MA. A lack of special knowledge on accounting in general and MA in particular does not support a further development of MA in Rantalinna and the fact that the hotel cannot be analysed in detail, because it still operates together with the company that owns Rantalinna, does not help either.

Summarising, Rantalinna suffers slightly different problems connected with MA than identified in chapter 4.3, which might be due to the small size of the company. In addition, it also has to be mentioned that SMEs always have different needs and views on their own businesses. That means no general difficulties concerning MA for SMEs can be defined.

Comparison of the analysed theory and practice

Table 3 provides a summary of the literature review and the identified practical execution. This comparison illustrates that theory and practice is not always the same but corresponds in several aspects.

Theoretical analysis	Empirical analysis
1. MA is also used for external stakeholders.	Rantalinna uses MA for banks.
2. MA must be carefully adapted to the needs of SMEs to work properly.	Rantalinna's MA is less professional than that of large companies and thus automatically adapted to a small hotel's needs.

3. The higher MA is developed the more it contributes to the overall success of a SME.	Rantalinna operates in the red; a further development of MA might help them to make profit.
4. For a long-term success, SMEs have to operate with a strategic and operative MA.	Rantalinna takes advantage of both.
5. Risk controlling is not performed by SMEs.	Rantalinna does not execute risk controlling.
Staffing	
6. Different staffing options for MA: <ul style="list-style-type: none"> ➤ Management accountant ➤ Employees of finance department ➤ Head of accounting ➤ External consultant ➤ Owner manager ➤ Non-owner manager ➤ Executive assistant 	<ul style="list-style-type: none"> ➤ MA is performed by a non-owner manager. ➤ Rantalinna intends to employ a professional management accountant on a part-time basis.
7. SME's accounting (preparation of the annual financial statement and tax declaration) is sometimes also done by a bookkeeping office → bookkeeping office is better informed about SME's performance than owner.	Accounting (preparation of annual P&L, balance sheet and tax declaration) is done by bookkeeping office; they also create monthly report about the current situation of the hotel → Rantalinna is well informed about its performance.
Instruments	
8. General MA instruments have to be used in a simplified manner for SMEs.	Can be confirmed in the case of Rantalinna.
9. Several SMEs consider it sufficient to merely look at company figures, but do not evaluate them.	Not the case for Rantalinna; evaluation of figures is very important for the management accountant.
10. Instead of a MIS, Excel is entirely sufficient for majority of SMEs.	Rantalinna mostly uses Excel and a cash desk software.
11. Use of operative instruments: <p style="margin-left: 20px;">Often or occasionally: Not or very rarely:</p> <ul style="list-style-type: none"> ➤ Cost accounting ➤ Operative planning ➤ Reporting ➤ Key performance indicators ➤ Target-actual comparison ➤ Activity-based costing ➤ Target costing ➤ Allocation of overhead costs 	<p>Use of operative instruments:</p> <p>Often or occasionally:</p> <ul style="list-style-type: none"> ➤ Cost accounting ➤ Operative planning ➤ Reporting ➤ Key performance

<ul style="list-style-type: none"> ➤ Contribution margin ➤ Budgeting ➤ Forecasting ➤ Break-even analysis ➤ Cash-flow statement ➤ Cost-benefit-analysis <p>Use of strategic instruments:</p> <p>Often or occasionally:</p> <ul style="list-style-type: none"> ➤ SWOT analysis ➤ Competitor analysis ➤ Strategic planning ➤ Vision and strategy formulation ➤ Non-financial information <p>Not or very rarely:</p> <ul style="list-style-type: none"> ➤ Weak point analysis ➤ Investment controlling ➤ Gap analysis ➤ BSC ➤ Benchmarking ➤ Portfolio analysis ➤ Scenario analysis ➤ Shareholder value analysis ➤ Life cycle costing 	<p>indicators</p> <ul style="list-style-type: none"> ➤ Forecasting <p>Use of strategic instruments:</p> <p>Often or occasionally:</p> <ul style="list-style-type: none"> ➤ SWOT analysis ➤ Competitor analysis ➤ Strategic planning of personnel and investments ➤ Non-financial information ➤ Weak point analysis
<p>12. MA instruments generally are not very common and sparsely used.</p> <ul style="list-style-type: none"> ➤ More than half of all SMEs use no strategic instruments at all. ➤ Operative instruments have a higher role than strategic instruments. 	<p>Rantalinna uses several instruments, however, further development is necessary.</p> <ul style="list-style-type: none"> ➤ Focus on operative instruments ➤ More strategic orientation than expected
Problems	
<p>13. Managers are barely able to devote to MA with their huge daily workload of operational management tasks.</p>	<p>Despite heavy workload, Rantalinna is able to devote to MA. However, more capacity of management accountant would increase further development of MA.</p>
<p>14. SMEs usually have no strategic direction as operative issues come first.</p>	<p>Rantalinna focuses on both, strategic and operative MA.</p>
<p>15. Management accountants suffer an inner conflict of involvement and distance keeping.</p>	<p>This is not a very big issue for Rantalinna.</p>
<p>16. Several owners do not know what MA can contribute for a SME's business success.</p>	<p>Not the case, as Rantalinna is non-owner operated.</p>
<p>17. Management and employees might regard MA sceptically in the beginning.</p>	<p>MA is not regarded sceptically by the management accountant.</p>

Table 3. Comparison of theory and practice

6 Summary and discussion

The thesis has investigated what management accounting in SMEs looks like and how far MA has progressed. To compare the findings of literature with the current practice, an interview of a micro company has been conducted. The final results are discussed below. The conclusion drawn from this data as well as suggestions for further research complement this study. Validity and reliability of the empirical analysis are evaluated and finally there is a self-assessment of the thesis process.

No matter what size a company is, whether it is a micro company with only one employee or a medium-sized company with 250 employees, regardless of whether the SME operates in the craft sector or industry, whether it is a sophisticated or young company age, nowadays all small and medium-sized companies should implement and benefit from MA. This does not mean that every SME must have a comprehensive software based MIS. The extent and design of MA must certainly be differentiated according to the size of the company, industry sector, position of the SME and users. However, this does mean that every company must have an instrument that allows managers to see the performance of the SME on a monthly basis to guarantee the further existence and development of the firm. (Schmid-Gundram 2014, p. 3.)

The empirical analysis identified that Rantalinna does not explicitly refer to MA as management accounting and it is limited to the application of individual, isolated instruments. Due to the characteristics of SMEs, no independent MA position exists at Rantalinna. MA is performed by the hotel manager and selected areas such as cost centre accounting are even conducted by their bookkeeping office. Thus, MA tasks are primarily performed in addition to other managerial tasks of the hotel and restaurant manager of Rantalinna. This result is not surprising, as an independent MA department for micro companies can rarely be found. Hence, the first hypothesis defined in chapter 4.5 assuming that MA is performed by the manager and not by a qualified management accountant can thereby be confirmed.

The extent to which Rantalinna uses MA can be determined the best by the extent of MA instruments. The hotel has a strong emphasis on operative instruments; however the strategic orientation is greater than the literature review identified. Therefore, the second hypothesis of this study that Rantalinna might use some operative MA instruments, but no strategic instruments is incorrect.

Rantalinna faces difficulties in applying operative instruments such as budgeting or variance analysis and mainly uses insufficiently developed strategic instruments. Even a relatively small business requires accurate information in terms of sales, costs, competitors and future personnel needs. However, much of the information is carried in the head of the management accountant of Rantalinna, which is easily remembered as each sales order and purchase invoice is processed personally. Besides, a vision and strategy is missing, which does not support the development of MA for the hotel. Continuing cost accounting is very important for Rantalinna, however, the analysis of variable costs needs some more attention and cost allocation has to be implemented urgently. In addition to cost accounting, the hotel mainly focuses on key performance indicators, operative and strategic planning, reporting, competitor analysis, SWOT analysis as well as weak point analysis and non-financial information. Consequently, the third hypothesis can only partly be supported, as cost accounting is not the most important, but only one of the most important MA instruments for Rantalinna.

Rantalinna strives to implement an adequate MA and to increase the knowledge concerning MA. The respective MA instruments are far from being sophisticated despite the high acceptance of MA. Rantalinna has considerable shortcomings with regard to the organisational implementation and use of instruments. In addition, there are clear evidences that training deficits hamper further development of MA in SMEs (Haufe Akademie 2007, p. 3). This need for training includes shortcomings in both operative and strategic MA. Rantalinna has a strong desire to close the detected knowledge gap by promoting further education, employing a professional part-time management accountant and receiving support from external institutions.

The most important factors influencing Rantalinna's MA are the owner company, the environment and the company size. Thus, it can be expected that with an increase in size and complexity, the hotel will intensify MA. The hotel industry can be considered as substitute for the environment. It is assumed that the dynamic market and competitive situation require a higher level of MA instruments. The non-owner manager has a positive impact on the level and quality of MA. Legal structure, few hierarchy levels and the fact that Rantalinna does not belong to a hotel chain are also considered as potential influencing factors. Because of the young company age only little experience exists; insecurity and some knowledge gaps of the management accountant might hold MA at a low level. However, there is a good potential to be further developed in the near future. Finally, it is assumed that the use of MA positively influences the overall success of Rantalinna.

The conducted interview mostly corresponds with the executed theoretical analysis. There are some differences when it comes to the usage of instruments, but this might be due to the small size of the case company and the competitive environment of the hotel industry. Thus, it can be concluded that SMEs have a certain understanding of MA; various MA tasks usually are not directly attributed to MA, but are performed by other departments or respectively by the management. A separate department executing MA tasks does rarely exist in SMEs. The result of this study was that due to specific characteristics of SMEs, they generally use MA to a smaller extent than large companies do and MA instruments are not as well developed and often not implemented in a sufficient way. In contrast to large organisations, SMEs typically are characterised by open, informal communication and working relationships, quick decisions, and low levels of structural control. However, they are also characterised by limited financial and human resources, and decision-making based on intuition. Hence, MA is differently operated in SMEs than in large companies. It was also detected that non-owner operated SMEs usually have a better developed MA than owner operated SMEs. The development of MA is facilitated by the use of regular training of the respective management accountants. The central and probably strongest influencing factor of MA use is the company size. Larger organisations make greater use of MA

than smaller organisations, most likely due to an increase in complexity. Even though risk management contributes significantly to an organisation's success it was identified neither to be used in theory nor in practice. MA proves to be a necessary and important management support tool for SMEs, as the performance of SMEs in general benefit from proper MA. However, its implementation in practice needs to get some more attention.

The findings of this study indicate that, while the situation is not as bad as some older studies identified, there is a substantial scope for improvement. There is also a necessity to ensure awareness among SMEs that, while not using certain MA instruments may be appropriate for small firms, it will not be appropriate when the firm grows in size and complexity. Evidence suggests that the larger the SME becomes the more complex its structure gets, requiring specialisation in tasks and greater need for planning and controls (Adams 1997, pp. 116-117, López & Hiebl 2014, p. 17).

MA always brings up the issue which activities concerning the execution of plans and strategies can be delegated from managers to subordinates and how managers can control the progress of those. This is especially important in SMEs, as managers are easily overburdened with all the different tasks they have to take care of in a small business. So far, neither science nor practice has been able to provide adequate answers to this open issue. Thus, there is a significant research gap for future studies.

Another area of research would be to investigate the events that ultimately cause SMEs to decide on increased use of MA despite their limited resources. Answering this question could create a more precise picture of factors preventing SMEs from adequate use of MA systems and help to explain how these barriers can be overcome and thus create valuable advice for practice.

Finally, an analysis whether micro companies and medium-sized companies apply identical instruments with the same intensity provides avenues for further research. It can be assumed that there is still a big difference between these two company types and the present literature does not differentiate between the

size and complexity of these SMEs. This means if a medium-sized company would be analysed, the findings of this study might be quite different.

This leads to the issue of general validity and reliability of the empirical analysis. The empirical findings can be transferred to other micro and small hotels, however medium-sized hotels with more than 50 but less than 250 employees may accomplish a more developed MA and face different problems related to MA. The young company age of Rantalinna and the fact that it is not owner-operated can also cause deviating results compared to other hotels. In addition, conclusions can be barely drawn from hotels to other companies or industries. For example, this means that management accounting in SMEs of the craft sector may be less developed and applied differently than it was identified in the empirical analysis for the hotel Rantalinna. Furthermore, the reliability would increase if more than one micro company had been examined. It would also be interesting to analyse micro, small and medium-sized hotels at the same time to see whether the size of the hotel influences the characteristics of MA. All in all the theory part, involving several scientific studies of diverse industries, reflects very well the current situation of MA application, but the empirical part may have a lower validity as it examines only one company.

The thesis process lasted several months, but went very well and the timetable was met at all times. During the phase of researching for the theoretical framework, there was a certain point when the author experienced that further studies, scientific journals and books have not provided additional information as everything had been read before in other literature. Thus, this level of knowledge was considered sufficient to write the theory part of this thesis. Concerning the empirical part of this study, the correspondence with Rantalinna and the personal contact during the interview with Aljona Kähler was pleasant, prompt and professional. Summarising, although the overall thesis process was extensive and time-consuming, it supplied the author with expert knowledge and additional experience in management accounting.

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Appendices

Appendix 1 Interview questions

A. General questions concerning Rantalinna

1. When was the company founded?

2. What is the legal form of Rantalinna?

3. Is Rantalinna family-owned?

yes

no



Is Rantalinna part of a group (hotel chain)?

yes

no

4. Is one of the owners a member of the management?

yes

no

5. How many people did Rantalinna employ?

	2013	2014
Number of full-time employees	_____	_____
Number of part-time employees	_____	_____

6. How much was your annual sales?

	04.-12.2013	01.-6.2014
Annual sales in EUR	_____	_____

7. How many stars does Rantalinna have?

8. Does Rantalinna operate all-year round?

yes

no

9. How many rooms and beds does Rantalinna have?

Rooms _____ Beds _____

10. Who are your main customer groups?

Leisure tourist

Business tourist

Other _____

11. Where do your hotel guests mainly come from?

12. How do you know that?

13. Who are your main competitors?

14. Do you use computers at Rantalinna?

15. Do you have internet at Rantalinna?

16. Do you use MS Excel?

17. Do you use any other software at work? E.g. financial management software

Is the software especially used for the hotel and restaurant business?

18. Does Rantalinna have an enterprise resource planning software for hotels?

B. Questions concerning Aljona Kahar

19. Please describe your part/role in the company.

20. What department do you belong to?

21. What kind of professional qualification do you have?

- Special knowledge in matters related to accounting
- Special knowledge of management accounting through further training
- Technical degree/technical special knowledge
- Degree in economics
- No specific qualification
- Other

22. Are you familiar with interrelations and processes of accounting?

23. Do you think you are able to change something within Rantalinna if there is room for improvement? E.g. convince owner company and implement online customer booking system

24. Do you think you require more training for a better understanding of your daily tasks?

25. How do you ask your employees to follow certain rules / to execute certain tasks?

26. Do you have experience in managing employees?

C. Questions concerning the general use of management accounting within Rantalinna

27. What did you do yesterday at work? Please describe the individual tasks.

28. Please list all your income sources. E.g. revenues from accommodation, restaurant, sauna, leisure activities, spa area, etc.

29. Does Rantalinna have an accounting department (internal person) or a bookkeeping office (external, service is being bought)?

30. How do you communicate with the bookkeeping?

Send emails

Talk on the phone

Meetings → How often: _____

Other _____

31. Does the bookkeeping office provide you with any information, which you require for your daily work? What are these?

D. Questions concerning operative management accounting in Rantalinna

Cost accounting

32. How do you calculate your prices?

33. Do you know-how much you have to charge a hotel guest per night so that the price covers at least the costs you are having with that guest (e.g. for cleaning the room, breakfast, etc.)?

34. Do you know your fixed costs per month?

35. Have you heard about break-even analysis? Do you or somebody else at Rantalinna calculate your prices according to BEP?

36. Do you make any profit with overnight stays? How do you know that or how do you calculate that?

37. How often do you check whether your prices are still profitable?

38. What are you doing if Rantalinna is not profitable e.g. last month? Do you report that issue to somebody?

39. When did you start to measure whether Rantalinna is profitable? Right from the beginning or has there been a special situation (contingency) which made it necessary?

40. Rantalinna has four full-time and four part-time employees. Where do they exactly work? Are they responsible for a certain department?

41. How do you pay their salary?

42. Are wages paid to all employees supported by a written and verifiable record of hours worked?

43. Do you know how much your employees cost Rantalinna per month?

44. Do you allocate or even split the labour costs to individual departments?

45. If not, do you do any other analysis with your costs (e.g. in Excel)? If yes, what do you do?

46. Do you classify costs in direct (e.g. laundry, beverages, cleaning staff, TV & cable licence) and indirect (e.g. insurance, accounting, advertising) costs?

47. Does Rantalinna have cost centres?

48. Do you target your costs? E.g. Do you know how many costs will arise in November 2014 for Rantalinna?

49. Do you check whether your actual costs are higher or lower compared to your targeted costs?

50. Do calculate the variance of the target-actual comparison?

51. How do you determine your sales revenues? For example, do you already know your sales revenues for December 2014?

52. Do you know the average selling price of your hotel rooms last month?

53. How do your customers pay for your service? E.g. with credit card, cash on site, invoice with 30 days payment term

54. If they pay cash, do you

- write the amount and customer name down into a book
 enter it into your software system
 other

55. Do you have a till where you put the cash received from your guests? If yes, do you check e.g. at night if the cash balance is correct compared to the revenues you had during the day?

56. Do you also take some money out of the till to pay something in cash? E.g. to refuel the company car, expenses at the post office or in-house deliveries which require to balance the invoice on site in cash

57. If yes, there is money going in and out of the till. How do you keep track of the traffic?

58. If you host a big event, the payment is usually done per invoice. Do you monitor your account receivable?

59. How do you monitor your account receivable?

60. Do you grant hotel guest early payment discounts? E.g. 10 days 2%

61. How often do you check your bank account balance at Rantalinna?

62. How do you know when you have to order new raw materials (e.g. bed linen, cleaning agent, food for breakfast)?

63. How do you know how many sausages, or how much bread you have to order for the restaurant?

64. Where do you purchase your raw materials? E.g. only from one supplier, different suppliers from the internet, weekly market, etc.

65. How do you purchase your raw materials? E.g. fax, e-mail, face-to-face every time the supplier is at Rantalinna, etc.

66. Do you check goods received? How do you check them? Do you make any notes?

67. How do you know how much the raw material is allowed to cost?

68. Are you able to influence the prices at your supplier? E.g. discount for bulk order

69. Do you get discounts for early payments from your supplier? If yes, do you try to pay early in order to get the discounts? E.g. 10 days 2%

70. Are all purchases you make supported by the presence of a legitimate invoice before you process payment?

71. Do you control invoices? How do you do it?

72. Do you monitor your accounts payable? How do you monitor it?

73. Do you count your stock levels of e.g. toiletries, bed linen, etc. once a year?

74. Do you perform any internal control e.g. average time of payment?

75. Do you know your utilised capacity of your hotel per month?

76. Do you also make further calculations with these figures? If yes, do you calculate the level of activity divided through capacity multiplied by 100?

77. Do you know the amount of equity and liability of Rantalinna?

78. Did you divide equity through the sum of equity and liability to receive the equity ratio for example for 2013?

79. Do you know the occupancy rate (occupied rooms x 100 / available rooms) of Rantalinna? Do you calculate it every week, month, year?

80. Do you calculate the following key figures?

yes no

revenues per bed

average stay of hotel guest

hotel revenues compared to total revenues
(of restaurant, leisure activities, etc.)

sales F&B

ratio of food and ratio of beverage

81. Do you prepare a comprehensive financial, quantitative plan of operations that Rantalinna aims to achieve during a defined period of time (e.g. 2015)? Such a plan is called budget. What kind of budgets do you prepare? E.g. operational budget, cash flow budget, financial budget, sales budget, cash budget, personnel budget

82. Do you decompose your information (e.g. annual sales, occupancy rate) by customer type (business / leisure tourist) and report them to Rantalinna's owner company?

83. Please specify what exactly you report to them. E.g. last month's turnover of leisure tourists, occupancy rate, etc.

84. How often do you report to them (e.g. monthly, weekly, once a year)?

85. Do you report also to other stakeholders?

86. Are the following reports being used in Rantalinna?

yes no

- | | | |
|--------------------------|--------------------------|------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | Managers' daily report |
| <input type="checkbox"/> | <input type="checkbox"/> | Lodging report |
| <input type="checkbox"/> | <input type="checkbox"/> | F&B report |
| <input type="checkbox"/> | <input type="checkbox"/> | Sales report |
| <input type="checkbox"/> | <input type="checkbox"/> | Financial report |

87. Do you monitor

yes no

- | | | |
|--------------------------|--------------------------|--------------|
| <input type="checkbox"/> | <input type="checkbox"/> | Check in/out |
| <input type="checkbox"/> | <input type="checkbox"/> | Reservation |

88. Do you keep track of

yes no

- | | | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | customer satisfaction in your hotel |
| <input type="checkbox"/> | <input type="checkbox"/> | loyalty of customers (regulars) |
| <input type="checkbox"/> | <input type="checkbox"/> | nationality of your customers |
| <input type="checkbox"/> | <input type="checkbox"/> | popularity of dishes in your restaurant |
| <input type="checkbox"/> | <input type="checkbox"/> | special offers of competitors |
| <input type="checkbox"/> | <input type="checkbox"/> | motivation of your employees |

89. How do you keep track of the non-financial information you stated above?

90. Do you calculate and prescribe how long a cleaner is allowed to take time to clean one hotel room?

Financial accounting

91. Do you deduct your expenses from your revenues?

92. Do you calculate your assets by adding liabilities and stockholder's equity?

93. Do you aggregate your sales to provide a figure for total sales?
E.g. at the end of the year.

94. What are you doing with the aggregated figure? Do you pass it on to somebody?

95. Do you calculate any figures or create reports for purposes of external stakeholders?

96. How often do you show these figures, reports, graphics to them?

97. Who is doing Rantalinna's annual profit and loss statement, balance sheet and the tax declaration?

98. Do you get to see these documents after the preparation? If yes, what do you do with the information?

99. Who else get to see these documents?

100. How do you know how much tax you have to pay to the authorities? E.g. record

101. Do you assess a no-show charge on those guests who failed to arrive at the hotel when they had confirmed reservation? If yes, is Rantalinna required to collect and pay occupancy tax on those guests?

102. Who monitors changing laws of payroll taxes?

103. Are all the revenues reported as achieved by the business fully documented and reconciled (compared and matched) to deposits ultimately made in the business's bank accounts?

E. Questions concerning strategic management accounting in Rantalinna

104.If you know the average selling price of your hotel rooms last month, was the price higher or lower to that of your competitors?

105.Do you analyse prices of your competitors and compare your hotel with those of your competitors? E.g. also with the help of Statistics of Finland (www.stat.fi)

106.Do you know if you have to hire additional employees next year?

107.How do you know that?

108.Do you hire additional employees at high season?

109.Do you hire them the second you need them or do you already know in January that in July additional part-time employees are needed?

110.Do you have a written plan of your personnel planning? How far in advance does the plan go?

111.You invested in a new cottage at the lake. How do you know the investment will pay off? Did Rantalinna do some calculations prior to the investment? What did you calculate?

112.Did Rantalinna take a loan or was the investment covered by equity of the hotel or its owners?

113.If you applied for a loan from the bank, did Rantalinna have to proof its solvency beforehand? How did you proof the solvency of the hotel?

114.If you got the loan from the bank, does the bank require certain reports, sales figures or other data from Rantalinna e.g. every month to show profitability?

115.Is the cottage profitable today? How do you know?

116.What did you change in your daily work, after the acquisition of the cottage? E.g. more checks of profitability

117.Do you plan to invest in more properties in the future?

118.Do you have a written plan about your investment intentions?

How far in advance does the plan go?

119.If you do investment and personnel planning, do you also prepare any other plans for Rantalinna?

120.How much time do you spend in total for planning tasks per month (in hours)?

121.Have you ever experienced a cash flow crisis?

122.Have you ever experienced an inappropriate decision-making of the owner company? What have been the consequences of it? E.g. engage consultancy company, implementation of ERP system, etc.

123.Do you know the strengths and weaknesses of Rantalinna?

124.Do you see any other threats for Rantalinna besides your indirect competitors of other hotels in the market?

125.Do you have a key barrier of growth? If yes, what is it?

126. On the contrary, do you see any great opportunities for Rantalinna e.g. to boost the turnover?

127. Are you aware of risks Rantalinna is exposed to? E.g. natural causes (too much rainfall causes a flood in the cottages), depreciation of Russian currency makes hotel stay too expensive for Russian tourists and thus Rantalinna faces less turnover, Finnish VAT will be increased and cause less profit.

128. Do you do anything for risk prevention? E.g. effect an insurance, monitor the market

129. Does Rantalinna have a vision?

130. How do your customers look like? Are they a distinct group with specialised needs? E.g. appreciate wellness, devotees of historical buildings, love the outdoors.

131. Do you try to differentiate your service in order to compete successfully? E.g. with a special brand mark, service design

F. Questions concerning the development of management accounting

132. Do you think with more training you would do more analysis of costs and revenues?

133. What kind of training do you want to do? E.g. short training session / seminar, classroom training or e-learning

134. Do you intend to get support also from external institutions?

If yes, where do you want to get this information/support from?

yes no

- | | | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | Banks |
| <input type="checkbox"/> | <input type="checkbox"/> | Management accounting seminars, further education |
| <input type="checkbox"/> | <input type="checkbox"/> | Trade association, chamber of commerce |
| <input type="checkbox"/> | <input type="checkbox"/> | Universities |
| <input type="checkbox"/> | <input type="checkbox"/> | Internet |
| <input type="checkbox"/> | <input type="checkbox"/> | Literature, management accounting journals |
| <input type="checkbox"/> | <input type="checkbox"/> | Bookkeeping office, auditor |
| <input type="checkbox"/> | <input type="checkbox"/> | Consultancy firm |
| <input type="checkbox"/> | <input type="checkbox"/> | Other sources |

135. If you want to support the management with information for better decision-making and thus increase the performance of Rantalinna, you may have to rearrange or hire new employees. What is the best option for Rantalinna to develop management accounting?

- Use existing employees (with appropriate further education)
 - Use existing employees together with support of external experts on a temporary basis
 - Recruiting new skilled employees
 - Other persons (please quote)
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