The benefits of applying controlling in Hungarian small and medium enterprises

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SUMMARY FINDINGS, CONCLUSIONS, RECOMMENDATIONS

The issue of optimal company size as well as related efficiency issues have always been a great dilemma for scientists and professionals alike. It is now evident that a bigger size would not result in greater efficiency for all activities.

As a result of my research, I point out that to achieve the goals of economic policy – in line with the requirements of the European Union – it should be possible for small and medium enterprises to improve their operational efficiency and boost their profitability. To ensure this, various procedures and methods need to be adapted to this purpose.

Companies should be open to the new innovative systems and should incorporate them into their everyday decision-making mechanisms. Effective and rational thinking is essential in the decision-making processes of the managers of small enterprises as well, which can be promoted by adopting a controlling-based approach and implementing controlling functions.

My research proved that small and medium enterprises using controlling have a clear competitive advantage over their competitors, and that this competitive advantage becomes more characteristic and pronounced in the long run.

INTRODUCTION

The role of the small-and medium-sized enterprises in the economy and society has been more and more appreciated in our country since the change of the regime partly due to the integration processes to the European Union and to the fact that a company of a bigger size does not in all cases mean a more efficient solution.

The change of the economic environment makes it necessary that the managerial decisions should be well-established and assist in producing competitive products and services (Hágen – Kondorosi F.-né, 2003).

For the success-oriented professionals of the future it is essential to get to know and absorb the managerial tools and activities with which the tasks of the management can be made successful.

The preliminary expectations determining the research objectives and connected to the special field are summarised by the following hypotheses:

H1: The small-and medium-sized enterprises in Hungary that apply controlling are more competitive than the others as their efficiency is growing and management is becoming more and more balanced.

H2: The national small-and medium-sized enterprises that introduced then
applied controlling can measurably operate more effectively than others. Effectiveness prevails in the increase of profit per person as well as in the growth of revenue, own capital and total assets.

Based on my hypotheses examinations and research results I review the possibilities of introducing controlling activity and its application regarding the size category of micro, small-and medium-sized enterprises.

MATERIAL AND METHODS

The objective of my research was to produce a number of questionnaires suitable for analysis as well as deep interviews during which the sample taken from the majority illustrates the present situation of SMEs in Hungary perfectly.

The subjects of my interviews were head of companies, middle managers and entrepreneurs. When choosing them, I took special care that all of them should be from the SME sector and also their activities should cover the wide choice of enterprises. In this sense I made interviews with agricultural entrepreneurs, commercial managers, accountants and auditors working in the service sector, manager of a construction enterprise and that of several IT companies as well as middle managers of companies from the food industry.

My questionnaires are relatively complex and ask about a lot of data and information. That was necessary because such a data collection and analysis were carried out in connection with small-and medium-sized enterprises in my research that cannot be found in any national or international publication. During my research I explored the size economical questions of small-and medium-sized enterprises taking the professional branch and the application of controlling into account. I examined what impact the application of controlling makes on the competition and profit-making capacity of the enterprise.

All this is important in my opinion as the changing nature of the environment compels enterprises to adapt and to renew permanently that should also be considered when forming the strategy.

Altogether 600 enterprises were visited and in 506 cases they were co-operative in filling in the questionnaire. Therefore, willingness to response was 84.3%, which can be stated definitely great due to the assistance of the poll-takers.

RESULTS

I examined the data of enterprises of different activities and branches in the sample. Primarily I wondered what differences existed between the different activities and branches when applying or not applying controlling. Based on my examinations it can be said that in the case of aggregated data in almost all activities pre-tax profit is more favourable when applying controlling. As a conclusion, we can state that controlling does not depend on the branches.

Applying variance analysis in some cases we can state that among the internal factors affecting profit before tax, the money and capital supply of the enterprise has the greatest impact. Among the external environmental factors the economic and legal background also have a significant effect on the profit category (Szűcs et al., 2003).

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I examined the enterprises that have been applying controlling since their establishment and I also checked the impact on profit at them. It can be concluded that the impact of controlling on profit is more
typical and expressive in a longer period (3-5 years). However, it should be noted that the profit of small-and medium-sized enterprises in a greatly changing economic environment and in a difficult competitive situation is not only dependent on controlling.

I also analysed the formation of connections in time, too so during the period between 2002 and 2006 those parts of the entrepreneurial data were selected to which dynamic examination could be applied. Due to methodological reasons, temporal changes can most of all be carried out by linear trend analysis. As a more important result, we can state that there is a pronounced difference between the pre-tax profit of the groups of enterprises applying or not applying controlling during the examined period.

Data (trend analysis) prove that the change of the pre-tax profit at enterprises applying controlling is more favourable than those not applying it.

To explore the further advantages of applying controlling for the small-and medium-sized enterprises a detailed efficiency analysis was carried out. Based on the database I examined values of different indices by Excel at enterprises applying or not applying controlling. Results mean averages for the single years between 2002 and 2006. The Table 1-4 illustrates the findings of my examination.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>The average change of profit before tax, number of employees and profit per capita before tax (2002-2006)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>2002</td>
</tr>
<tr>
<td>Profit before tax, 1000 Ft</td>
<td></td>
</tr>
<tr>
<td>without controlling</td>
<td>95 799</td>
</tr>
<tr>
<td>with controlling</td>
<td>28 145</td>
</tr>
<tr>
<td>Number of employees</td>
<td></td>
</tr>
<tr>
<td>without controlling</td>
<td>37</td>
</tr>
<tr>
<td>with controlling</td>
<td>47</td>
</tr>
<tr>
<td>Profit/person, 1000 Ft</td>
<td></td>
</tr>
<tr>
<td>without controlling</td>
<td>2 564</td>
</tr>
<tr>
<td>with controlling</td>
<td>605</td>
</tr>
</tbody>
</table>

Source: own compilation, 2008

The annual average change in the pre-tax profit of the enterprises applying controlling was 23% so a growth could be experienced while in the case of enterprises without controlling the average change was -18%, so a significant decrease was present. There is a noticeable difference also regarding profit per person. While there was an increase of 17% in the case of companies that used controlling, a decrease of 19% could be discerned in the opposite case. The advantage of the application of controlling is also discernible here. Regarding the number of employees, an increase (2%) was typical of those not using controlling and this figure was 5% in the other case. All in all, the pace of growth is greater in the latter case.
I examined the extent of the change of the revenue and own capital of enterprises using or not using controlling.

On the basis of the figures of the table we can conclude that examined in their dynamism, the enterprises applying controlling could increase their revenue (13%) and own capital (21%) much faster than those not using controlling where both indices stagnated in the examined period.

I regard it also important to take a look at the changes in the liabilities of enterprises. The results are shown by the table below.

### Table 2
The average change of revenue and own capital (2002-2006)

<table>
<thead>
<tr>
<th>Name</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>annual average change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average revenue, 1000 Ft</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>without controlling</td>
<td>740 027</td>
<td>666 269</td>
<td>665 343</td>
<td>660 910</td>
<td>757 815</td>
<td>1</td>
</tr>
<tr>
<td>with controlling</td>
<td>557 899</td>
<td>613 344</td>
<td>710 261</td>
<td>824 967</td>
<td>910 705</td>
<td>13</td>
</tr>
<tr>
<td>Average own capital, 1000 Ft</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>without controlling</td>
<td>449 257</td>
<td>320 687</td>
<td>336 215</td>
<td>563 641</td>
<td>583 594</td>
<td>7</td>
</tr>
<tr>
<td>with controlling</td>
<td>128 798</td>
<td>161 363</td>
<td>226 547</td>
<td>244 942</td>
<td>274 935</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: own compilation, 2008

### Table 3
The average change of liabilities (2002-2006)

<table>
<thead>
<tr>
<th>Name</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>annual average change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term liabilities, 1000 Ft</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>without controlling</td>
<td>25 294</td>
<td>29 613</td>
<td>30 810</td>
<td>40 053</td>
<td>58 810</td>
<td>23</td>
</tr>
<tr>
<td>with controlling</td>
<td>70 944</td>
<td>74 887</td>
<td>169 393</td>
<td>119 914</td>
<td>106 623</td>
<td>11</td>
</tr>
<tr>
<td>Short-term liabilities, 1000 Ft</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>without controlling</td>
<td>338 838</td>
<td>361 830</td>
<td>376 620</td>
<td>285 558</td>
<td>339 650</td>
<td>0</td>
</tr>
<tr>
<td>with controlling</td>
<td>142 528</td>
<td>163 126</td>
<td>179 627</td>
<td>224 277</td>
<td>251 270</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: own compilation, 2008

The change in long-term liabilities shows an increase in both cases: the extent of growth was 23% at enterprises not applying controlling, which, regarding the value of the stagnating own capital indicates indebtedness to a greater and greater extent while in the case of those applying controlling the change was 11% but the growth of the own capital substantially exceeds it.

As for the average change in short-term liabilities, it can be concluded that while in the case of those not applying control-
ling there was not a significant change, the
stock grew (15%) at enterprises using cont-
rolling. The question whether it can be jud-
ged positive or not, will be answered by the
data of the following table, i.e. if we exa-
mine the changes in the assets of the en-
terprises, as well.

It is obvious from the data of the assets
that all assets increased to a greater ex-
tent in the case of the enterprises applying
controlling (17%) than in the case of those
without controlling (4%).

The enterprises without controlling suf-
fered a decrease (-9%) regarding invested
assets, which can be explained by the fact
that in the examined period they cut back
on investments but is can also mean that
their debt stock is riskier.

<table>
<thead>
<tr>
<th>Name</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>annual average change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average total funds, 1000 Ft</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>without controlling</td>
<td>664 495</td>
<td>727 732</td>
<td>680 235</td>
<td>726 957</td>
<td>768 985</td>
<td>4</td>
</tr>
<tr>
<td>with controlling</td>
<td>332 011</td>
<td>380 742</td>
<td>527 094</td>
<td>579 288</td>
<td>615 979</td>
<td>17</td>
</tr>
<tr>
<td>Average invested funds, 1000 Ft</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>without controlling</td>
<td>252 594</td>
<td>252 837</td>
<td>264 084</td>
<td>176 465</td>
<td>172 807</td>
<td>-9</td>
</tr>
<tr>
<td>with controlling</td>
<td>188 562</td>
<td>278 980</td>
<td>322 935</td>
<td>353 988</td>
<td>356 817</td>
<td>17</td>
</tr>
<tr>
<td>Average working capital, 1000 Ft</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>without controlling</td>
<td>566 447</td>
<td>594 507</td>
<td>610 019</td>
<td>509 831</td>
<td>573 338</td>
<td>0</td>
</tr>
<tr>
<td>with controlling</td>
<td>167 524</td>
<td>187 841</td>
<td>243 764</td>
<td>264 415</td>
<td>279 336</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: own compilation, 2008

Working capital shows stagnation in the
case of enterprises not applying control-
ling while there is growth (14%) at those
with controlling. This can explain the fact
that although enterprises with controlling
increased their short-term liabilities in the
examined period, the situation is not unfa-
vourable as a growth of similar extent also
occurred in their working capital.

I carried out the examination of my hy-
potheses formulated in the introduction.

Table 4

I carried out the examination of my hy-
potheses formulated in the introduction.

Based on the practical application of sev-
eral statistical methodologies and the expe-
riences of deep interviews I have come to
the following conclusions:

H1 proved. Regarding that competiti-
veness can be influenced by many facts,
the small-and medium-sized enterprises
applying controlling in Hungary are more
competitive than others and this compe-
titiveness is reflected in their rising profit
and more balanced management.
H2: proved. The small- and medium-sized enterprises in Hungary that introduced and apply controlling operate more effectively than others. In the case of the enterprises examined by me this efficiency is apparent in the rise of profit per person as well as in the increase of revenue, own capital and total assets.

Regarding the fact that competitiveness is influenced by a lot of factors, I conclude that the small- and medium-sized enterprises applying controlling in Hungary are more competitive than others. This is apparent in their rising profit and more balanced management. Controlling also has a profit stabilising and profit improving function besides its methodological ones. The impact of controlling on the profitability of the enterprise is more pronounced and typical in a longer period (3-5 years).

I conclude that the application of the controlling activity does not depend on branches. In any categories of activity and size it has a positive impact on the running of the business. Controlling activity should be differentiated by size whose depth also differs regarding its IT background.

REFERENCES


ADDRESS:

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