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THE ROLE OF THE BANK LOAN RELATED INFORMATION OF THE NOTES IN ENTREPRENEURIAL DECISION-MAKING – EVIDENCE FROM HUNGARIAN ENTREPRISES

*Review
Article*

Keywords

*Questionnaire survey;
Operative and strategic decision;
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Abstract

In order to achieve business goals, improve business performance, create value, and support effective decision-making, it is important that decision-makers and stakeholders have relevant information about the development of corporate performance so far and the factors influencing performance. Available information influences decisions; improperly selected, incomplete, distorted information might provide a misleading picture and lead to bad decisions. Businesses can obtain decision support information about their external market actors primarily through data obtained from their annual statement. Consequently, the notes to the financial statement, which are intended to ensure the sound and real financial and profitability position of the enterprise, are one of the main sources of information. The research goal was to assess the extent to which business managers and economic professionals are supported by information from the notes of their partner companies, and to what extent some additional information on bank loans is considered important for decision support in addition to mandatory content elements. The research was performed by using a questionnaire survey.

INFORMATION DEMAND AND DECISION-MAKING

Information is one of the most important resources in these times. Organizations typically possess huge amounts of data, but extracting and utilizing the information stored in them is no longer a simple task. Relevant information available to managers preparing and making decisions in the right place, time and form plays a key role in the life of organizations. Currently, the support of information technology ensures the rational, radically novel realization of organizational goals, continuous business operations, and the ability to respond appropriately to constant and rapid changes in the environment. Efficiency plays a key role in the functioning of organizations, the social and economic environment requires saving resources, continuous improvement of productivity, increasing the quantity and quality of services, and flexible responses to change (Orbán, 2020).

Corporate decision-makers require relevant information. An important condition for achieving business goals and improving business performance is that decision-makers and stakeholders have relevant information about the development of corporate performance so far and the factors influencing performance (Böcskei, Dékán Orbán, Bács & Fenyves, 2017). Available information influences decisions; inadequately selected, incomplete, distorted information might provide a misleading picture and lead to bad decisions (Wimmer & Csesznák, 2012). It is the responsibility of management to ensure the successful operation of organizations. Managerial demands and their specific information requirement are determined by the place within the organizational hierarchy. The essential difference between the strategic, tactical and operational levels is the relative length of the time horizon to be managed and the complexity of the processes involved in the decision. While at the operational level measures for relatively short-term and involving less complex systems need to be taken, at higher levels the task is to develop more complex process decisions for longer time intervals (Orbán, 2020). To support value creation and effective decision-making, it is necessary to have balanced information that takes into account different competitive factors, monitors processes, and is able to provide multilateral, complementary information from multiple sources (Wimmer & Csesznák, 2012).

In a dynamically changing environment, the successful management of companies is only possible with the help of an efficient controlling system. Controlling can be understood as a business process that generates plans, forecasts and

reports from the available information using controlling calculations and tools (Kovács, 2019). Controlling means not only the control of a process, but also the conscious collection of data, analysis and, if necessary, intervention and correction in the course of the process related to a well-defined process, only at predetermined points relevant to its successful operation (Bajor, 2017; Novoszáth, 2019; Lakatos, 2020). Controlling processes must always be tailored to the specific company. If insufficient attention is paid to this during the design process, a complex and modern controlling system may be created, but it will not serve the information needs of managers (Horváth & Partners, 2012). By actively measuring the efficiency of controlling processes, their quality increases, leading to better management decisions and higher economic results. Indicators that support the above, should be easy to measure in practice and provide a clear and usable measurement result. Indicators make it possible to measure the development of processes within a company and to make comparisons with them within the sector (Gleich, 2013). The corporate controlling system plays a major role in generating information and thus supporting decision making (Fenyves, 2019). Controlling is based on the collaboration between the management and the controller (Fenyves & Tarnóczy, 2019).

In controlling practice, the use of traditional, internal, mainly financial information is decisive, but the use of external information sources is also increasing, which can help to form a more complete picture in decision-making (Wimmer & Csesznák, 2012). Digitization directly affects information collection, planning and reporting processes (Szukits & Bodnár, 2019). The integration of external - and newly available internal - data into decision-making promises a qualitative improvement. At the same time, utilization of the huge amount of available data requires mathematical-statistical tools, a different toolset than those used by controllers familiar with the analysis of economic, almost exclusively quantitative data generated within the company (Gulyás, 2019).

Information needs of certain levels of the organizational hierarchy (Orbán, 2020):

- Strategic level: strategic planning and decisions require aggregated, analytical, comprehensive and overview information.
- Tactical level: both comprehensive and more detailed information is required for tactical and regulatory decisions.
- Operational level: operational decisions require instructional, specific information.
- Data processing level: precise instructions are required for execution.

Classification of information required for management (Dobay, 1997):

- Management information: regularly provided important figures on the operation of the organization and the state of the processes.
- Information on problems, priority tasks: current data of a project or crisis situation; continuously until the project or problem is completed.
- Output information: information that leave the framework of the organization, therefore the manager must authenticate it, and in relation to internal information that is detrimental to the organization, their output may be restricted or stopped.
- External knowledge: information about external factors that directly affect the organization (such as the environment, competitors, partners).
- Internal operational data: data related to continuous work for which plans are made, so their implementation should be monitored.
- Switching information: other indications that require immediate or subsequent action.

THE NOTES AS A SOURCE OF INFORMATION

The notes to the financial statement is the third part of the annual statement (in addition to the balance sheet and profit and loss account), which contains the statutory figures and textual explanations required for a reliable and realistic presentation of the asset, financial and income position of the enterprise, but cannot be obtained from the balance sheet and profit and loss account. The note must also present the information related to the specific activity stipulated by other legal regulations (Accounting Act, 2021; Takács & Márkus, 2020).

In the notes to the financial statement, it is required to present the development of the company's assets and liabilities item by item and the real asset situation and to evaluate the changes in the financial and income situation. In the scope of the presentation of the financial situation, the items of equity must be described separately (Böcskei, Vértesy & Bethlendi, 2020).

In addition, the key elements of the accounting policy and their changes, the effect of the change on the financial result must also be presented. The notes shall describe the system of rules used in the preparation of the financial statements, its main characteristics, the valuation procedures used and the method and frequency of accounting for depreciation specified in the accounting policy. The effect of significant errors detected during the audit on the result, assets and liabilities, broken down by year, must be presented in the notes on the financial statement. The notes must also include the cash flow statement (Csepreginé & Török, 2019).

The presentation and mandatory disclosure of these information facilitates the decision-making of the enterprises, as it shows an actual and realistic

picture of the operation of the given partner enterprise.

MATERIAL AND METHOD

The research was based on a questionnaire survey, the aim of which was to assess among economic professionals and managers the extent to which the information obtained from the notes of their partner companies (e.g. customers, suppliers) supports them in making every-day, short-term or strategic decisions. The questionnaire was prepared in the Evasys university system and sent out in December 2020 to approximately 1500 corporate email addresses. In addition, the questionnaire was shared among a group of accountants on the social network. The database eventually consisted of 93 evaluable questionnaires after filtering out incorrect responses.

Based on the distribution by the form of operation (Figure 1), the sample does not include limited partnerships and public limited companies. More than half of the respondents (64%) operate as a limited liability company, 15% as a public limited company by shares, while the remaining 21% belong to other forms of operation. It is interesting to examine whether the given company has constantly changing, new partners (customer, supplier) or they are relatively constant. Companies that have changing partners have a greater need to examine the notes of their partner companies, or examine them more than once. In the sample, 80% of enterprises have fixed, i.e. permanent partners, while a smaller part (20%) change or expand their partners. The above is illustrated in the pie chart of Figure 2. Figure 3 shows the distribution of companies in terms of their activities. The largest proportion of the surveyed companies (48%) are engaged in auditing or accounting activities. 17% are producing companies and 6% are commercial. 1% belongs to a financial institution, while 6% to a budgetary body. 22% of the respondents classify their business in other activity categories. Regarding the distribution according to their annual net sales revenue (Figure 4), 25% of the companies had below HUF 20 million, 23% between HUF 20 and 50 million and 8% between HUF 50-100 million. 10% of the respondents have annual net sales between HUF 100 and 700 million, 12% between HUF 700 and HUF 3,500 million, and 22% have annual net sales over HUF 3,500 million. As a result, most of them (56%) prepare simplified annual statements and 31% prepare annual statements. The rest of the companies (13%) prepare consolidated annual statements, simplified annual statements for micro enterprises, simplified statements or budgetary statements. This is illustrated in Figure 5.

Regarding the methodology, distribution ratios were used to evaluate the questionnaire. The distribution ratio is part of a selected range from a given population. Its value shows how much the members of a given group weigh within the population. This ratio is the most often used when the frequency of occurrence of an event is the question (Domokos & Vincze-Csom, 2012).

In addition, descriptive statistics were used for the evaluation of the Likert scale survey. The toolset of descriptive statistics includes basic distribution characteristics that can be used to concisely characterize a population or sample by quantitative criteria. The indicators can be divided into three main groups, of which the mean values provide information on the characteristic values of the data series, the standard deviation metrics provide information on the differences in the data, and the shape indicators provide information on the shape of the frequency curve (Csugányi, 2015). In the scope of the descriptive statistics, mean, standard error, standard deviation, median, mode, skewness, and kurtosis were calculated.

Results of the questionnaire survey related to decision support

The notes to the financial statement shall include the information on the asset, financial and profitability position of the enterprise, which are necessary to obtain a reliable and true picture. Thus, one of its goals is to facilitate decision-making related to the partner company. Figure 6 shows that operational and short-term decision-making is more supported, while long-term and strategic decision-making is less supported by the information extracted from the notes. The chart clearly represents that operational decision-making is supported (47%), short-term decision-making is also mostly supported (47%) by information obtained from the notes. However, long-term decision-making is less supported (56%) and its strategic decision-making is not supported at all (57%) by the information in the notes. Operative decisions are mostly supported by the information of the notes to the financial statement according to 24% of the responses, while in 15% of the cases they support them less or not at all. It supports 31% of short-term decision-making, while 13% and 10% are supported less or not at all. Regarding long-term decision-making, it can be stated that only 11% are actually supported by that information, 15% are mostly supported, while 18% are not supported at all. Finally, the longest-term strategic decisions are supported in 12% of the cases, 15% are mostly supported and 17% are less supported by the information included in the notes.

The chart in Figure 7 shows whether the surveyed companies have sufficient information for operational, short-term, long-term and strategic

decision-making when processing the notes to the financial statement. Overall, the information of the notes is sufficient to make decisions within one year, while there is insufficient information in the published notes of buyers or suppliers for decisions beyond one year. 49% of the businesses receive little information for making operative decisions while 47% receive enough to do so. For short-term decision-making, 36% of respondents receive insufficient information, while 58% obtain an adequate amount. In the case of long-term decision-making, 67% have inadequate information and 31% have enough. Finally, for strategic decision making, 65% obtain less than satisfactory information for decision-making and 26% have enough. For different types of decision-making, 5%, 6%, 1% and 9% of respondents stated that there was much disclosed information in the notes of their partner company

Results of the questionnaire survey related to bank loan information

In an interview with a bank manager, the importance of six defined additional pieces of information was assessed in the questionnaire, i.e. how important it is for companies to include the following information in the notes of their partner companies:

- What types of loans do they have?
- What type of coverage do they have for their loans?
- What is the amount of repayment of loans over one year within one year?
- What is the utilization of the de minimis framework?
- What are the characteristics of last year's investments?
- What is the volume and duration of the covered treasury transactions?

Respondents were asked to rate on a seven-point Likert scale how important and necessary the above information would be considered for decision making, where one was not important at all, i.e. unnecessary, and seven meant completely important. Descriptive statistics for the additional statements are summarized in Table 1 and the boxplot diagram in Figure 8.

Expected value

The companies assigned an average value of 5.602 for the presentation of their loan types, i.e. they consider it averagely important that in addition to the mandatory elements of the notes, the type of loans of the given company to be presented. They have a similar opinion about the information on the coverage of these loans, as their average value is 5.727. The presentation of the repayment instalment of long-term loans due within a year was also considered to be averagely important and less important, but the expected value decreased to

5.253. Similar views were expressed on the characteristics of investments as well as on treasury transactions, with the related information being considered less important (4.917 and 4.812). Utilization of the de minimis framework had the lowest mean value (4.115), this information was mostly considered necessary rather than important.

Standard error

The standard error shows how much the mean of the samples is scattered around the population parameter. It shows how accurately the mean obtained from the data estimates the “true mean,” that is, how well the sample represents the population. The smaller the value, the more it represents the mean value. It can be seen from Table 1 that the standard error of all six additional information is relatively small, ranging from 0.1529 to 0.1838, which can be considered a favourable value.

Median

The median is the middle value of a data set with the same number of data lower and higher than the median is the same. Its value is equal to the 50th percentile and the middle quartile, therefore its value differs slightly from the mean value. Median of the presentation of loan types, their coverage and instalment due within one year is 6, i.e. half of the respondents associated a value of six or seven to the statement (important or very important) while the other half associated a value of six or lower (less important). The median value of the characteristics of investments and treasury transactions is five, i.e. the respondents consider this information to be less important, while the presentation of the utilization of the de minimis framework is only necessary, as the median value is four.

Mode

The most frequent response is seven, i.e. most companies consider it very important to include the type of loan and their coverage in the notes. The information on the instalment of the longer liabilities due within one year and the characteristics of the investments was considered only important by most respondents, as their mode is six, the utilization of the de minimis framework is less important (mode: five), while information on treasury transactions is considered only necessary by most respondents (mode: four).

Standard deviation

The standard deviation shows how much the values deviate from the arithmetic mean of the data set on average. It can be seen from Table 1 that the standard deviations for each information range from 1.435 to 1.715. It is true for most values that approximately 68% falls within a standard

deviation of the mean, while approximately 95% falls within two standard deviations of the mean. This means that the companies rated the statements at an average of approximately five, and if the standard deviation of about 1.5 is added, most of the responses range from 3.5 to 6.5.

Kurtosis

A distribution is normal if the value of kurtosis is 0. In the case of a positive kurtosis coefficient, the distribution is more peaked than normal, while in the case of a negative value, the distribution is flatter than normal. In the case of the presentation of the types of loans, their coverage and the instalment of loans due within one year, there is a positive peak in, while in the case of de minimis utilization, investment characteristics and treasury transactions the peak is negative. This means that for the first three items, the values are more around the mean, while for the last three they are more scattered in the range within the standard deviation.

Skewness

Skewness expresses the shift of the peak of the distribution relative to the centre position; it represents the asymmetry of the distribution. In the case of the additional statements related to bank loans, the utilization of the de minimis framework is the only one that is minimally positive (0.0016), i.e. in this case there is a right-skewed distribution, the average is higher than the median, thus it is characterized by a positive skewness. For the other five information, negative skewness is characteristic (values ranging from -0.418 to -1.28), there is a left-skewed distribution. In this case, due to the small outstanding values, the mean is lower than the median, thus the mean shifts downward.

CONCLUSIONS

In summary, the importance of the notes is not disputed, as the results of the questionnaire survey clearly show that information from the notes of the partner companies facilitates operational and short-term decision-making. In contrast, the same can no longer be said for long-term and strategic decision-making, as most of these decisions are less or not at all supported by disclosure. One reason for this may be that while companies have enough information to make operational and short-term decisions, they have little information to make long-term and strategic decisions if only the notes of their partners are considered. The importance of the additional information related to the bank loan is also undisputed, as apart from some outstanding values, it was considered important by the sampled companies to include this information in the notes as part of the explanations related to liabilities.

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LIST OF FIGURES & TABLES

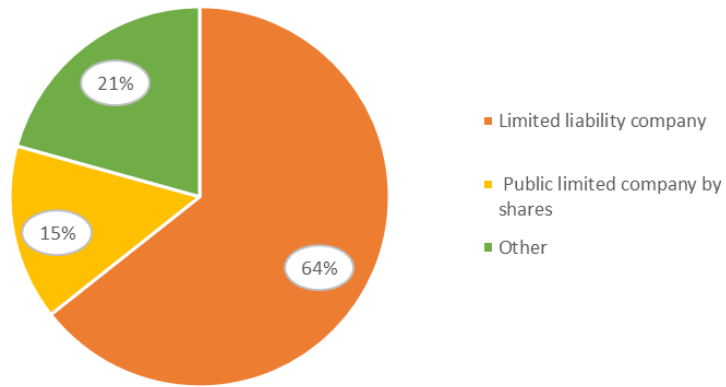


Figure 1
Distribution of the examined companies by form of operation

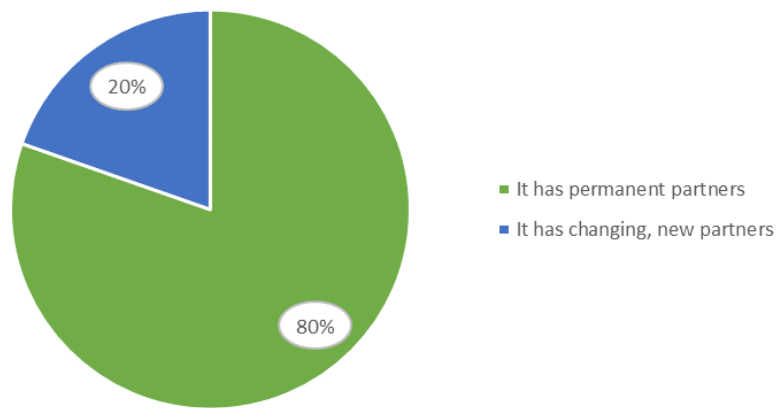


Figure 2
Distribution of the surveyed companies according to the type of their partners

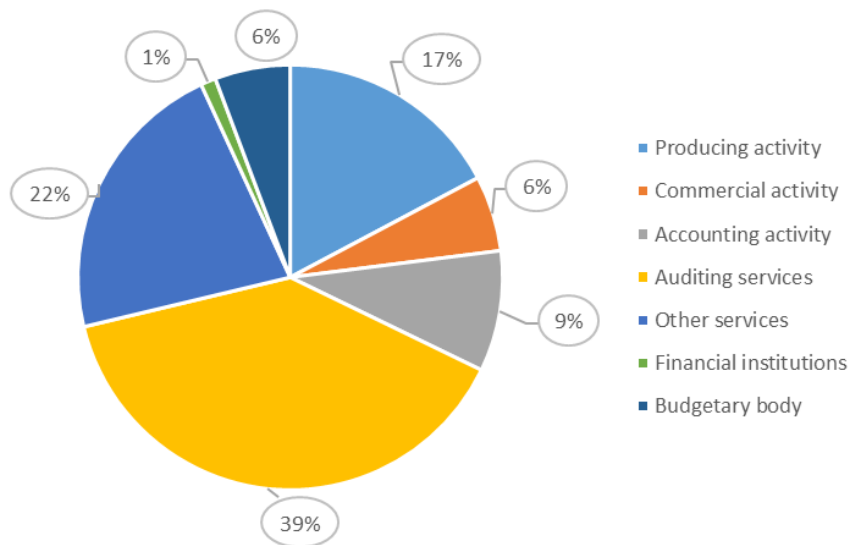


Figure 3

Distribution of the surveyed companies by their activity

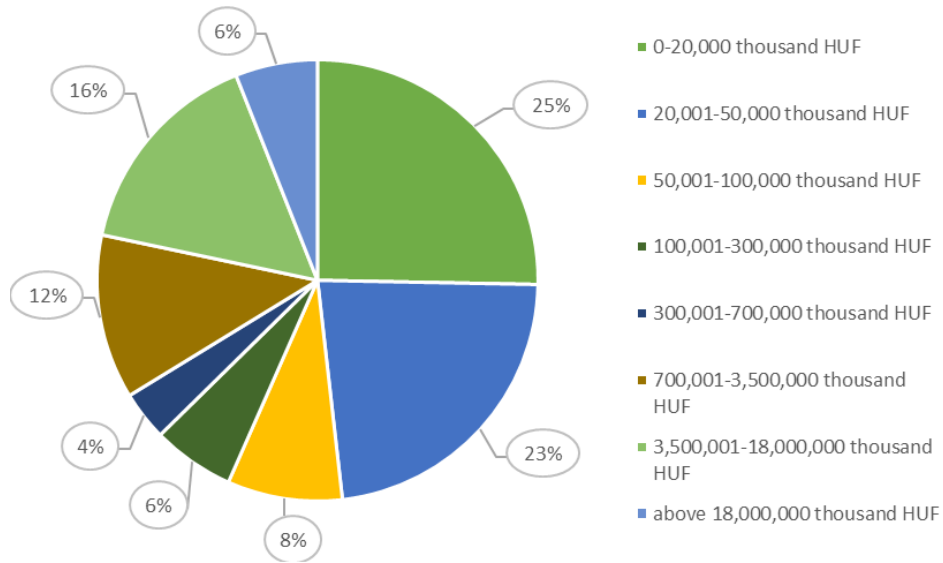


Figure 4

Distribution of the companies by their sales revenue

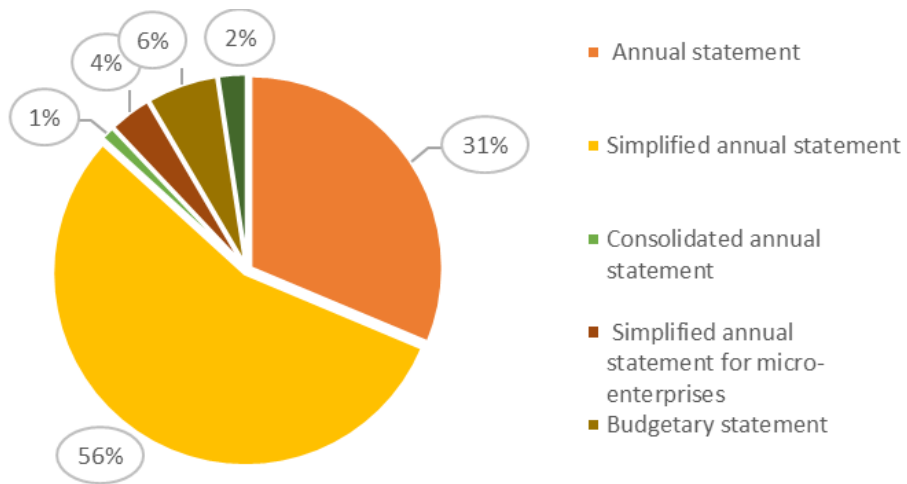


Figure 5

Distribution of the surveyed companies by their type of statement

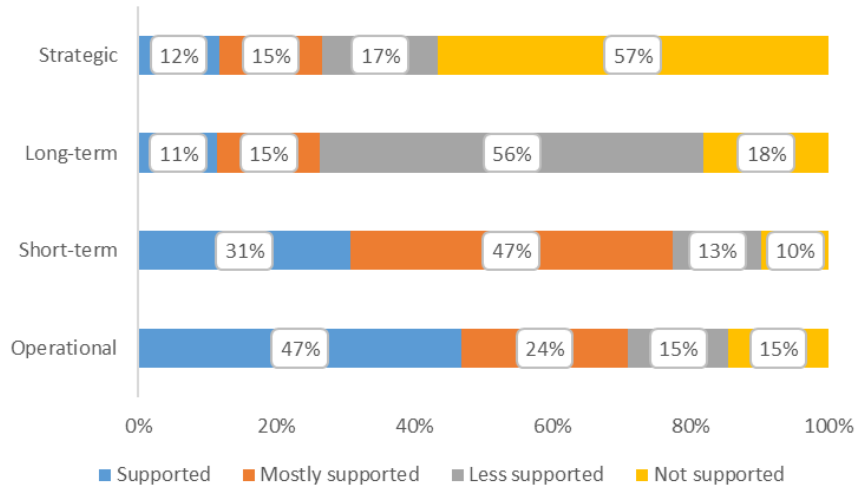


Figure 6
Distribution of the decision support method of the examined companies

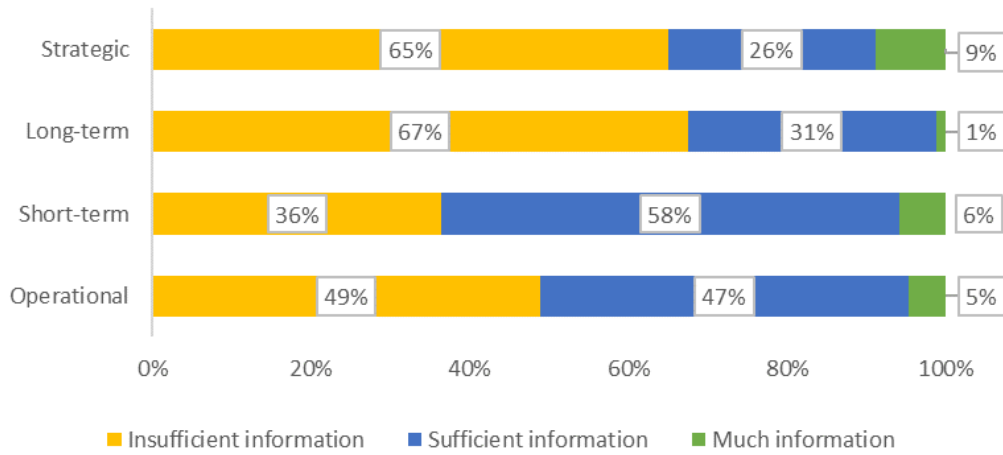


Figure 7
Distribution of the amount of information obtained by the surveyed companies for decision-making

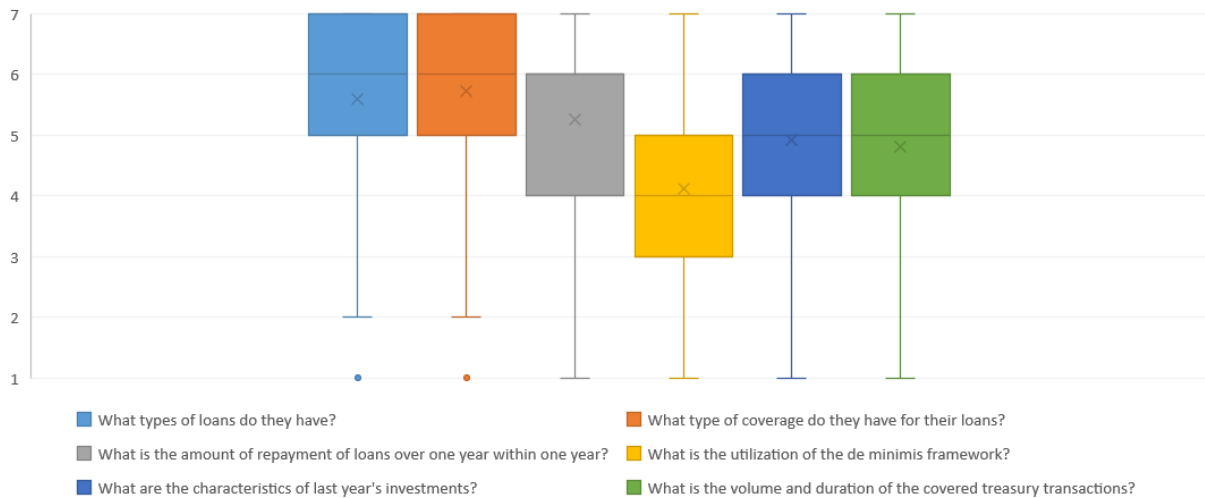


Figure 8
Boxplot chart on the importance of information related to bank loans

Table 1

Descriptive statistics on the importance of bank loan information

Statement	Expected value	Standard error	Median	Mode	Standard deviation	Kurtosis	Skewness
What types of loans do they have?	5.6023	0.1529	6	7	1.4347	0.3284	-0.9391
What type of coverage do they have for their loans?	5.7273	0.1548	6	7	1.4521	1.0679	-1.2834
What is the amount of repayment of loans over one year within one year?	5.2529	0.1645	6	6	1.5342	0.3530	-0.8337
What is the utilization of the de minimis framework?	4.1149	0.1838	4	5	1.7147	-0.7801	0.0016
What are the characteristics of last year's investments?	4.9167	0.1729	5	6	1.5846	-0.5823	-0.4555
What is the volume and duration of the covered treasury transactions?	4.8118	0.1686	5	4	1.5545	-0.3387	-0.4180