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THE ISSUE OF MANAGEMENT ACCOUNTING IN SMALL AND MEDIUM-SIZED ENTERPRISES

Abstract:

The role of management accounting in improving the efficiency of business entities management has been described in literature repeatedly. The positive side associated with its use has long been known and the creation of new tools of management accounting only strengthens it. However, so far the management accounting has been used primarily in large enterprises. Numerous examples showing possibilities of its practical application, its advantages and benefits of using it are cases based on experience gained in large business entities. Does it mean that management accounting cannot be applied in small and medium-sized enterprises?

The article takes the issue of application of management accounting in small and medium-sized enterprises. The assumptions of management accounting in relation to the specific needs of small and medium-sized enterprises will be discussed. The experience in terms of the applicability of accounting in small and medium-sized enterprises will be analysed. The review of the issues being faced by the managers in small and medium-sized enterprises concerning the application of management accounting tools will be conducted. Challenges for people professionally engaged in management accounting will be intimated.

This article is debatable. It is a review of the literature. It compiles the result of work concerning the application of management accounting in small and medium enterprises coming from various research centres and other centres professionally dealing with accounting. It also refers to the issue of supporting managers in small and medium-sized enterprises in application of management accounting tools. Its aim is to seek answers to the question whether the outsourcing of accounting in small and medium enterprises creates the possibility to popularize the management accounting. This article is also a reason to consider undertaking further works, the effect of which should be growing knowledge about management accounting among managers/owners of small and medium-sized enterprises as well as the development of abilities of the practical application of management accounting tools in small and medium enterprises. Such work will thus contribute to the improvement of effectiveness of the enterprises' operation. This is especially important in the economy of the European Union. According to data contained in the ANNUAL REPORT ON EUROPEAN SMEs 2012/2013 in 2012 small and medium-sized enterprises were the place of employment of about 86,8 million of people and the development of over 57% share in gross value added generated by the private, non-financial economy in Europe.

Keywords:

management accounting, small and medium - size enterprises, accounting tools

JEL Classification: M49

Introduction

Management accounting as defined in the Cima Official Terminology [2005 p. 18] is „...application of the principles of accounting and financial management to create, protect, preserve and increase value for the stakeholder of for-profit and not-for-profit enterprises in public and private sector. Management accounting is an integral part of management. It requires the identification, generation, presentation, interpretation and use of relevant information to: inform strategic decision and formulate business strategy; plan long, medium and short-run operations; determine capital structure and fund the structure; design reward strategies for executives and shareholders; inform operational decisions; control operations and ensure the efficient use of resources; measure and report financial and non-financial performance to management and other stakeholders; safeguard tangible and intangible assets; implement corporate governance, risk management and internal controls...”. It is also defined as “...a profession that involves partnering in management decision making, devising planning and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization’s strategy...” [IMA, 2008, p.2] and as “...the process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of financial information used by management to plan, evaluate, and control an organization and to assure appropriate use of and accountability for its resources...” [Management..., 1998].

The above-mentioned definitions, as well as many other definitions that appear in the literature, indicate the role of management accounting as an informational system supporting managers in fulfilling their functions. It is the system in which information is collected, which makes it easier to plan, to make decisions, to control and to analyse the actual state with regard to assumptions. It arises primarily in the description of the functions management accounting is to fulfil. Management accounting is thus a practical tool that is likely to find wide application in the management of the company.

Management accounting has been closely related to the practice. It has its roots in the American rail industry, where the first internal reporting systems and tools related to planning and control were used [Kaplan, p. 391] [Gmińska, http, p. 77]. Although in the history of the development of management accounting (traditional and neo-classical approach) may arise some disagreements in its development breakthrough dates, T. Wnuk-Pel notices: “... increasing demand of companies for information about the costs and effects of operating a business, which contributed to the development of the cost account providing this type of information was mainly caused by the development of production methods and its concentration as well as development of the markets and increased competition”. What is more “...management accounting is evolving, improving all the used tools and techniques, so as to continually better and better serve the managers...” [Wnuk-Pel, p. 68 and p. 70]. According to this approach, management accounting is developing due to the increasing informational needs of

companies' managers. The development of new accounting tools, such as return on investment (ROI), transfer prices, flexible budgets, variance analysis, break-even point analysis, liquidity analysis, net present value (NPV), internal rate of return (IRR), multi-level and multi-block cost accounting, activity-based costing, target costing, kaizen costing, is (in accordance with this reasoning), a response to the economic challenges of the developing entrepreneurship structures, forms of running business operations, management structures, capital ties, etc. In traditional and neo-classical approach to the history of management accounting, the changes in functioning of companies had appeared firstly and then, consequently to these changes, all the new tools of management accounting were developed.

A different approach to the development of management accounting is presented in works of R.S. Kaplan [1984] and H.T. Johnson [1972, 1975, 1981] [Kaplan, Johnson, 1991]. According to their approach, it was the development of the new tools of management accounting, which has contributed to the formation of the changes in the companies' operational structure. Due to the ability to apply (implement) to companies the new solutions in the collection of information, the control of activities and resources and analysis of the effects of undertaken solutions, its development has become possible. As notices H.T. Johnson [Johnson, 1981, p. 511], the prior application and implementation of the specific management accounting solutions to the companies had made it possible for companies' managers to undertake new challenges. As example, he evokes decisions relating to investment in fixed assets (this example refers to the early 19th century). These decisions did not concern managers, because they had used the management accounting tools before, which allowed them to evaluate the profitability of such investments, helped them in the cost allocation, etc. In this approach to the development of management accounting, what allows companies' managers to understand all the changes and analyse them to develop the companies, are the changes in the economic environment of the companies and creation of the new management accounting tools.

The view on the development of management accounting, which is presented by R.S. Kaplan and H.T. Johnson, tells the researchers of accounting to define the new challenges in the development of management accounting. Not only in the development of strategic and operational management accounting allowing the development of large companies with complex operational structure and the funding of this operation, but also in the area of small and medium-sized enterprises.

Small and medium-sized enterprises

Small and medium-sized enterprises distinguish from the environment not only because of their size, which is defined by three sizes: employment size, total balance and total revenue. SME also distinguish from the environment because of some characteristics in operating, cooperation with the environment, form of management,

organizational structure, resources they use in operating a business or exposure to risk.

Usually, while describing SME, it is emphasised that they are characterized by a simple management structure. The owners of such economic entities are simultaneously the managers of them. It represents a large independence of the owner in decision-making. The owner in SME decides of the functional shape, the method of operation and the directions of development. His personality clearly reflects in the functioning of the entity [Waniak-Michalak, 2007, p. 14]. Through the short decision-making path such entities can more flexibly respond to the challenges of the environment than large enterprises. Owners-managers, through the independent decision-making, can implement their own ideas in a short period of time and in the same short period respond to the needs of the market. This is a big advantage in the operating of the economic entities under conditions of uncertainty. However, this autonomy in decision-making means greater risk exposure than it happens in large economic entities [Zarębski, 2012, p. 40] [Lachiewicz, Matejun, 2012, p. 15].

The risk, which SMEs must deal with, arise not only from the decision-making independence of the owners. This also has to do with their economic size and the lack of an appropriate 'buffer' in the resources that managers can have at their disposal. Owners/managers of the SMEs finance their operations mainly through equity capital and only minor part in borrowed capital. It is due to the several reasons: the reluctance of the SME owners to use external sources of funding, the anxiety of losing autonomy in the management of the business¹, related costs, limited access to capital markets, difficulties in contacts and cooperation with financial institutions, limited informational resources allowing financing entities to assess the economic and financial situation of the entity² [Waniak-Michalak, 2007, p. 14] [Lachiewicz, Matejun, 2012, p. 15] [Matejun, Szymańska, 2012, p. 208] [Sadowska, 2013, p. 412]. Significant exposure to risk is also a result of the low operating diversification as well as the anxiety of 'excessive' investment. In the case of SMEs, very often the owner/manager is responsible for the bad investments not only in the assets of the company, but also his own, which arises from the legal status of these entities.

Restrictions arising from the risk, the personality of the owners of SMEs, but also, how notices Waniak-Michalak [2007, p. 14], from the insufficient number of "...the appropriate tools for market analysis and for identification of the opportunities and threats, as well as the lack of their own research facilities" are the reasons that cause the low competitiveness of small and medium-sized enterprises. The lack of sufficient skills in effective management, especially in the areas such as: sales and marketing, innovation management, financial management and analysis of development plans³,

¹ The phenomenon referred to as 'the credit mentality of owners of small and medium-sized enterprises'.

² This factor is closely linked with the issue of running financial reporting in small and medium-sized enterprises, which is broadly described in the literature.

³ Unfortunately, it seems that the low level of knowledge is not resolved in the appropriate scope through trainings that rise vocational qualifications of owners/managers. According to the European-level Continuing Vocational

is one of the major barriers in the development of SME. This low competitiveness translates to the following characteristics of SMEs, which are the low market share of these entities, operating primarily on local markets⁴, putting emphasis on personal contacts, building close relationships among SME and trading partners and customers, collaborating primarily with other small and medium-sized entities [Strużycki, 2004, p. 239-241] [Koszałka, 2011, p. 12] [Lachiewicz, Matejun, 2012, p. 15-16].

The quality characteristics of the small and medium-sized enterprises described above indicate numerous shortcomings in their coverage. However, today they may be an opportunity to improve the EU economy. The function of small and medium-sized enterprises operating in European Union (EU), for quite some time now, is considered to be vital for the economy of the EU. Such enterprises, in the number of 20 355 839⁵ (which represents 99,8% of all enterprises operating in EU) employ around 86,8 million of people, creating in this way 66,5% of the total number of workplaces offered by all enterprises operating in EU in 2012. The share in gross value added generated by the private, non-financial economy in EU is 57,6% of this value [Annual Report..., [http](#), p. 10]. Although the economical crisis has affected the performance of the SME⁶, it is currently noticeable that there is an improvement in the size of employment and the gross value added in these enterprises. According to the researchers of SME, it is possible, as far as the EU will continue to trend toward the development of the modern economic areas based on knowledge, to expect greater development of SME. Their function and importance in the economic development of EU will grow, in view of the significant involvement of SME in the economic areas where the development based on knowledge is increasingly important [Annual Report..., [http](#), p. 117].

Small and medium-sized enterprises, as shown above, have the ability to influence the economy and its condition both in the field of macro- and microeconomics. Their influence on local markets is also noticeable. Its employability is strongly emphasised [Bera, 2010, p. 388, 390] [Jaworki, [http](#), p. 10]. "...Small and medium-sized enterprises sector generate less unemployment, demonstrating greater dynamics of employment than large enterprises. These companies highly contribute to the creation of new workplaces and give greater certainty of their maintenance..." [Jaworki, [http](#), p. 10]. It is the sector of SMEs where the most of new workplaces are created [Statement..., [http](#), p. 4].

Training Survey (CVTS) carried out by Eurostat in 2005 only 7% of the employees of small enterprises participated in the trainings, 11% of medium enterprises, while in large enterprises the result was 25% of the employees.

⁴ It is apparent in both entity-trading partner and entity-customer contacts, as well as in the relationship between the economic quality of a certain region and the economic and financial situation of the entity operating on this region [Strużycki, 2004, p. 239-241], [Jabłoński, Jabłoński, 2012, p. 14].

⁵ Annual Report on European SMEs 2012/2013

⁶ In accordance with the announcement contained in the Statement [Statement, [http](#), p. 5] SMEs are enterprises that have a greater resistance to the threats caused by economical crises. Although they are not fully resistant to all sorts of economical crises, they can cope with them better than large entities.

The cost of establishing SMEs is lower than in the case of large companies, therefore, they can develop relatively fast and do not require complex economic infrastructure. They work flexibly and respond rapidly to the needs of the market. Owners/managers of those entities demonstrate the ability to seize the economic opportunities and have a tendency to take risks related to such opportunities [Onak-Szczepanik, [http](#), p. 616]. As Lachiewicz and Matejun notice [2012, p. 26], one of the characteristics of SME is "...an active release of the new products and services to the market, as well as the elimination of the market gaps. This also means rising the attractiveness of the market gaps intended for customers who prefer quality and short-run products with sophisticated design...". SMEs also have the ability to easily enter "...into cooperation agreements by quickly arranging new workplaces, etc. ..." [Onak-Szczepanik, [http](#), p. 616]. It is also considered that they have significant potential to create new products and services that suit the needs and capabilities of the local markets. Their operations can effectively interact with market gaps that are usually unattractive for large companies [Kunicki, [http](#), p. 1] [Jaworki, [http](#), p. 10] [Matejun, 2010, p. 18]. Small and medium-sized enterprises also contribute to the developments of new industries in which new technologies are used. It is involved primarily with their innovation [Woźniak, [http](#), p. 21]. They also make modifications in the industry structure of a country by expanding the tertiary sector of the economy [Lachiewicz, Matejun, 2012, p. 24].

The above-mentioned effects of the SME's impact on economics are not the only ones. The literature indicates a few basic macroeconomics effects caused by small and medium-sized enterprises: production effect, employment effect, technological progress effect, regional decentralisation effect, capital mobilisation effect, ecological effect, stabilisation effect, transformational effect [Lachiewicz, Matejun, 2012, p. 27-28]. In addition, SMEs have numerous social functions, such as: the absorption of the emerging workforce surplus, supporting and enhancing entrepreneurship in the social environment, giving opportunities for self-employment and self-realisation, impact on the creation of the middle class in an environment, etc. [Huczek, [http](#), p. 1] [Bórawski, [http](#), p. 1] [Lachiewicz, Matejun, 2012, p. 25-26].

All of the above-mentioned aspects make researchers of entrepreneurship, management, finance and accounting to focus on small and medium-sized enterprises. The SME's function and importance on economics begins to be recognised also in politics. Looking objectively on the SME's impact on economics and the way it operates, as well as understanding the functions of management accounting, which is a system effectively supporting managers, it seems to be necessary to intensify works on creating new tools of management accounting, that would impulse to the development of small and medium-sized enterprises.

Management accounting in small and medium-sized enterprises

For some time now in the accounting literature are appearing the new publications raising an issue of applying management accounting in small and medium-sized enterprises [Songini, Gnan, Malmi, 2013, p. 73]. It is focused on the analysis of several topics. Among them are the role that management accounting can play in the SME's operating, the expectations of the owners and managers of SME, its trust to the people dealing with accounting and to the information coming from management accounting system, as well as discussing barriers associated with the implementation of the existing management accounting tools to the management system of SME.

Looking at the variety of market challenges, the growing clients' expectations, the volatility of the economical situation of the SME's environment, it seems that the application of management accounting in these entities should be common. The application of management accounting tools helps managers to develop more and more complex economical issues arising in their businesses. Managers, through the application of the management accounting system, can more accurately calculate the costs (variable costing, multi-level and multi-block cost accounting, activity-based costing). They can create plans, which are then implemented and controlled (all sorts of budgets and ratio analysis). Management accounting helps in planning future activities (breakeven analysis, profitability analysis, CVP analysis). It also helps in building development strategies (target costing, kaizen costing). Management accounting supports the creation of 'future' benefits, so that such later reviewed 'past' benefits were satisfactory. Management accounting also has analytical function and can be used to conduct an analysis on the sales of goods and services, indicating their minimum values, determining the profitability of the products, goods or services, etc. [Coman, Coman, Boca, 2012, p. 522]. Therefore, it may seem that this multiplicity of instruments and their functionality would mean a common application of the management accounting system in SME. Especially since the owners/managers indicate that one of the basic causes of the SME's fall is a bad-costing management, lack of planning and budgeting of costs. While people working in accounting in SME indicate, that one of the major factors of the collapse of the SME is the lack of the properly prepared business plans, cost control and no support from the advisors [SMEs, 2013, p. 3]. So, why the owners/managers of the SME do not apply the management accounting system commonly? There are many reasons for that and they are mostly associated with the SME's nature, its features that abstract it from the environment and separate it from large companies. In the later part of this article some factors, which are reflected in the literature of this issue, will be selected.

When taking a look at the factors that support the development of management accounting and the attention to this system⁷, it becomes obvious to indicate the

⁷ The development of the systems and information programs for collecting and processing of data, popularisation of the knowledge about management accounting and possibilities for its application to companies' management system, challenges that the market poses to companies, etc.

barriers of the development of management accounting in the SME: limited material resources, lack of sufficient managers' knowledge about the possibilities for the application of management accounting in the creation of the goodwill and in the promoting its development, etc. All of these barriers mean lack of factors motivating the owners/managers of SME to take the trouble to discover management accounting and then to apply its tools to SME, [McChlery, Meechan, Godfrey, 2005, p. 3] as well as lack of trust in the information coming from management accounting and lack of confidence in the accounting professionals, etc.

One of the reasons for the low interest in management accounting in the SME are the limited resources available to them, both material and personal. Management accounting tools, which could be recommended for use in the SME, may not be complicated and demanding additional workload neither form the owner/manager nor accountant in the company. Therefore, management accounting should primarily involve those areas of the SME, which can and should be subject to control by the owners/ managers. The ones where their size, type, value, etc. can be affected. Thus management accounting could, apart form the areas mentioned above, could refer to the profit-cost-size issue, creation of the cost centres, determination of the standard cost and the analysis of the differences between standard and actual sizes [Reid, http, p. 13]. And because the literature of management accounting, until recently, still provided mainly examples of the application of management accounting tools in large companies [Abdel-Kader, Luther, 2008] [Hudson, Smart, Bourne, 2001, p. 1096] [Bright, Davies, Downes, Sweeting, 1992] [Szychta, 2002] [Mitchell, Reid, 200], therefore it can be assumed that they have not been applied commonly in the SMEs, primarily due to the lack of descriptions of how to implement them in small and medium-sized enterprises with limited resources. Although its improving, the literature concerning the application of management accounting in SME is still poorer then that concerning large enterprises. In addition, it is thematically very varied and only a part of it refers to the practical ways of applying the management accounting tools in the SME. Therefore, one of the reasons that affect the low extent of applying management accounting in SME is the popularisation of the knowledge about this subjects, both by the researchers of this issue and by the practitioners that do not share their experiences with others.

Limited knowledge about the possibilities of the application of the management accounting tools in the SME associate with the capital constraints. Typically, companies from the SME group have small capital resources, which they must manage appropriately. Therefore, they use them primarily to perform basic operations, those for which SME was created. Investments in knowledge are thus limited. In addition, the owners/managers of the SME, in the case of management accounting, cannot benefit from the universal information programs, which would allow them to implement management accounting to their businesses and which do not need large expenses. The inability to acquire such programs arises from the character of management accounting. It is one of the tools supporting the management process,

therefore, it should be flexible and should adapt to the needs and requirements of managers [Coman, Coman, Boca, 2012, p. 524]. There are no universal solutions. Therefore, the possession of such computer programs, which would ease the functioning of the management accounting in the SME is significantly limited. They are usually integrated with the financial and accounting systems that are created and adapted to the individual needs of a customer. In addition, the problem is that such management accounting tools⁸ as the systems of budgeting and cost calculations are often low assessed by the owners/managers of the SME. As the research show [McChlery, Meechan, Godfrey, 2005, p. 3] 17,6% of those of the owners/managers, who prepare budgets in their companies, assess them negatively, while 25,2% of the owners/managers assess negatively also the performance indicators that they use.

This low assessment of the management accounting tools indicated above can also be associated with the lack of sufficient knowledge about accounting, that would enable the owners/managers of the SME a full, proper and efficient use of the management accounting system [Marriott, Marriott, 2000, p. 476] [Stanworth, Gray, 1992]. This low knowledge is the other reason negatively affecting the popularity of the management accounting application in the SME. Often, the owners/managers of the SME operate only financial accounting in their companies and they do it due to the legal requirements (mainly arising from the necessity to provide tax clearance). The reports that are provided to them by accounting are orientated to the needs of the external users of financial statements and only to a small extent are used by managers. Knowledge and skills of the owners/managers and the structure of such statements makes that they do not perceive accounting as the informational system. As noted in the Revier... research [2006, p. 14] "...Business advisers from outside of the accountancy profession suggested that many company directors are unaware of their problems and, therefore, the benefits of more appropriate support from accountants. The advisers told us that many of the directors they work with do not understand the importance of good financial information and the benefits of putting in place systems that can provide useful management accounting information...". Analysing the above, it can be worrying that treating management accounting as a reporting system contributes to the lack of interest in management accounting. And here the next factor (reason) arises, which can undermine or contribute to the development of management accounting in the SME – support or the owners/managers by those professionally engaged in accounting: accountancy practitioners and financiers.

One of the significant barriers in the development of management accounting in the SME is the lack of noticeable support for the owners/managers of the SME from accounting professionals in its implementation and effective use of the management accounting system [Marriott, Marriott, 2000, p. 476]. And the accountants are those who are considered, by many of the owners/managers of the SME, to be trustworthy

⁸ This also is not conducive to the interest in the acquisition of the simple programs supporting the management accounting system, even if their acquisition does not entail large financial expenditures.

advisors⁹ [SMEs, 2013, p. 7]. Especially those people, who are employed in the SME and are 'inside' the organisation, should support management in the SME. In particular, that the financial accounting system and the management accounting system are the systems which can support and improve each other. Management accounting system can, with little change or adaptation, derive data from the financial accounting system. An this one can be enriched by the functionality of management accounting [Briciu, Groza, Gânfălean, 2009, p. 316].

Unfortunately, there is no such support. As McChlery, Meechan and Godfrey indicate [2005, p. 3], almost half of the surveyed owners/managers (49,1%) pointed to a very low or no contribution of accountants to the creation of goodwill, 53,4% of the owners/managers of the SME indicated no or very low cooperation of accountants in the process of creating and implementing business strategies and 44% of them indicated a very low contribution of accountants in the development of the management accounting systems in their companies. The same owners/managers have not declared any desire to change accountants in their companies. And, consequently, how authors of the study think, they are not motivated to implement changes in their management accounting system [McChlery, Meechan, Godfrey, 2005, p. 4]. Similar issue was indicated in the research carried out by Marriott N. and Marriott P. [2000, p. 481-482]. In many cases an accountant employed in the SME has been working in the company since its foundation (from a few months to several years) [Marriott, Marriott, 2000, p. 482]. This study is also confirmed by the research "A national research study commissioned for CCH" [SMEs, 2013, p. 8], where it is indicated that "...When managing their SME client [accountants – authors' note], the average accountant spend 63% of their time providing transactional/administrative service. A smaller proportion of time (37%) is spent providing advice who help manage their business...". Of course there can be many reasons for such state. The owners/managers may not strive to change it, because a current economic situation contents them. It may also result from the character of the cooperation that the owners/managers of the SME have with the environment. They concentrate on the personal contacts and close cooperation, sometimes less formal than in the case of large companies. Therefore, a change of an accountant not only is the change of a contractor, co-worker, but also a person with whom the owner/manager had informal, close relationship.

The lack of a positive approach to the application of management accounting in the SME may also result from the lack of integrated relationship between the management accounting tools and the results, especially in the light of their low valuations¹⁰. The lack of sufficient knowledge on the part of the owners/managers about what tool management accounting can offer and how it can be effectively used is a serious barrier in the common use of management accounting in the SME. In the literature the attention is drawn to the low awareness of the possibilities of using the

⁹ This issue will be raised in the later part of this article.

¹⁰ This issue was described in the earlier section of this article.

management accounting tools as a support to the management process. This also applies to the financial accounting tools. The inability to use the information contained in the financial statements (for example cash flow) is indicated and the lack of skills to appropriately collate and prepare the data located in the account books [Argiles, Slob, 2003] [Marriott, Marriott, 2000] [Halabi, Barrett, Dyt, 2010]. The owners/managers do not know how on their own, according to the data from financial accounting, prepare statements or reports and any request to provide additional information, for example from the financial institutions, is perceived only as an extra cost [Marriott, Marriott, 2000, p. 485] [Blackburn, Carey, Tanewski, 2010, p. 22]. New data or any other way of presenting the already possessed data does not give them, in their view, any additional benefits. They do not know how to use it. The way the data is presented is too complicated and too complex for many owners/managers of the SME [Mitchell, Reid, 2000, p. 388]. Another problem is the interpretation of such data, even if they are familiar with the constructions of some indicators and reports [Marriott, Marriott, 2000, p. 483-484] [Revier, 2006, p. 27].

Supporting the owners and managers in discovering the management accounting system is the task important for its development. And as it seems, analysing the different types of work and study, impulses to discover management accounting should arise from multiple directions. Training offers are not enough, especially in the light of the low participation of SME's employers in training courses¹¹. The accounting professionals should realize the owners/managers of the chances that management accounting gives to help in the development of the company. Such actions should also come from external institutions or people [McChlery, Meechan, Godfrey, 2005, p. 3], the institutions and people professionally dealing with finances and financing the SME's operation. Such people or institutions should encourage the use of the financial as well as the management accounting tools. They should expect a wide range of information from the owners/managers of the SME, so that they could spot the benefits they can have from management accounting.

At this point the issue of 'internal' character of management accounting should be raised. Management accounting deals with observation, analysis and evaluation of the processes or actions that take place within the company. Therefore, it touches sensitive and confidential issues. Its application cannot be enforced to the owners/managers and their inner, personal acceptance of the management accounting system. Not the necessity but the need is what should be the determining factor for the management accounting application to the company [Mitchell, Reid, 2000, p. 388]. However, in the case of the owners/managers of the SME, realising the need and importance of possessing information coming from the management accounting system may hamper the decision-making by the owners/managers of the SME. They often make decisions relying on intuition and experience and do not make analysis of financial statements. They learn by gaining experience. "...It is clear that learning by doing is the preferred and predominant method of knowledge creation in

¹¹ This issue was raised in the earlier part of this article.

small business. This is the only method that is trusted and respected by the owners. There is also a strong sense of doing things "on step at a time", dealing with problems as they arise than preparing for events that may never transpire..."[Dalley, Hamilton, 2000, p.55]. Other studies also indicate it, where it is indicated that the owners/managers focus on solving current problems and do not prepare plans for future actions. In addition, the owners/managers of the SME prefer less formalised communication than the one coming from the accounting system [Dyer, Ross, 2007] [Dalley, Hamilton, 2000].

In the case of management accounting, the factor of confidence in the accountant is also important [Bennett, Robson, 2004] [IFAC, 2010] [Blackburn, Carey, Tanewski, 2010], especially in the light of the use of the services of external accounting institutions, which is a typical phenomenon in the case of the SME sector. Carrying out the management accounting system requires the use of a lot confidential information concerning the operation of the SME. Outsourcing of the management accounting system is therefore endowed with the risk of the use of confidential data in the unethical way. How Kalinowska and Kalinowski notice [2014, p. 80] "... Management accounting specialist, as a person whose occupation is to assist in the management of the organisation, is a priori endowed with a large load of confidence. His responsibility for his employer results from the supplied information, opinions and recommendations useful and used in the process of problem-solving and decision-making...". It is therefore clearly noticeable, how difficult it can be to decide about confiding the accounting system to an accountant, especially an external one. It can be therefore expected, that consulting process in the case of the application of the management accounting tools in the SME would require building strong emotional relationships between the owner/manager of the SME and the accountant, who simultaneously would function as the management accounting specialist. Outsourcing of this accounting will be slower than in the case of financial accounting, which is covered by a number of legal regulations increasing confidence in itself and in an accountant. Although in the research "A national research study commissioned for CCH" [SMEs, 2013, p. 7-8] it can be read that "69% of Aussie¹² owners/managers consider their accountant more trustworthy than their financial advisor(s), 79% consider their accountant more trustworthy than their family and friends, [...] 80% consider their accountant more trustworthy than their bank manager, 82% consider their accountant more trustworthy than their lawyer/solicitor...", it still should be expected that many barriers will arise in the process of the implementation of the management accounting system to the SME. The barriers in spotting by the owners/managers of the SME the quality and usefulness of the information coming from the management accounting system can be overcome, but it may require time and huge professional diligence, including ethical one, of the management accounting

¹² However this research was conducted in Australia, the other studies indicate that it also happens in the EU countries - McClery S., Meechan L., Godfrey A.D. (2005), Barriers and Catalysts to Sound Financial Management Systems in Small Sized Enterprises, "Research Executive Summaries Series", Vol. 1, No. 3, CIMA or Marriott N., Marriott P. (2000), Professional accountants and the development of a management accounting service for the small firm: barriers and possibilities, "Management Accounting Research", 2000, 11, 475-492

specialists. However, the construction of such trust is vital and necessary for the implementation of the management accounting system in the SME. This necessity comes from the fact, that through this implementation the system could work and develop and, therefore, the owners/managers from the SME sector would manage their companies more effectively.

Summary

As research show [Lybaert, http, p. 188], having greater information resource by the owners/managers of the SME translates to the results achieved by their companies. The owners/managers of the SME, who have the appropriate information resources, are people, who assess the future more positively. Through the appropriate information resources coming from the management accounting system they can more effectively react to the challenges posed by the market [Gul, 1991, p. 60]. The decision-making process is the same both in the case of a large company's manager and a SME' manager. Usually the first one has an access to wide range of information and during his decision-making process can benefit from the support of a qualified team of advisors. The owner/manager of the SME does not have such resources and support [Lybaert, http, p. 188]. Looking broadly to the nature of the SME and its management, it seems that the risks associated with making wrong decision are more noticeable for small, than for large company. Therefore, the need of support seems to be natural for the owners/managers of the SME by customizing the management accounting system to their information needs.

The works on management accounting, which would be 'friendly' for the owners/managers of the SME, are certainly not the simple ones. It requires facing many challenges, primarily resulting from the characteristics of the SME and its complicated structure. The assumption of the SME is that in this group there can be small and medium-sized entities extracted, which differ from each other in terms of employment, financial results and the value of the controlled property. It cannot be forgotten, that in this group are also micro-enterprises extracted. Therefore, the question is whether it is possible to create one consistent set of management accounting tools that could be applied in the SME in consistent with the principle of cost-effectiveness way.

As indicated in the literature, the systems should not be too complex. Rather, they should be the systems that treat the areas of the SME selectively. As research concerning the application of management accounting in large companies show, those of them that are regarded larger, apply more complex management accounting systems than the small ones [Abdel-Kader, Luther, 2008, p. 18]. It can be expected that a similar phenomenon will be observed in the SME. Therefore, probably the accounting researchers will have to consider whether, in the process of creating the management accounting tools for the SME, this group of enterprises should be treated as homogenous.

Thus, there are many reasons that restrict the development of management accounting in the SME. These reasons relate to the material aspects, such as the resources that the owners/managers of the SME can commit to the development of management accounting in their companies. On the other hand, a very important aspect is the knowledge about management accounting of the owners/managers of the SME. The lack of sufficient knowledge about the management accounting tools significantly lowers the efficiency of their use. This contributes to the low assessment of these tools. This translates into the desire of the owners/managers to broaden their knowledge about management accounting and implementing it to their companies. All of this has a significant association with confidence to management accounting and accountants, as well as their attitude towards management accounting and their willingness to show the potential of this system. Not without significance is the manner of decision-making by the owners/managers of the SME or the way they gain experience.

All of this together makes the issue of the application of the management accounting system in the SME complicated and difficult. This does not mean, of course, that the possibilities of achieving positive results while working on the development of the management accounting tools that are useful in the SME's management should be nullified right from the start. It only indicates that these works will require large effort. The role and function of the SME in the EU's economy indicate clearly that giving the owners/managers opportunities on obtaining needed information would support the development of the SME. So that their companies can thrive, succeed (primarily economically), increase its value and, thereby, improve the reality surrounding us.

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