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EXAMINATION OF THE REVENUE AND HEADCOUNT THRESHOLD FOR THE IMPLEMENTATION OF A CONTROLLING SYSTEM FOR SMES

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Abstract

Globalization creates increasing market opportunities and at the same time it is a responsibility of companies to catch up with global/European economic players and to stand their ground among them.
They can meet global challenges by providing high-quality services and manufacturing world-class products, which require a high level of knowledge of leadership and management competencies and the effective application of disciplines such as controlling.
In a previous study, it was examined why small enterprises are fundamentally reluctant to introduce a controlling system and why they do not consider an important factor that brings profitable results. In the present article, the answer is sought to the following: how are a company and its financial results affected if it decides to introduce a controlling system. Does it have an impact on profitability at all? Does it matter when this decision is made following the establishment of the company? The latter is not examined as a function of the time passed since its establishment, but taking into account the life cycle of the enterprise, whether the introduction of the controlling system can be related to the development cycle of a company.

INTRODUCTION

Enterprises play a key role in raising the level of the economic development, efficiency and standard of living of a certain country. Economic growth depends on the success and performance of businesses. In order for these businesses to maximize their performance and be effective, they need to know their goals, define their strategies, and make their decisions along them. With these goals in mind, they can achieve steady growth and provide a direct contribution to the development of the economy, rising living standards and the improvement of the employment situation. It can be said that enterprises significantly determine the development of the future (Oravecz, 2015).

The vast majority of small enterprises do not have controlling at all, which is due to the fact that most of the time external accountants perform accounting for these small enterprises. This meets the requirements of the Accounting Act, but is not suitable for controlling. In many cases, neither the accountants nor the managers of the companies themselves possess any controlling knowledge, they are unable to interpret the balance sheet and the profit and loss account; even their opinion is that they do not need the data provided by controlling (Bogáth, 2017).

Francsovics (2005) also makes the number of controllers dependent on the size of the company, and in the case of small enterprises she also sees this function to be performed by the accountant or the manager - if he/she performs it. In many cases, accounting software used by external accountants provide some automatically generated indexes, the interpretation of which are left to the accountant, who is either familiar with controlling or not, and the company manager may not need them at all.

Although separate SME controlling is not discussed, but with modifications, tailored to its own activities, it is important for every business to apply controlling methods, regardless of its size (Szóka, 2012).

Even the smallest company needs specific goals regarding sales, costs, customer numbers, etc. Even small businesses need to ask themselves which of their products/services has the best profitability (Witt & Witt, 1994).

By applying controlling, it is possible for the enterprise to maximize its profits, to carry out its activities through an economical approach, and to ensure its long-term liquidity and financing (Körmendi & Tóth, 2002).

For small businesses and those medium-sized companies where the amount of production is not large enough to create an independent controller activity, there are two options to integrate the controlling activity into existing processes. One is to entrust an accounting employee with these tasks, the other is to distribute it among the managers and employees of the company. However, these solutions cannot be considered perfect, as these tasks are given to those involved in addition to their existing ones, thus burdening their performance, nor is their knowledge likely to correspond to the professional knowledge of a controller (Maczó, 2007).

Nowadays, the problem of generational change is typical, because at time of the change of regime and during the privatization, the activities of large companies were taken over and continued by numerous small enterprises, and the managers of that time were already in their 60s. In her research, Ágnes Bogáth (2018) discovered a statistical correlation between succession planning and the controlling activities of the company. The existence of controlling at the company might play a big role in the succession process. For a well-organized company, this can be much easier to do than for a less formalized company. The successful introduction of the controlling system requires organizational changes anyway; therefore, its existence can facilitate the succession process (Bogáth, 2018).

Zsupanekné summarizes that several attempts have been made to describe and represent the life cycle model of enterprises, such as Timmons, Hirsrich and Peters, Adizes, Greiner, Jávor, Kocziszky, Szerb and Szirmai (Zsupanekné, 2008).

In her study, Salamonné summarized the growth model of Adizes and Greiner so that it could be applied to small and medium-sized enterprises. In her so-called "synthesized" growth model, she distinguishes five periods: start-up, creativity, management, delegation, steadiness (it does not examine decline). Later, following the change of regime, as a result of an empirical research, Salamonné merged the management and delegation phases and defined the following phases:

- start-up,
- uncontrolled growth,
- growth within a formalized framework,
- steadiness-cooperation (Salamonné, 2006).

However, Zsupanekné draws attention to the fact that the size of a company and where a company is at the stage of its life cycles should not be confused with each other. Obviously, it is natural that initially the number of employees is much smaller, but the size is related to the number of employees, sales revenue, profit, market share, etc. Both can be expressed in different indicators, so size should not be confused with life cycle models. The length and nature of the life path of a company does not determine the size of the company at all. A business may be successful for many decades in the steadiness phase, while a "young" company may not even reach the stage of uncontrolled growth (Zsupanekné, 2008).

Salamonné's research conducted among Hungarian SMEs shows that the appearance of the characteristics of the creativity stage is closely related to managerial experience. According to their surveys, in companies where the manager had many years of experience, they even skipped the creativity phase and immediately entered the management phase. That is, the phase of uncontrolled growth does not necessarily appear in the lives of enterprises. However, no correlation was found between managerial experience and the period of creativity. From the stage of creativity, the life paths were different; the vast majority stepped in to the management phase, while others immediately entered the delegation cycle. Two-thirds of those in the management phase found that the necessary changes had not been achieved in all areas and were unable to cope with the difficulties caused by growth in 20% of cases (Salamonné, 2006).

Surveys conducted by Kállay show that with the increase in the number of employees, management and its certain areas start to operate as an independent function, the members of the management are separated from the actual work, and the corporate structure is completed without the owner participating in operational management, though entrusting a separate management with specific tasks. For larger businesses, competitiveness can be undermined if they do not devote enough time and energy to management. During the questionnaire surveys, it was found that at the same time as the increase in size, the economic efficiency of enterprises is also better, as these companies reach more distant markets and carry out a higher proportion of innovative activities. However, a gradual development is required to achieve this (Kállay, 2010).

In the case of micro-enterprises, the owner/manager, manages the entire business of the company, oversees the entire process, and the accounting is mostly done by an external accountant who performs at most the analysis according to the legal regulations. In the case of small enterprises, more people are needed to carry out multiple types of activities, so the number of employees is expanding, and due to the increasing production/service, accounting is becoming more and more burdensome. As the growth progresses, the company has to solve the accounting with its own employees, and above a certain profit it is necessary to change the type of reporting. The day-to-day finances of the company also mean an increasing amount of work, so it is necessary to involve even more professionals in the operation of the company. By this time, the company manager must realize that the division of management is inevitable, and the operational tasks are shifting lower and lower.

In addition to financial accounting, management accounting should be introduced, which, in addition to the mandatory disclosure, acts as a management support system. The integration of managerial accounting into an organization and its efficient operation is handled by the controller, so someone must either take up this job or it has to be divided among several accounting colleagues. Sooner or later, software that supports the operation of the controlling system may become necessary, and at this point the controlling system has already developed within the organization. It is then necessary to develop an indicator system that provides management with the right amount and form of data and is thus able to perform its decision support function (Hágen & Holló, 2017).

MATERIAL AND METHOD

The aim of the research was to assess the prevalence of the use of the controlling system in the SME sector, and the initial suggestion was that if a company does not use a controlling system, it is mostly due to shortcomings in the knowledge of managers rather than lack of financial resources.

A questionnaire survey was conducted through Google Forms. The target group was small and medium-sized enterprises with between 10 and 250 employees and annual net sales revenue of more than EUR two million, but less than EUR 50 million.

In the course of sampling, contact details of the enterprises included in the 2018-2019 survey of the publication SME TOP100 Qualified and Awarded Enterprises were collected and they were contacted in connection with the completion of the questionnaire. The companies included in the publication are enterprises that meet the size requirements of SMEs, and the owners of which are Hungarian individuals in a proportion of more than 50%. The professional jury examined the 100-100 best SMEs in five sectors: agriculture, industry, construction, trade and services. A sample of 500 was formed from this sampling. Then another 200 companies for looked up via the internet, through the websites of the companies, and their compliance of with the sampling criteria was checked through the website e-beszamolo.hu; the questionnaire was also sent to them.

The questionnaire was completed anonymously, the identification of the respondent was completely ruled out; thus, it became possible to ensure the GDPR compatibility of the survey.

The structure of the questionnaire followed two directions after the initial demographic questions. The course of the questionnaire was split in two directions when the respondents were asked if controlling statements are currently used in their case. After ticking the answer 'no' to this question,

the focus was on revealing the reasons and what the respondent would see as the significance of using such statements by answering a few short questions. In the case of a positive response, the respondents were further asked about when the system was introduced, how satisfied they were with it, and whether they can identify a connection between the introduction of the controlling system and the company financial results, how much it costs to maintain it, and in what software the calculations are performed.

The questionnaire was processed in the Excel spreadsheet software. Google Forms allows downloading the result in Excel format by pushing a single button. 133 completed questionnaires were returned, of which 129 can be evaluated; the ones where responses were almost completely absent were excluded from the sample. The results were then interpreted using tables and charts/graphs.

RESULTS

Regarding the year of establishment of the enterprises, the answers were received according to the following standard deviation; most of them (58%) were established between 1991 and 2002. The involved businesses were established an average of 21.1 years prior to the survey.

Regarding the business type of the involved enterprises, 79% of the respondents operate as Ltd., 21% as Plc/cPlc. The rest of the companies operate in other types of business. 63.6% of the respondents, i.e. 82 out of 129 enterprises, indicated that they use a controlling system at the enterprise. They were asked about their approximate average number of employees and their annual net sales in the year when the system was introduced, i.e. when they considered it justified to introduce it.

In the case of headcount data, it can be seen that a total of 62% of the respondents believe that the controlling system was introduced when the headcount of the company was between 21 and 200 (Figure 1).

According to 43% of them, the controlling system was introduced after reaching annual net sales of over HUF 2.5 billion (Figure 2).

Let us also take a look at when these companies were formed. When the controlling system was introduced, 32 companies had annual sales of over HUF 2.5 billion, of which 27 (84%) companies were established before 2000, i.e. companies that have been operating for more than 20 years. That is, only 16% of them are younger than that. In terms of their form of business, there are only six Plc/cPlc, two Gp and 24 Ltd. The number of employees of the respondents who indicated this high revenue at the introduction of the controlling

system developed according to the distribution shown in Figure 3 below.

It can be seen in the case of companies with more than HUF 2.5 billion in revenues that at the time of the introduction of the controlling system, 31% of them already had more than 200 employees, and another 66% of them employed between 21-200 people. In other words, the findings concerning the entire target group are confirmed in this size category; that is, the controlling system was introduced for a number of 51-200 people.

The opinion of respondents was asked about how the annual net sales of the company have changed since the introduction of the controlling system, and to what extent the change in revenue is due to the introduction of the controlling system. 77% responded that sales had grown and 13% said it had not changed. However, thanks to the possibility of filling free text, several respondents have indicated that in their opinion there is no stochastic relationship between the introduction and the development of sales. "Controlling analyses help the work of management, but the effectiveness of activities does not depend on the efficiency of the controlling system" as one of the respondents added. This is also confirmed by the fact that even in the case of the answer to be indicated on the Likert scale from one to five, 46% of the respondents chose option three to the question of how much they think the change in annual net sales since the introduction is due to the introduction of a controlling system. Here, the respondents intended to express that the use/implementation of the controlling system does not depend on the efficiency of the company.

CONCLUSIONS

In the course of the research, it was concluded that the reason for the introduction of the controlling system is determined much more by the increase in the number of employees of the company than by the increase in its annual net sales revenue. The study of the literature also confirmed that over a certain number of employees, the company manager and owner alone can no longer take full strategic and operational control of the company, therefore in order to further develop and grow, he/she has to develop middle management and the operational level decision-making powers must be delegated. However, as a result of the development of the new organizational structure, the costs incurred during the activity must also be broken down in order to achieve efficient, economical operation and the highest possible profit. These calculations can no longer be performed by the financial accounting staff alone, and the application of controllers and the introduction of the

controlling system in enterprises can take place at this stage.

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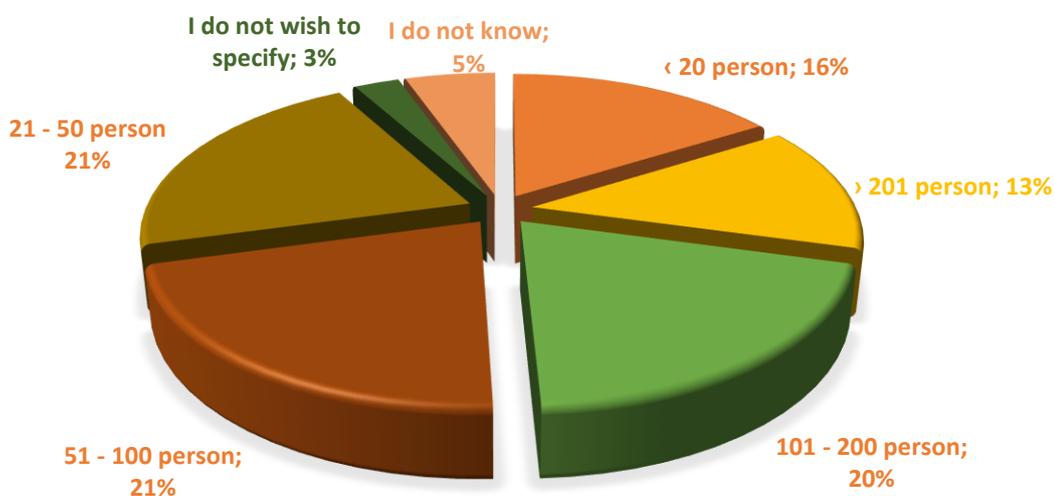
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Figure 1
Distribution of enterprises according to the number of employees when introducing the controlling system
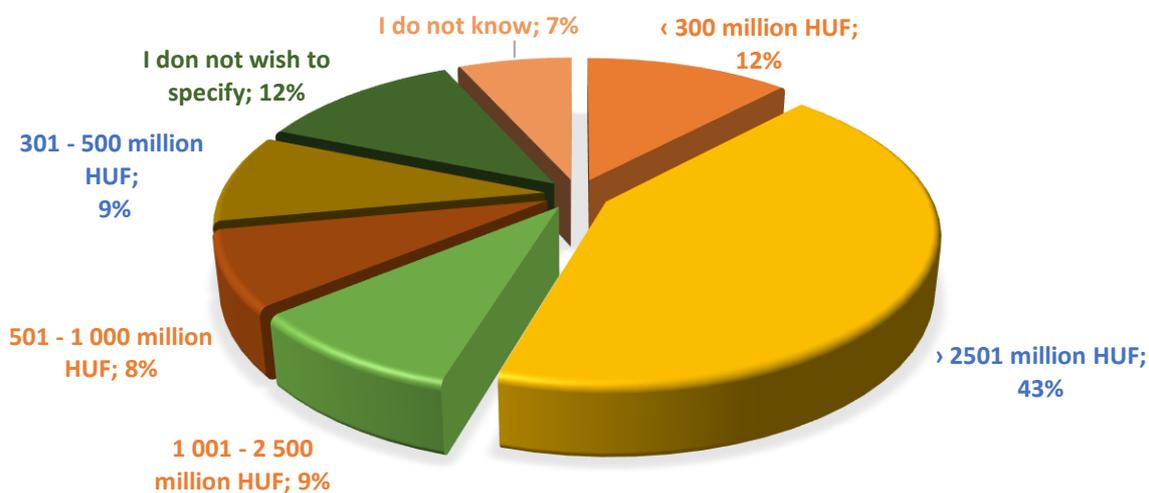*Source: Edited in Excel based on data of own database*

Figure 2
Distribution of enterprises according to the annual net revenue when introducing the controlling system
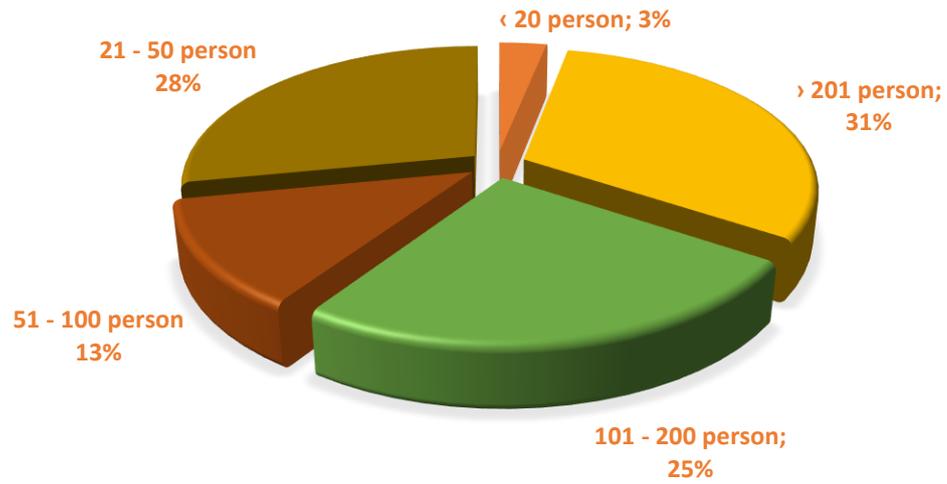*Source: Edited in Excel based on data of own database*

Figure 3
**Number of employees of companies with annual net sales of over HUF 2.5 billion when introducing the
controlling system**
Source: Edited in Excel based on data of own database