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USE OF METHODS AND TOOLS (STRATEGY, PLANNING, TRANSPARENCY, ERP, DEVELOPMENT) FOR AN EFFECTIVE SMALL AND MEDIUM-SIZED ENTERPRISE

A case study of SMEs in Szabolcs-Szatmár-Bereg County in Hungary

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Abstract: *Small and medium-sized enterprises form the engine of the Hungarian economy, both in terms of their number and their employment rate. Therefore, the efficient operation of this sector is in the interest of many economic actors. However, experience shows that today's SME sector still needs to develop in many ways to become efficient. This study aimed to analyze whether SMEs use the necessary methods and tools to be efficient. Planning and the development of strategy are very important methods and tools for efficient and organized work, as it defines and clarifies the direction taken by an enterprise. However, the survey and the in-depth interview showed that they are not necessarily considered important for the participating SME leaders. According to the interview, one of the reasons is that SME leaders have a better understanding of everyday tasks and their implementation than the managers of large companies. Furthermore, in most cases, the SME leader is personally involved in everyday work. This provides the advantage of having the opportunity to fully understand the enterprise, thus managing, and developing it more effectively, as he or she can intervene more flexibly, faster, and more accurately if necessary. However, due to the small size of the organization, the manager also must perform the tasks of several functions (marketing, management, finance, etc.), which require multidisciplinary knowledge and skill. In SMEs, due to their specificities, it is difficult to apply best practices in large enterprises in both management and various functions.*

Keywords: *SMEs, tools and methods, efficiency, Szabolcs-Szatmár-Bereg County*
(JEL code: M21)

INTRODUCTION

Enterprises in the SME sector account for more than 99% of the total corporate sector at both Hungarian and EU levels. According to the latest statistics (2019), there were nearly 827 thousand small and medium-sized enterprises in the country. The number of them has increased significantly in the last 5 years, which has increased by a total of 31% year-on-year. Furthermore, SMEs provided employment opportunities for 65% of those employed in the entrepreneur sector. According to 2019 data, this amounted to the employment of nearly 2.1 million people. More than two-thirds worked in the service sector, 16% in industry, 12% in construction, and 4.8% in agriculture.

In terms of GDP, in 2019 they accounted for 45% of the value-added of enterprises. However, there is a slight decrease compared to the previous year (KSH, 2020). While they form

the largest number of companies, their performance remains far behind that of the large companies. What are the reasons that lead to these results?

Making a business plan is an absolute necessity in today's business atmosphere and it is one of the most complex tasks of businesses (Juhász, 2015). Business plans can be of different types. The form, content, and purpose of business planning may differ, depending on whom it is prepared for, at which stage of the business it is prepared, and for what period. Thus, they are for example bank loan presentation plans, investor presentation plans, start-up plans, yearly operating plans, and business sale plans among others (Skripsky, 2002).

The research dedicated to the relationship between rational strategic planning and enterprise performance has been multiplied since the first empirical study conducted by Thune & House (1970) and led to the conclusion of better economic

performance for business planners compared to non-planners. In fact, the question of the relationship between rational strategic planning and company performance has become a topic of interest for researchers in strategic management over the past three decades (Glaister et al., 2008).

Strategic planning is usually a long-term plan that includes directions affecting the entire system of the company. According to Chikán (2005), the task of strategy is to organize a company's stakeholders, in a way that makes forms of movement desirable and enable for stakeholders to serve the company's core purpose effectively (Szöllősi & Szűcs, 2015).

Because it rationally determines a favorable strategic direction, strategic planning can help companies avoid costly mistakes and survive in highly competitive environments (Porter, 1996). Furthermore, other important functions are namely: the functions of projection, decision support, reduction of uncertainty, detailed action plan, and estimation of the future profitability (Laguecir et al, 2010).

In the strategic management literature, rational strategic planning is defined as a logical and continuous process involving a certain number of sequential steps allowing the company to achieve its objectives, namely the definition of the mission and the objectives to be term, the analysis of the environment, the formulation and evaluation of various possible strategies, the implementation and finally the control of the results (Ansoff, 1968). Rational strategic planning is based on the idea that organizations adapt to changes in their environment by making rational decisions (Mbengue - Ouakouak, 2012).

Tactical planning is usually mid-term planning (1-3 years) the determination of the goals of certain subsystems and the necessary means related to the planning of resources (Szöllősi & Szűcs, 2015). There is always a situation in progress with a future largely subject to the influence of uncertain and random events, and the plan drawn up today is always the heir of another plan. (DJITLI, 2015)

Operational planning means the short-term planning of the production and mutual use of outputs with the optimal use of resources. At the operational level, it is necessary to start from the given capacities and supply. Operational planning will take a year or a shorter period of time (Szöllősi & Szűcs, 2015).

In recent years, the contribution of information systems to the competitiveness of companies has been increasingly visible. From tools responsible for dealing with repetitive operations, these have become real tools for managing and optimizing daily activity. Today, integrated management software often even makes it possible to obtain a significant competitive advantage.

Organizations with a rigid vertical structure are breaking up and the integration of the various processes that now must interact constitutes the daily response to companies' need for responsiveness, reliability, and anticipation. It must be able to understand each other, to work effectively between salespeople, technicians, accountants, and logisticians from the same company to optimize overall operations.

This requires having a common language and sharing repositories, practices, and modes of communication. The ERP (Enterprise Resource Planning) represents the ideal tool for such an organization of the company. The risks and costs of in-

tegration have always been as great as the benefits of such systems. Therefore, very few small and medium-sized companies are equipped with an ERP today (Pinckaers – Gardiner, 2011).

Not only multidisciplinary but also interdisciplinarity is required. It is becoming necessary to know how to select and process large quantities of increasingly digital data. It is, therefore, necessary to call on multiple knowledge and contributions to pose and solve a problem, to design and carry out a project. No actor in the system can deal with the problem alone (Le Boterf, 2018).

The question then arises: are the SMEs using these methods and tools?

MATERIALS AND METHODS

In the following paper, the primary research aimed to answer the question: do most SMEs use methods and tools that make the operation of the business efficient and organized?

To have the most relevant data, the online survey was the most appropriate method. Furthermore, a specialist was involved who views SMEs as outsiders with a professional and experienced perspective. Thus, an auditor was involved in this research by in-depth interview method.

The survey was carried out in 2022 and extended to micro, small and medium-sized enterprises operating in Szabolcs-Szatmár-Bereg County (Hungary). In the first step a database of 70 companies was created, then an online survey was sent to them by e-mail. 38 fills were received from the questionnaires sent, two of which were deleted due to incomplete and inaccurate replies. Thus, the sample consists of 36 complete and processable responses. Therefore, the sample cannot be considered representative, thus the results are not suitable for drawing general conclusions.

The survey consisted of a total of 41 questions. For better analysis of the answers, the filler would choose from the defined answers for most of the questions. However, for almost all questions, the filler was also allowed to answer individually (with the help of the "other" box). The questionnaire included multiple-choice, check box, multiple choice grid, check box grid, and Likert scale closed questions. For every Likert scale question, the range was from 1 to 5. Furthermore, open questions were also applied when the aim was to express the individual opinions of the leaders. As confidential information was included in the survey, anonymity was guaranteed.

The survey contained questions related to short-term and long-term planning, strategy making, transparency of workflows, enterprise resource planning systems, frequency, and types of development.

Nearly half of the companies in the sample are micro-enterprises, nearly 40% are small businesses and 14% are in the category of medium-sized enterprises.

RESULTS

Short-term and long-term planning

Planning is of great importance, as it ensures orderly and traceable work, which is the basis for efficient operations.

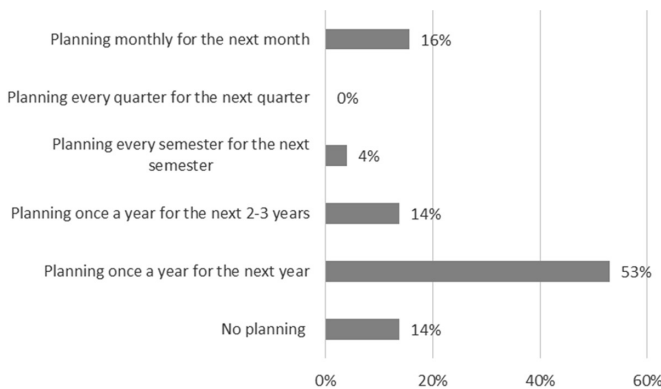
For the analysis of business planning, three elements were asked. How does the SME leader see:

- the importance of short-term?
- the importance of long-term planning?
- the planning's frequency?

For the first two questions, a Likert scale was applied, in which 5 meant that the short/long-term planning is essential, and the 1st meant it is irrelevant. Nearly 67% of respondents consider short-term planning essential. Surprisingly, about 20% of the leaders consider it irrelevant. After that, 8.3% were attributed to medium importance. Both 2nd and 3rd assessments were chosen by one leader.

In terms of long-term planning, there is a greater distribution of the results obtained. Less than half of the leaders consider it essential. The proportion of those who attach medium (3) importance to it is highest. Those who consider it irrelevant (1) have a 3% higher share compared to short-term planning results. If we add up the ratio of those who give valuations (1) and (2) and i.e. for those for whom planning is negligible, this represents more than 30% of respondents, which can be considered a fairly large number. Thus, long-term planning is considered even less important by the leaders interviewed.

Figure 1: Frequency of planning (N=36)



Source: Own editing based on the survey results

In terms of planning frequency, 75% of respondents say they plan once a year for the coming year. 22.2% plan monthly for the next month. Nearly 20% plan once a year for the next 2-5 years, and the same proportion does not plan at all. 5.6% of SMEs plan every six months for the next semester and there has been no response to quarterly planning.

An open question was asked to collect answers regarding the reason that some don't plan at all. Two leaders claim that they do not see the need for planning, because due to their scope of activity, they work according to the daily events and possibilities. According to a leader, the revenue of the company depends on the state's financial payment, thus there is nothing to plan for. This last answer must be from a healthcare company's leader because their revenue is indeed paid by the Hungarian Treasury.

According to the expert interviewed, the planning of SMEs should not be conceived similarly to a large company. For SMEs it can be considered a simpler one, covering only cer-

tain elements, and most of the time made only verbally or in the "head" of the leader. The reason is that especially in small businesses, the leader tries to respond to everyday events, and challenges and seize the opportunities that are emerging. On the other hand, due to simple activities and the relatively small number of partners, often with a stable customer base, there is no reason for complex planning. In most cases, the planning focuses on raising wages for the next year and setting new prices, all with the help of simple calculations. It is rare for the interviewed expert to see during her work a company that is engaged in serious planning and belongs to the small or medium-sized enterprise category. After all, in the case of a complex activity, planning is already vital in many cases, but according to her experience, the planning is done according to methods, and systems made by the leader itself, and not based on scientifically supported methods. Interestingly, many micro-enterprises are forced to carry out planning (short- and long-term) due to bank loans. However, they usually do not use it for their activities.

Planning makes sense if the actual results are checked afterward. How typical is the plan-actual review among SMEs?

Nearly two-thirds of respondents say that in all cases the planned and achieved results will be rechecked. However, nearly 20% of them would not check back. Based on the auditor's previously mentioned opinion, it can be concluded that this category includes those who plan for bank loans and not for their activities. Furthermore, the remaining 14% check back, but not always.

Strategy making

According to the auditor, every SME leader has his/her strategy to run and operate their business. These can be very simple strategies, such as: "carrying out activities for the sake of daily living"; "getting as many sales as possible". Larger SMEs, for example, have a strategy for "achieving exclusivity with suppliers and thus providing the most affordable price for customers". Small businesses typically set smaller goals. For them, the main goal is often to provide sufficient means of living for the leader's family, while in the case of larger SMEs they already have a more serious strategy that considers wider economic aspects. In her point of view, these strategies are very rarely written or laid out in a strategy plan, but rather appear in the thoughts of the leader and thus in his actions and decisions. That's why these strategies reach the employees or external stakeholders implicitly. According to the results of the survey, 75% of the respondents do not have a written strategic plan, which follows the previously mentioned opinions of the auditor.

Nearly 78% of those who make a plan only prepare a one-year (operative), and 22% make a two-year plan (tactical). Thus, the respondents mainly make a short-term and mid-term plan.

The auditor added to the previously mentioned results by saying that since these companies are easily seen through by the leader due to their size and simple activities, it allows them to constantly keep in mind the operation, and be informed about every detail, strength, weakness, and problem of their enterprise daily. While in a large company, due to the large size, this is not possible. Therefore, in the opinion of the au-

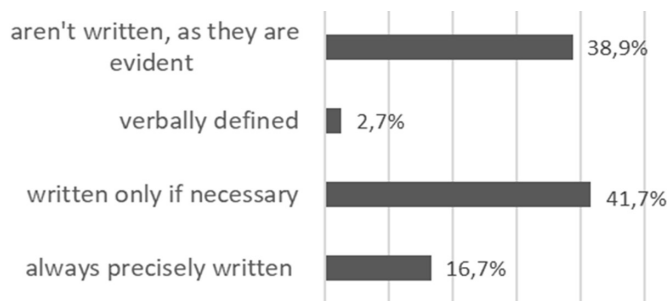
ditor, if the head of a small business has adequate economic knowledge, it is not relevant to him to analyze a serious internal environment, as is necessary for a large company. Analyzing the external environment would be important, however, in her experience, most small business leaders base their decisions, according to the external and internal opportunities they perceive in their day-to-day work, and sometimes from the opinions of acquaintances.

Transparency of workflows

Having a transparent and clear description of the process and workflow of an enterprise is an important tool to increase effectiveness and organized operations. Thus, analyzing its use in the SME sector is necessary.

The existence of accurately described workflows and processes was true in the case of nearly 17% of respondents. Furthermore, 42% will be given an accurate description if necessary. While 39% of the leaders surveyed declare defining it verbally. Finally, 3% say that the processes are self-evident and therefore not present in any explicit form.

Figure 2: Workflows are: (N=36)



Source: Own editing based on the survey results

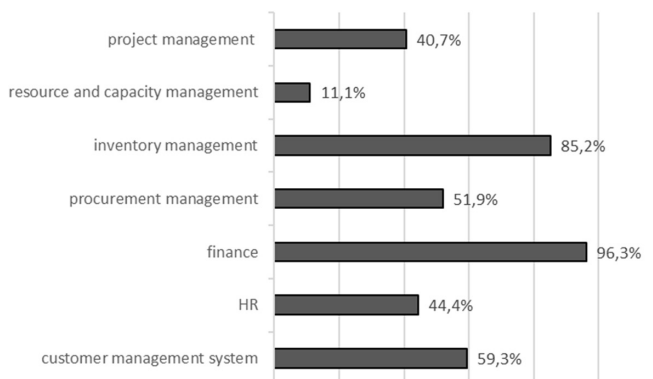
According to the results of the survey, the respondents don't necessarily feel the importance of this tool. Despite it makes the tasks of the employees clear, more accurate, and understandable, thus providing safety for both the employee and the leader. It is also of paramount importance because it will enable everyone to operate within their competence. However, it is true that if the leader can clearly define this verbally, it can also be effective in a very simple activity. During the interview, the auditor pointed out that the activities of SMEs are in most cases simple, which is why in most cases the work processes are defined verbally. Nonetheless, she believes that the processes described in SMEs are often because they are mandatory for some jobs or activities.

Enterprise resource planning systems

IT preparedness and modernity are largely reflected in the use of enterprise resource planning systems. Are SMEs benefiting from this opportunity?

According to the survey, 75% of the respondent's businesses use it, while 25% do not. Micro-enterprises with 1-3 employees do not use such systems but use programs used by individuals (for example, Excel).

Figure 3: Types of ERP used (N=27)



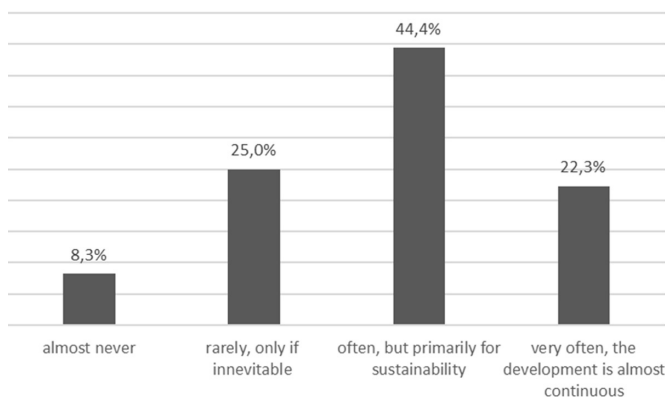
Source: Own editing based on the survey results

Regarding the type of enterprise resource planning systems used, nearly 96% contain financial functions, followed by inventory management functions (85%). Since inventory management is not relevant for all the businesses surveyed, the proportion received can be considered positive. However, a customer management function is necessary for all areas of activity, so the 60% ratio can be considered small. Moreover, 44.4% use HR functions, 52% procurement, and 41% project management functions.

Frequency of developing

In our modern world, a business remains sustainable only if it is constantly developing and able to adapt to changes. Continuous development is the basis of life, however, in our time, changes are extremely fast, which on the one hand means many incredible opportunities for enterprises, and on the other hand, it also means difficulties, since change is always an additional investment of energy.

Figure 4: Frequency of development (N=36)



Source: Own editing based on the survey results

The survey's results show that among the 34 SMEs for the largest proportion, the development is often, but primarily for the sake of survival (44%). This suggests that almost half of the respondents can ensure the sustainability of the business through the development, but further growth is not the goal of the development. While 25% declare that they rarely develop

and only if it is unavoidable. Regarding the previously mentioned tools, there is no growth target here either. According to the auditor for many SMEs, large-scale growth is not a primary objective, as long as the benefits provide a comfortable life for the leader's family. However, the emergence of market opportunities is another matter as taking advantage of those opportunities will naturally lead to growth and development.

Moreover, 8% of the respondents rarely develop. Thus, the question is, how far will these businesses be able to operate in the long run? Finally, nearly 20% of respondents develop very often, almost continuously, suggesting that they are highly dynamic and flexible businesses.

Types of development

For most of the participants, developments concern IT systems, which makes sense since it is the area where the fastest change is taking place. This is followed by technological developments (nearly 80%) since for many activities the most important element of efficiency is the existence of modern technology. A little more than half of the respondents also develop workflows, which can be considered a positive element, since it is also the basis for improving efficiency. The introduction of a new product or service can also be seen in a fair number (45.5%). However, the 42% share of renovation and creation of a modern job environment is considered insufficient because renovation is often a natural consequence of the use of a fixed asset. Furthermore, by creating the most pleasant environment for its employees, a company promotes good cooperation and more efficient work. Marketing development, partner relationship development, and product or service development are less common. The research development is carried out exclusively by one filling company.

Overall, there are some positive results from the developments. However, it turned out that most of the developments are aimed at complying with technological and IT developments, thereby ensuring the survival of the enterprise.

The question is, how much have the improvements helped to make it work more efficiently? On a Likert scale of five, two-thirds of respondents declare that the different types of development introduced have promoted efficiency (5 ratings). 4 and 3 evaluations were chosen by nearly 30% of leaders, which leads back to how they did not necessarily achieve more efficient operations. A development may come at a high cost and can only be interpreted in the long term, its effectiveness. It is also true that development may be inevitable, but due to its nature, it does not necessarily increase the efficiency of the company.

CONCLUSION

The results of the survey show that planning is not necessarily considered an important tool, especially for long-term planning. The most characteristic is planning once a year for the next year. It can be concluded that planning and strategy, which are key methods and tools for achieving efficiency and organization, are not present in a written or explicit way in most SMEs participating in the survey, especially in micro and small enterprises. Due to their size, leaders can easily understand the

operation of their business and, in daily communication, can communicate their strategy explicitly or implicitly. Micro and small enterprises operate in a similar way to a family, where planning and strategy are based more on verbal agreements, which in many cases are determined based on existing opportunities and situations. Furthermore, it turns out that due to the highly changing external environment and their short-term vision, SME managers do not see the point in preparing a strategy or planning beyond one year. However, if it is prepared, it is done to meet the expectations of financial institutions. Regarding enterprise resource planning systems, the results show that they are slowly making up for their backlog. They are also successful in several areas of development, but the main reason for the development is to ensure the sustainability of the enterprise. However, they strive to utilize changes in the world in its operations, especially in the field of information technology and technology. Based on the results, the question asked at the beginning of the primary research could therefore be partially answered positively, as there is a noticeable effort to use the right tools, but it is not typical for the use of methods.

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