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 persona s well as in the growth of revenue, own capital and total assets.

Base 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 1

The average change of profit before tax, number of employees and profit per capita before tax (2002-2006)

Name	2002	2003	2004	2005	2006	annual average change (%)
Profit before tax, 1000 Ft						
without controlling	95 799	89 856	64 745	48 343	43 475	-18
with controlling	28 145	30 265	41 223	58 221	64 080	23
Number of employees						
without controlling	37	38	38	38	40	2
with controlling	47	51	81	53	56	5
Profit/person, 1000 Ft						
without controlling	2 564	2 347	1 715	1 275	1 095	-19
with controlling	605	599	507	1 097	1 152	17

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)

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

Source: own compilation, 2008

Table 3

The average change of liabilities (2002-2006)

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

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 controlling. The question whether it can be judged positive or not, will be answered by the data of the following table, i.e. if we examine the changes in the assets of the enterprises, as well.

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

The enterprises without controlling suffered 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 4

The average change of assets (2002-2006)

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

Source: own compilation, 2008

Working capital shows stagnation in the case of enterprises not applying controlling 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 unfavourable as a growth of similar extent also occurred in their working capital.

I carried out the examination of my hypotheses formulated in the introduction. Based on the practical application of several statistical methodologies and the experiences of deep interviews I have come to the following conclusions:

H1 proved. Regarding that competitiveness can be influenced by many facts, the small-and medium-sized enterprises applying controlling in Hungary are more competitive than others and this competitiveness 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.

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