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CONTROLLING TOOLS FOR DECISION-MAKING IN MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES

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Abstract: *Corporate executives need information that can help make a business more stable and at the same time a career path for a business. All this is ensured by the controlling information system of the company, which by its actuality can give the managers the greatest help in the decision-making processes. Entrepreneurs, especially in micro-small businesses, generally rate their business success with a cash flow approach, which is indeed one of the most fundamental valuation options, especially for the past and present, but for example, they do not hear about their possibility to analize the different levels of solvency, so they are merely confronted with whether their liquidity is OK or not. Of course, a manager of a small business is not expected to have a higher level of financial-income analysis capability, but to be aware of the short-term liquidity factors of his business processes is already in his own interest, and long-term planning and analytical expectations were not mentioned yet. What should a manager know about the assets, financial and income situation of his business? Theoretically they should know all, practically there are basically two areas of knowledge required: operational and strategic, which presuppose each other, so the entrepreneur needs to know the strategic goals and the path to it through well-organized and economically supported operational steps. Controlling helps in this, whose financial dimension provides practical and useful knowledge for business planning and analysis, and ultimately for corporate decision-making. The practical implementation of these was illustrated by the knowledge of the liquidity indicators examined by the 80 companies and their subjective evaluation by managers, the actual practice of planning processes, the planning of the existence of costing systems partly by company size and partly by business forms. Due to the uniqueness and relatively small number of the enterprises involved in the study, generalizable relationships cannot be identified, but the analysis provides a visual picture of the application of controlling tools and methods to organizations in rural, mostly micro, small and medium-sized enterprises.*

Keywords: *controlling; MSME's; managerial financial attitude and knowledge; planning characteristics; cost calculation.*

JEL Classification: *D70; D81; D83.*

1. Introduction

It is in the interest of every business to have stable operating processes and planned development. In many cases, market upturn can mean a significant increase in the revenue and earnings ratio of a business, and it is the responsibility of managers to

maintain the trend and ensure a favorable short-term condition at the strategic planning level.
Business executives have many tools and methods to monitor, quantify, analyze and evaluate past business processes and use these results to make informed future decisions. Most of the activities used in corporate governance processes are related to the controlling area, ie planning, analysis and information flow account for most of the overall management tasks. The question is, do managers know these tools, and if they do, do they apply them in the management of their company? The large number of enterprises, especially in the case of micro, small and medium-sized enterprises, predicts that many managers have the professional knowledge directly related to their activity, but not necessarily the management and economical knowledge. I write knowledge intentionally, because the approach to management should be the hallmark of every entrepreneur, but in many cases it lacks the knowledge, that would help the manager to sustain and expect the growth of his or her business.
A perfect knowledge of past processes and the data derived from them is a prerequisite for enterprise planning, as it is able to make informed decisions with less risk.

2. Background - Controlling Tools - Financial Indicators in Entrepreneurs' Decision-Making Processes

Most business analysis literature, general or specific, attempts to identify asset-finance-to-income ratios that are worth calculating and analyzing for a given problem. The research, whether from within the company or from outside experts, provides excellent and useful results that conscious leaders use to prepare their decisions.
Business leaders strive for stability and, at the same time, for growth, with the least risk to the business and its results. In the judgment of management, risk is a subjective concept. According to many managers, a company or organization really only transmits the risk. There is no uniformly accepted definition of risk, and there are many examples of how to interpret it. (Bárczi-Szabó-Zéman, 2014)

- The risk arises from the difference between the expected and the actual reality. In other words, risk refers to the uncertainty of how much money invested increases or decreases relative to the time the investment is completed. (Brealey-Myers, 2005., Borszéki, 2006. in Bárczi-Szabó-Zéman, 2014).
- Risk is the probability of an event occurring that affects the achievement of the company's strategic objectives. (Galambos-Fekete, 2005 in Bárczi-Szabó-Zéman, 2014).
- An event that, if it occurs or does not occur, affects the potential achievement of the organisation's goals. (Janza, 2005 in Bárczi-Szabó-Zéman, 2014).
- Assuming a normal distribution, the expected return equals the average of past returns and the risk equals the standard deviation.

• Market participants have the risk that, from the moment they make their business decisions to the moment they are fulfilled, market conditions may or may not move in the opposite direction.

Analyzes of SMEs by Kadocsa (2017) and his colleagues showed that controlling appeared in only 20% of the companies they surveyed - however, this did not mean the creation of an independent controller or controlling organization in this proportion. Planning -as a function of controlling- has already been used to a greater extent: 37% had a documented strategic plan and 46% a business plan.

In their opinion, the cornerstone of the competitiveness of the domestic SME sector is the cost efficiency and the productivity. The controlling system has been proven worldwide in the development of cost-effectiveness, it has become widely used in large companies and has become a useful and indispensable tool for management. It also identified areas for improvement in business efficiency, where the top three are cost management, sales / marketing and sales restructuring based on managers' views. All three areas require corporate controlling activities, especially cost management, which can truly increase the efficiency of the business by accurately determining cost and developing additional cost and pricing plans based on them.

Analyzing the importance of financial planning, Tóth et al. (2017) concluded that investment processes should be managed together with financing processes. Financial planning is a very complex operation, as owners need to consider the effects of any economic decision, with the aim of influencing the financial position of the business by providing resources and efficiently allocating resources. Financial planning is, therefore, a process of creating a state of equilibrium which is intended to ensure the solvency of a business in the short, medium and long term through its financial management activities.

Szőrös and Kresalek (2013) classify financial planning as one of the indispensable activities for businesses, which outlines the company's future financial goals, the main lines of its financing strategy, and, beyond that, provides information to future external and internal stakeholders about consciously designed future actions - inter alia, the effects of the business on its financial, financial and profitability position. Regardless of company size and scope of activities, it is expedient and reasonable to integrate financial planning practices into daily operations, as well as sound and reliable accounting (financial and management accounting) information, company records and statistical reporting, etc. One of the most effective tools for building investor, creditor, and shareholder confidence in the company, is a part of the company's communication. Financial planning seeks to optimize the financial processes related to operations and investments, and to assess financial needs and plan the necessary resources for financing decisions.

Financial planning is a long and time-consuming process which, especially for SMEs, is often not done by small-scale management, but they also need quick financial indicators to make the right decisions.

The most common and perhaps most useful financial indicators come from the liquidity analyzes, which are relatively easy to produce within a company, even for micro and small businesses.

Fenyves (2013), by analyzing three types of liquidity ratios and their corrected versions, showed the differences that occurred due to the turnover rate of current assets (eg inventories and receivables) or current liabilities (eg suppliers, other current liabilities). Adjusting the liquidity ratio in this way gives a much more accurate picture of the actual solvency, as it is not only the frequency of the payment obligation and the regularity of the receipt of the current asset item.
A similar, easily quantifiable indicator of solvency is working capital and its netting, as defined by Tarnóczi and Fenyves (2011). Working capital (gross working capital, by definition) is the part of an enterprise's assets that is embodied in cash, receivables, inventories and other current assets, and net working capital is the difference between an enterprise's current assets and its current liabilities.
Both indicators can provide reliable information on the current and expected state of solvency and greatly help the entrepreneur in future purchasing decisions, reducing the risk of his decision.
The decisions made by the managers of the enterprises are expected to be professionally and economically accurate and reliable, thus ensuring the stability of the enterprise and the minimization of the risk of the activity, which at the same time carries the opportunity for development and growth. But what is the real practice? To what extent do managers know how to make decisions in this approach, and what importance do they attach to management plans and financial indicators? These questions are answered in the next chapter of the study.

3. Controlling processes in corporate practice

The controlling processes of a company - if only based on planning - can be very diverse: production, sales, HR, finance, investment, R&D, etc. fit into areas. In many cases, the confusion of abundance is what needs to be resolved when designing an enterprise information system, and striving for a scalable system that can effectively process the information it provides and truly help enterprise decision-making.
The use of controlling as a management methodology is still not a widespread tool for businesses, especially for SME's, although it has a clear role to play in reducing operational risks.
My recent analysis is a continuation of several years of research based on 2018 data collection. Within the framework of questionnaire processing, I surveyed the design and business management characteristics of a total of 80, mostly micro, small and medium-sized enterprises. A large proportion of entrepreneurs seek to reduce the risk of their activities, using several of the methods they are familiar with, but which are little used on their own firm. Decision support activities can be fully integrated with the "controlling" approach and methods that are still alien to many business executives, the implementation and implementation of which could produce tangible results for business decision makers in a relatively short period of time. The study will explore the practices and relationships between the size, profile, activity, financial process characteristics, liquidity, planning characteristics and costing of the SMEs being examined between the size of the business and the controlling tools used.

The questionnaire surveyed the location of the enterprise (possibly its headquarters) by county, its size (based on its own concept and actually classified), the existence of management expertise for the activity, the characteristics of the financial structure, the assessment of the liquidity situation One group of questions addressed the controlling features of businesses: planning, analysis, management and information processes, followed by cost estimates and cost allocations, which remain a weak link in the management of micro-small and medium-sized enterprises (SMEs).

The location of the 80 enterprises surveyed by counties is shown in Figure 1., from which it can be seen that the controlling characteristics of the enterprises of Jász-Nagykun-Szolnok and Hajdú-Bihar county are mainly presented.

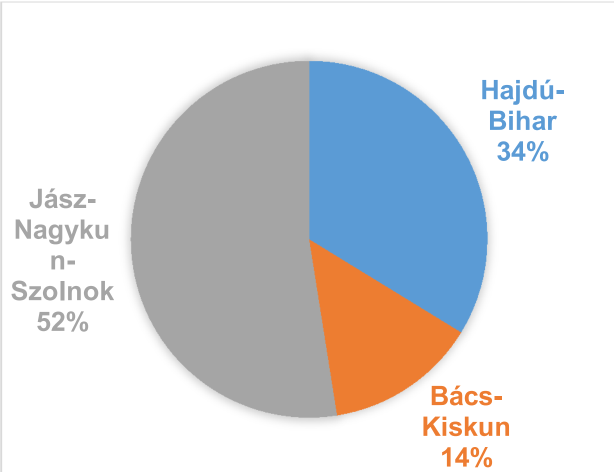

Figure 1: Proportion of enterprises surveyed by counties
Source: based on own data collection

Limited liability companies (47) dominate the distribution of companies in the form of companies, of which 9 were sole proprietorships, 11 were former companies and 14 were public limited companies.

Figure 2 shows the proportions of enterprises form by counties.

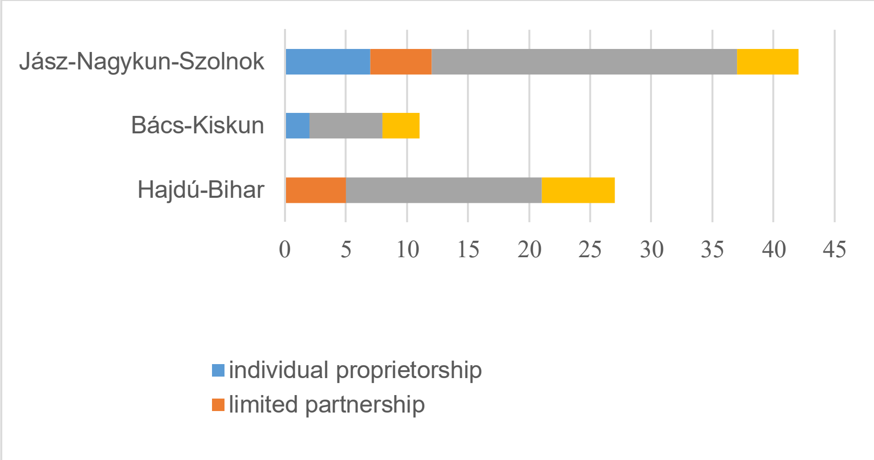

Figure 2: The proportions of enterprises form by counties
Source: based on own data collection

Figure 3 illustrates the distribution of business managers by educational level. One individual proprietor has a basic qualification and the majority of the managers are professionally qualified at higher level, while the managers of the 14 joint-stock companies have all an university degree, it goes without saying.

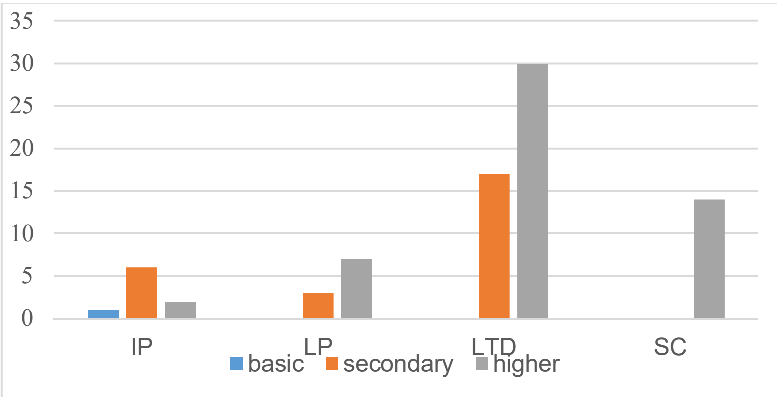

Figure 3: Distribution of managers of enterprises by qualification, pcs
Source: based on own data collection

Figure 4 shows the grouping of enterprises by activity. Catering appeared within the services, meat processing industry dominated within the food industry. Most of the services and commercial activities were carried out in the LTD, while the sole proprietorships were primarily commercial activities in examined enterprises.

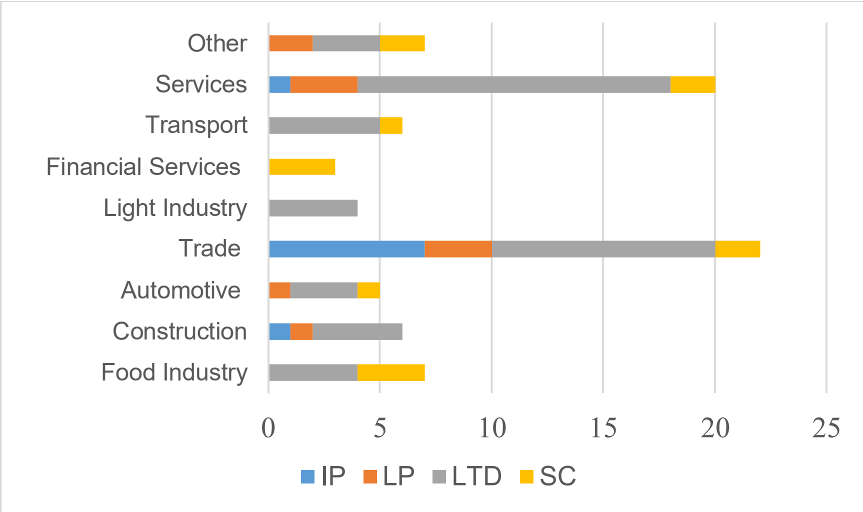

Figure 4: Grouping of enterprises by activity, pcs
Source: based on own data collection

During the survey, I was interested in how business executives judge the size of their business (categorized only by headcount), and I compare this to the disclosure of real full-time employees.
Looking for the reasons for the differences, it can be stated that companies operating in smaller settlements value themselves as "bigger", as they can indeed play a bigger role in the employment of other enterprises in the settlement. Thirty-three were classified as micro-businesses, but three of these companies outnumbered 9 employees. 17 entrepreneurs considered themselves to be small entrepreneurs, of which 10 were between 10 and 49. There were 18 mid-sized companies, out of which only 6 could be included in this category. Only 9 out of the 12 who qualified as a large company had more than 250 employees, so here too the manager's estimate was higher. Looking for the reasons for the differences, it can be stated that companies operating in smaller settlements value themselves as "bigger", as they can indeed play a bigger role in the employment of other enterprises in the settlement (Figure 5.)

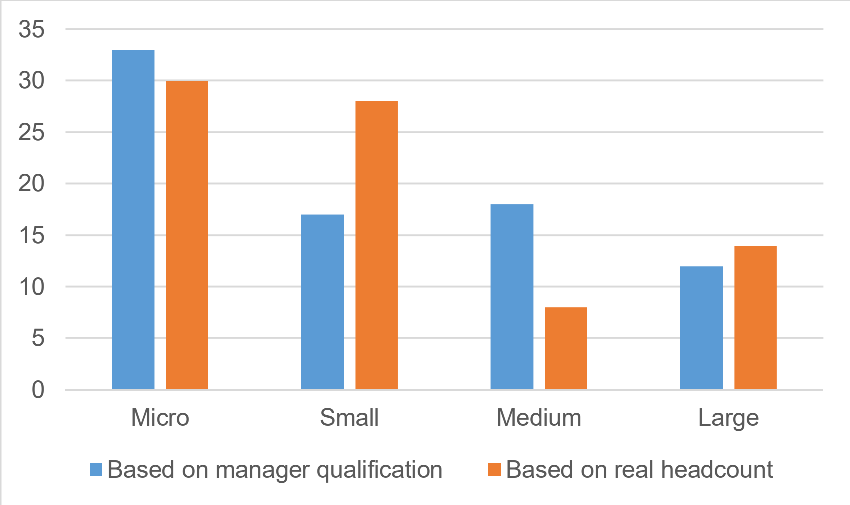

Figure 5: Businesses by size category (full-time worker/firm) , pcs
Source: based on own data collection

Following the general presentation of the companies, an analysis of the liquidity follows, partly from the manager of the company and partly from the author's professional statement.
For liquidity, I collected information indirectly through quantitative data, specifying the structure of assets, from which I determined net working capital (= current assets-current liabilities), and asked the manager of the company for information directly, regardless of how well he or she evaulates actual professional content. This was complemented by the qualitative question of liquidity, which asked about the occurrence of liquidity problems and their causes.
From the 80 companies 14 executives couldn’t understand the question of net working capital, so they didn’t answer it, and more than half of them were micro-entrepreneurs, most of them with higher education. From the financial statement it was possible to calculate the net working capital for the year 2017 in 65 cases, which I compared with the figures estimated by the managers.
Based on these, I made two comparisons:
1. I showed the net working capital data (classified into positive and negative ranges) provided by the companies by business size category and compared them with the liquidity problems reported by the entrepreneur,
2. I have determined the difference between the real calculated and reported net working capital values of managers, looking for whether a more accurate estimate may depend on the manager's qualifications.
In the first comparison 6 entrepreneurs reported negative working capital, of which 5 indicated liquidity problems. Most of the solvency failures were traced back to the obligation to pay down investment loans and only two entrepreneurs indicated a delay in the receipt of claims. Negative working capital was shown by 2 micro, 3 medium and one large company.

Positive net working capital was reported by 60 entrepreneurs, 28 of which indicated that they already had liquidity problems during operation. Most of the causes of the problems were traced back to two factors: repayment of large amounts of investment loans and lack of payment due to buyers (Figure 6).

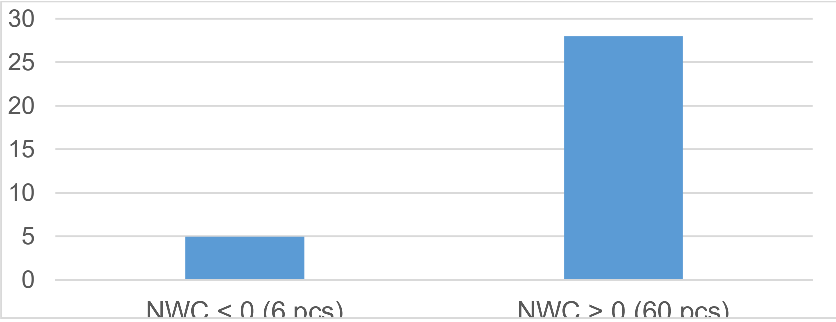

Figure 6. Number of liquidity shortfalls in relation to reported net working capital pcs
Source: based on own data collection

It can be stated that liquidity disruptions have also occurred in companies with currently positive net working capital, but disciplined financial management, disinvestment, strict debt management and, in particular, commercial and business cycle regulation, all contributed to liquidity.
In the second study, I distinguished three categories with respect to the difference between the reported and calculated net working capital: 1. the reported value was above the calculated figure, 2. the difference was minimal, ie (relatively) accurate the reported data, 3. underestimated was the net working capital, ie the company has a higher liquidity potential than the manager thinks it. Based on these, Figure 7. summarizes the characteristics of the companies analysed (Figure 7):

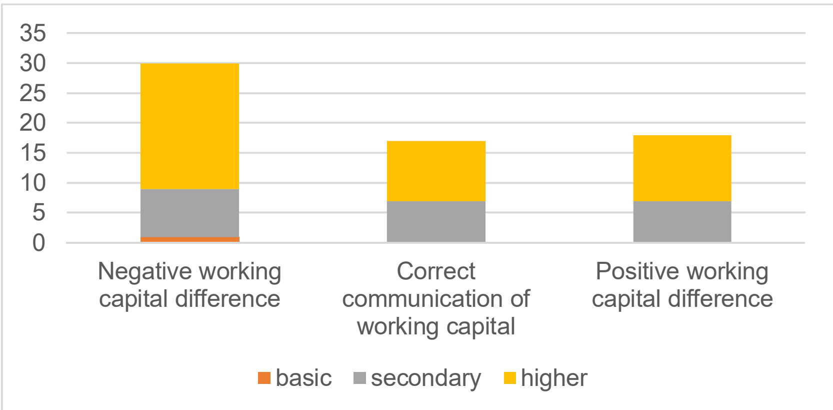

Figure 7: Differences in net working capital reported and calculated by level of education of manager, pcs
Source: based on own data collection

The figure does not make it clear that higher graduates have a more precise definition of working capital, or even more optimistic, which can lead them to make bad decisions.
I think it is important that in order to make a realistic assessment of liquidity, decision-makers and managers of companies of any level have to know and apply these indicators, which require up-to-date knowledge of their financial situation and a well-controlled information system can ensure this for every company size.
A prerequisite for sound decision-making is the planning practice, based in partly on historical data and partly on current information, which has of particular importance in the financial field. The questionnaire gave a detailed survey of the business plan and its parts preparation practice, from which I now highlight the business plans made during the start-up and continuous operation of the business according to the forms of the business.
Figure 8 shows that most businesses do not have a business plan at the start of their business, but later have a business plan, usually related to borrowing.

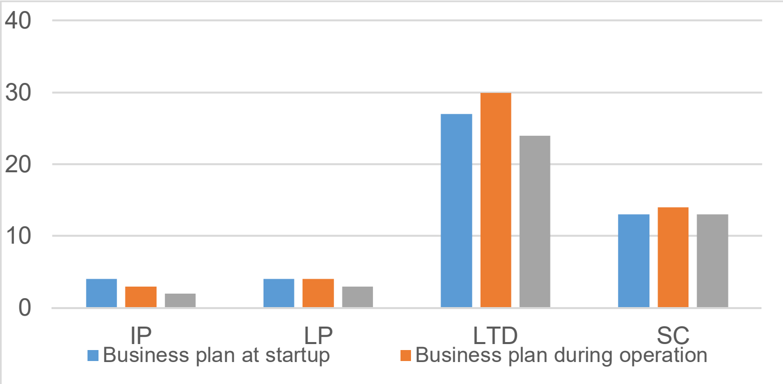

Figure 8: Existence of a business plan during the start-up and operating phases of the business, pcs
Source: based on own data collection

22 companies did not have a business plan at the start-up or during their operation, 19 of which were micro enterprises, operating in the form of sole proprietorship, limited partnership (LP) and limited liability company (LTD) mainly engaged in commercial and service activities. Unfortunately, these businesses are not missing out on planning and are thus abandoning a visionary strategic process that is able to sustain the interests of the internal stakeholders of the business on a lasting basis.
One of the most important elements of the controlling activity of companies and the decision-making process is the provision of up-to-date information. 72 of the 80 companies have an IT-based information system, and where there are none, they are micro-businesses with 1-2 employees (except for a garment company where 45 seamstresses work and the manager has classified the company as a micro-enterprise).

One of the main areas of corporate decision making is cost management. At present, the focus is not on cost minimization but on cost efficiency, which requires comparisons within the company, between businesses and within the sector. An important element of cost management is cost calculation, which can be made as simple as first glance, as complex as it can be if excessive expectations (= total cost allocation) are involved. 59% of the businesses make consciously cost calculation, not only because of their obligation under the Accounting Act, but also for cost efficiency, realistic pricing and profit planning.
Of the 29 companies that do not have a real cost estimate, 15 plan to implement the system to achieve the goals mentioned above, and those who do not deal with it do not plan to calculate unit costs primarily due to the difficulty of measuring the cost of their service processes.
Most companies, which make cost calculation, use simple or supplemental divisor calculations, but using more modern procedures such as e.g. Activity Based Costing is not even mentioned by the big companies.

4. Conclusion

Entrepreneurs always need accurate information for their decision-making processes, which can be collected partly through continuous monitoring of the company's internal processes and partly from the external environment. Controlling can provide the information the managers need to make production, sales, and economic decisions through planning and analyzing their internal business processes. The companies involved in the analysis are characterized by different types of controlling processes due to differences in the size of the company and the qualifications of the manager. Despite the high level of education of several managers, they are not aware of the importance of controlling planning, analysis and information processes, but companies that use them consciously are less likely to experience liquidity problems. In conclusion, especially in the case of micro, small and medium-sized enterprises, the use of controlling tools is not yet common practice in establishing corporate decision-making processes.

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