

# Management Accounting and Profitability in Private Healthcare SMEs

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## ABSTRACT

The purpose of this article is to examine the management control practices in small and medium-sized health care enterprises (SMEs). Previous studies suggest that there are often few, if any, comprehensive management control systems (MCS) or there is lack of systematic management accounting or performance management (PM) monitoring in even fairly large SMEs. The first contribution of this article is to present nine years of financial data of micro companies. The data itself is quite unique and not open data for everyone. On one hand, it gives further information about diverse and complex combinations of the profitability process in the small companies and how the MA systems affect it. Based on the contingency theory conception, this article finds that the management accounting practices such as a budgeting system or increased cost knowledge of the company influence the company's performance. Further, some of the contextual factors such as size and age of the company affected the company's performance in this study.

## KEYWORDS

Contingency Theory, Healthcare Business, Management Accounting, Management Control Systems, Profitability, Small Enterprise (SME)

## 1. INTRODUCTION

The aim of this paper is to investigate the impact of managerial planning and the use of management accounting systems (MAS) on SME performance. The performance of the company has been measured in several ways in earlier literature. Arnold et al. (2010) measured organizational performance as strategic flexibility and supply chain performance. Instead Bitichi et al. (2010) measured performance as revenue growth, profitability growth, productivity or return on investments (Arnold et al. 2015; Bitici et al. 2010). In this paper the performance is measured with one of the profitability indicators EBIT/SALES. In order to get the broad picture of the performance of the company, we build our analysis on the contingency theory framework and on the contextual factors of small firms (size, strategy, environment, and organisational structure) and we also include into our research the owner managers' role and the effect of business partners, which can both be important factors in the profitability of a company (Drazin R & Van de Ven A., 1985; Jänkälä, 2007).

Previous studies have investigated MAS in some specific industries such as new economy firms (Granlund & Taipaleenmäki, 2004), small technology firms (Laitinen, 2001), public sector

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organisations (Järvenpää, 2007, 2009) or restaurant chain companies (Ahrens & Chapman, 2007). However, it can be argued that the literature on the role of the management accounting of SMEs is still scarce (Garengo et al., 2005).

Managers often prefer the management systems as imperfect but adequate for the task (Ahrens & Chapman, 2007). This reduces the need for the development of MAS. Accordingly, previous research has indicated that there are often only a few, if any, systematic management control systems (MCS) or performance management (PM) tools in SMEs (Garengo et al., 2005, 41; Granlund and Taipaleenmäki, 2005; Laitinen, 2001). Contrary to this, it has also been shown that some SMEs in some industries such as high technology firms use very sophisticated MCS (Laitinen, 2001).

The data of this study, collected from healthcare companies from Eastern Finland, has many special features. The healthcare industry is a labor intensive service business. Traditionally, healthcare companies have been small companies although during the last few decades, many big national and international companies have become involved in this business. Further, in Finland, these companies often have only a few big customers such as municipal organizations. Based on these features, the healthcare industry has its own challenges to gain growth and profitability. (Rissanen et al., 2011).

One contribution of this research is to cover lack of the literature of distinction between practice and theory in companies adopting management accounting systems. We compare the practices of small companies and the contingency theory factors to the performance figures. We also have a unique data which consists of new and rare information of very small company management. The companies in this study have 6 employees on average and the average sales of 327 thousand euros (Table 2). Further, we have employ the financial panel data from nine years in addition to one-year survey data. In Finland, the micro companies employed 10% of all the employees in 2012 and this figure has doubled in four years (Ministry of employment and economy, 2014). Finally, the information on private sector performance systems is comparative scarce and the complex procedure of it is widely known. This is why we apply the multiform contingency theory in which this feature has been taken into account. The advantage of this research comes from the new information on the financial managing systems and practices of the companies, as they now are applied in diverse ways. Our findings reveal if the MA systems of the companies make the difference on company's performance, or not.

The structure of this paper is organized as follows. In the next section we describe the underlying literature and theory. It is followed by chapter three, where we will examine the health care business further and the environment of the industry. In chapter four, we present the methodology and our observation data. Further, in chapters five and six we discuss our results and mirroring them with the literature and finally, present our research conclusions in chapter seven.

## 2. LITERATURE REVIEW AND THE THEORETICAL FRAMEWORK

Several researchers (Ferreira & Otley, 2009; Malmi & Brown, 2008; Otley, 1999) point out that the phenomenon of the accounting systems is handled too restrictively and should be seen as an overall control system. MCS can be seen as tools for measuring performance, performing strategic planning or analysing internal financing (Granlund & Taipaleenmäki, 2005). Previous studies have shown that small firms do not change their MAS easily and that the MA systems used in large companies to explore future actions (for instance short-term budgeting) can be ineffective in an SME environment (Laitinen, 2001). Additionally, managers can view management systems as imperfect but adequate for the task, because of their own considerations and limitations which could also reduce the need for the development in MAS (Ahrens & Chapman, 2007; Bititci et al., 2009).

The understanding of management accounting and the development of MAS have become clearer and more focused via summarizing studies (Chapman, 1997; Chenhall, 2003; Garengo et al., 2005; Scapens, 2006), but more precise information about the connection of the theory and practice of management accounting is needed (Berry et al., 2009; Bititci et al., 2010; Malmi & Granlund, 2009). Because the MA information is mostly internal, the data for management account research is mostly

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