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THE NECESSITY OF INTRODUCING CONTROLLING SYSTEMS IN SMES

Review
Article

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Abstract

For businesses, one of the greatest challenges of the 21st century is to flexibly adapt to the challenges of the new Fourth Industrial Revolution, to increase their individual performance and take the right steps at the right time to maintain their competitiveness with increasing competition and growing market coverage. Globalization creates an increasing market opportunity and, at the same time, a responsibility for companies to catch up with global/European economic players and stand their ground. They can meet global challenges by providing high-quality services and manufacturing excellent products, for which a high level of leadership and management competencies and effective application of disciplines such as controlling are essential. While it is completely natural for large companies, SMEs - especially small ones - may not know and recognize the importance of collecting and processing accounting data beyond mandatory reporting and the decisive role of management accounting and controlling areas in decision support. Among small businesses, there is less interest in controlling systems. What is the reason for this low interest? How could they be convinced of the benefits of a controlling system? What solutions would they choose?

INTRODUCTION

A company can be successful if it makes the strategic decisions that ensure its maintenance and development in order to make the most of the resources available to it. To do so, enterprises need to be aware of environmental conditions, such as the external environment (in a broader sense, political, economic, legal, socio-cultural, demographic, technological, natural resources, and in terms of the micro-environment, customers, suppliers, competitors, financial institutions), and internal environmental conditions (such as management, marketing, financial situation, production-service, R&D activity) (Nábrádi & Nagy, 2005).

Corporate strategy involves the definition of a fundamental goal and the path to achieving it. The company analyses its current situation in detail, identifies its visions for the future, maps out its implementation methods and selects the one that it is able to follow. This process is called strategic management (Chikán, 2008).

The elements of the strategy are the prospects for the future (vision) and mission of the company, the definition of which is primarily a top management task, but in order for all employees of the company to understand and embrace the stated goals, it is worth involving those working at lower levels. This strengthens the identification with the company, the commitment to the goals, and also connects employees (Körmendi & Tóth, 1998).

The focus of strategic controlling is to achieve medium- and long-term goals, to lay the foundation for the future of the company, and to expand the range of activities. Operative controlling is an aid to day-to-day operations, the function of which is to achieve short-term goals, provide liquidity and economic efficiency by using existing resources (Oravecz, 2015).

In order to achieve the formulated strategic goals, controlling supporting operational activities is necessary. Controlling is not just control; the emphasis is on management, evaluating factual data and regulating business (Csikós, Juhász & Kertész, 1993).

Operative controlling prepares the controlling functions for a financial year, the input of which is provided by the plans of the strategic plan for the given year. Its task is to provide management with up-to-date information so that they can maintain or improve their competitive position (Kandikó, 2006).

In parallel with the elaboration of the strategy, it is important to have a controlling role and the participation of a controller in the elaboration of processes in line with the strategic goals, closely related to the revision of accounting and financial activities by providing data to the management

accounting and controlling system as an information base (Horváth & Partners, 2008).

When utilizing the decision support function of controlling, the company makes economic decisions, according to the mechanism of which, every economic decision has an opportunity cost, i.e. the result of another option is given up for the sake of the decision made and risk is generated with each economic decision (Szabó, 2016).

With a proper controlling system, the company can follow the defined strategy accurately and can rely on the produced reports and statements when making specific decisions. Sufficiently detailed information contributes to managerial decision-making in order to maintain strategic directions.

In the course of the controlling activity, definition of goals, planning, control and analysis, and reporting appear as a chain of cyclically occurring processes, where the existence of feedback between the individual controlling subsystems is also important (Francsovcics, 2005).

Management control is the process by which managers influence the behaviour of their organizational members in order to implement the strategy of the given organization (Anthony & Govindarajan, 2009). That is, the principle of goal congruence applies, according to which the goal is to reconcile the own interests of employees with the interests of the organization.

Management control is part of organizational control in the broadest sense, while managerial accounting is part of formal management control. Management accounting develops principles and procedures for cost management and provides data for the controlling system (Szukits, 2016).

Other components of the controlling system are the related software support, the controllers who operate the system, and the organizational methods that support it.

Regarding the use of software, it may be sufficient for small companies to keep the necessary indicators in an Excel spreadsheet, as it is cheap to maintain and does not require special professional knowledge. For larger companies, it is justified to acquire a corporate governance system that covers key processes and provides complex information to assist management in their decision-making. Obviously, colleagues need to be involved in the operation of the system, and the data that extracted from it can be interpreted with the cooperation of controllers. The task of the controllers is to ensure the provision of the necessary data and information, and to contribute to the implementation of the strategy through continuous control, feedback and, if necessary, correction (Oravecz, 2015).

One of the most important controlling systems and therefore one of the most improved systems is cost controlling. Its function is to implement the control of costs by planning and controlling them. Part of cost controlling is planning by cost centre and cost

type, determining the calculated costs. Calculated costs have a direct and indirect effect on production costs. The areas of cost calculation are cost accounting, marginal cost determination, margin calculations and variance analyses (Macz3, 2007). K3r3mendi & T3th emphasize that all costs and expenses should be planned and shown where they were actually incurred (K3r3mendi & T3th, 1996). With the knowledge of actual cost utilization, plan-fact comparisons should also be performed and the reasons that led to the discrepancies must be explored (Daniel & Kreiser, 1992). If a company is well aware of its own production costs and is able to present them in the right place within the areas of the company, it also has every chance to react to environmental changes in time and as quickly as possible. This information can provide an internal stability to a business and, most importantly, provide a competitive advantage that gives management every chance to make the right decisions. The distribution of enterprises in Hungary is shown in Figure 1.

MATERIAL AND METHOD

The aim of the research was to assess the prevalence of the use of the controlling system in the SME sector, and the initial suggestion was that if a company does not use a controlling system, it is mostly due to shortcomings in the knowledge of managers rather than lack of financial resources.

A questionnaire survey was conducted through Google Forms. The target group was small and medium-sized enterprises with between 10 and 250 employees and annual net sales revenue of more than EUR two million, but less than EUR 50 million.

In the course of sampling, contact details of the enterprises included in the 2018-2019 survey of the publication SME TOP100 Qualified and Awarded Enterprises were collected and they were contacted in connection with the completion of the questionnaire. The companies included in the publication are enterprises that meet the size requirements of SMEs, and the owners of which are Hungarian individuals in a proportion of more than 50%. The professional jury examined the 100-100 best SMEs in five sectors: agriculture, industry, construction, trade and services. A sample of 500 was formed from this sampling. Then another 200 companies for looked up via the internet, through the websites of the companies, and their compliance of with the sampling criteria was checked through the website e-beszamolo.hu; the questionnaire was also sent to them.

The questionnaire was completed anonymously, the identification of the respondent was completely ruled out, thus it became possible to ensure the GDPR compatibility of the survey.

The structure of the questionnaire followed two directions after the initial demographic questions. The course of the questionnaire was split in two directions when the respondents were asked if controlling statements are currently used in their case. After ticking the answer 'no' to this question, the focus was on revealing the reasons and what the respondent would see as the significance of using such statements by answering a few short questions. In the case of a positive response, the respondents were further asked about when the system was introduced, how satisfied they were with it, and whether they can identify a connection between the introduction of the controlling system and the company financial results, how much it costs to maintain it, and in what software the calculations are performed.

The questionnaire was processed in the Excel spreadsheet software. Google Forms allows downloading the result in Excel format by pushing a single button. 133 completed questionnaires were returned, of which 129 can be evaluated; the ones where responses were almost completely absent were excluded from the sample. The results were then interpreted using tables and charts/graphs.

RESULTS

Regarding the year of establishment of the enterprises, the answers were received according to the following standard deviation; most of them (58%) were established between 1991 and 2002 (Figure 2). The involved businesses were established an average of 21.1 years prior to the survey.

Regarding the business type of the involved enterprises, 79% of the respondents operate as Ltd., 21% as Plc/cPlc. The rest of the companies operate in other types of business. Out of the 129 responding companies, approximately 100 companies (78%) are managed by their owners. Out of the companies that are managed by the owner, 71% have their own accounting staff. Out of the 100 companies, 42 perform non-statutory indicator analyses, 43 companies do not have such activities and 15% of them have no information about it. Furthermore, at companies that are managed by the owner, controlling statements are prepared in 52 cases, they are not prepared in 41 cases and seven respondent companies do not know the answer. Regarding the business type of the 100 enterprises, all the surveyed business types occur among them. However, 84% of the surveyed companies operate as Ltds.

The research of Gy3ri (2018) points out that in enterprises where the management of the household and the business are intertwined, there are usually no managerial roles, they do not have the appropriate entrepreneurial knowledge, and this has

been highlighted as the most significant obstacle to expansion. The research findings confirmed the results of the previous co-authors, according to which business owners who have acquired their financial knowledge from their own business practices, examples of family, friends or other businesses, i.e. non-systematic training, are more likely to experience financial difficulties (Gyóri, 2018).

The 29 companies, where the owner does not manage the company operate in the form of general partnership (Gp.), Ltd. and Plc/cPlc, and 62% of them function as a Ltds. In their case, 90% have accounting staff, 69% perform indicator analyses beyond legal obligation, and 79% have controlling. As can be seen, in the case of companies where the owner does not manage the company, there is no economic form of limited partnership (Lp.) that indicates a smaller size, thus these businesses may be larger with a high turnover, where the separation of the managerial role and the management is justified. As previous research has shown, the use of managerial accounting and controlling systems is typical in the case of segmented, formalized enterprises and the same is experienced in the presented case.

36.4% of the respondents, i.e. 47 out of 129 enterprises, indicated that they do not apply a controlling system (in 41 of these companies - 87% of them - the owner manages the company). Of the 47 companies, 27 have accounting staff and 13 perform non-statutory indicator analyses.

When asked whether it would be beneficial to introduce a controlling system in their company, 23 out of 47 companies answered yes, and another seven companies responded with a unique answer stating that they plan to introduce it. Even among those where a controlling system is not currently in place, 75% of are interested in introducing it. Only seven respondents stated that they did not want to introduce it and 10 stated that they are uncertain.

The 23 respondents that stated they would benefit from implementing a controlling system at their company would choose the following solutions: 35% would purchase software, 31% would seek the help of an accountant or financial advisor, 15% would employ controllers, and 19% does not know how they could take advantage of the controlling system.

Half of the respondents that did not intend to introduce a controlling system or could not provide an answer to the question, do not know the possibilities, and the other half answered equally that they did not consider it useful or would not introduce the system due to financial considerations.

The fact that more than a third of the surveyed companies do not use a controlling system, but otherwise 75% of them are specifically interested in it is of major importance. If these managers

(87% of them are also owners) were informed in some way that they could use their controlling tools to improve the performance of their companies, achieve growth and thus gain a larger market share, at least 75% of those interested could potentially contribute to the growth of the Hungarian economy.

This is a segment of SMEs that deserves special attention, and their catching up could raise the economic standard, the economic performance in the country. One way to do this is to train and employ professionals who are qualified about the use of controlling tools in addition to accounting skills. Employed at these small businesses, even at an initial level, they could contribute to the development of management accounting by developing indicators. Consequently, recognizing its importance, managers of the company would become more open to the work of the controllers. These few small steps might contribute to making management decisions that could trigger a higher level of management at these companies.

CONCLUSION

In the scope of the questionnaire survey, it was specifically asked why respondents did not want to introduce a controlling system. More than half of these businesses responded that they were unaware of the options and the others did not want to implement the system, either because of financial considerations or because they did not find it useful. Whichever reason is considered, it is clear that a lack of knowledge, perhaps a bit of a fear of the unknown, and being unaware of costs might cause this attitude among entrepreneurs.

However, this proportion (39%) is not negligible. If this ratio is examined in relation to the total number of SMEs, out of the 582,000 SMEs (2019 SBA Fact Sheet), it affects approximately 226,500 companies. This could be a potential market "demand" that needs to be convinced that controlling can play a major role in the development of their business lifecycle. If they intend to grow and want their business to survive, controlling might be the solution. It is true, that as in all other cases, this demands investment, but companies can start small. Initially, it is sufficient for the manager of the company and the accountant to develop some indicators that the manager of the company can use as a guideline for financial, economic decision-making. This can be expanded later, and if companies are convinced about its usefulness, they will be more likely to devote funds to it.

Subsequently, authors' hypothesis was accepted: the lack of knowledge justifies the reason for the reluctance to introduce a controlling system more than the lack of resources.

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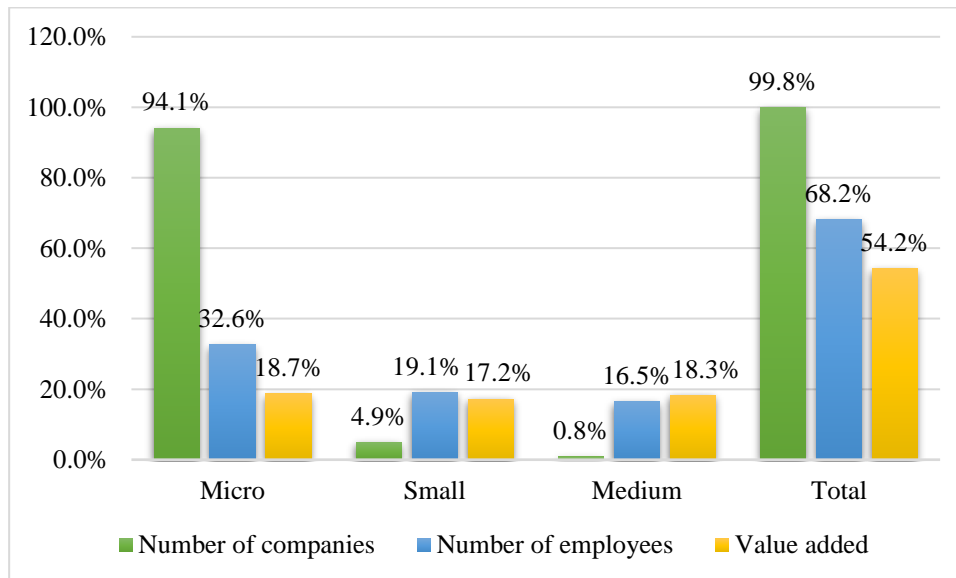


Figure 1
Distribution of micro, small and medium-sized enterprises in Hungary, the number of employees and the amount of value added produced in 2019

Source: Own editing based on the data of the 2019 SBA Fact Sheet - Hungary, 2020

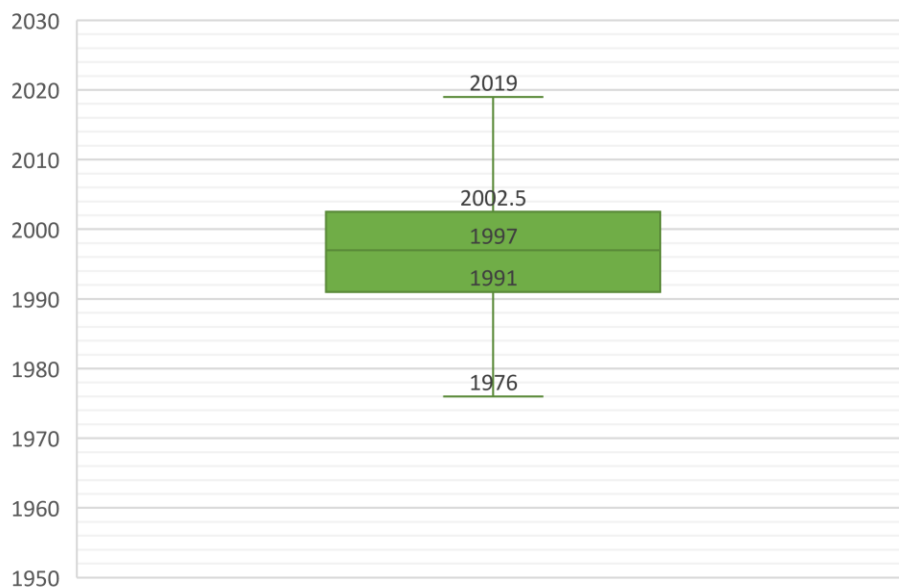


Figure 2
Standard deviation of respondents by year of foundation

Source: Edited on the basis of an own database