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USE OF CONTROLLING IN SMES MANAGEMENT

Abstract:

Over the last thirty years, controlling has become so established in corporate management that it occupies a leading position in the management of modern companies. The paper deals with the use of controlling tools in corporate governance in a selected region of Slovakia on the basis of a questionnaire survey on the current state in management in small and medium enterprises. The results show that mostly in small companies there are no separate controlling departments. Based on the results the conditions for the implementation of controlling into business practice were defined, which can contribute to the development of the business.

Keywords:

Controlling tools, Enterprise management, Questionnaire research, Slovakia

JEL Classification: D23, G32, M20

Introduction

Controlling presents a phenomenon of the present time that is known from the end of the last century, however in the new millennium controlling obtained new direction and content. Number of authors deal with use of the controlling tools in small and medium enterprises (SMEs). For example, Gottlieb et al. (2021) studied SMEs in area of agriculture business, finding not using of the controlling tools. Heinicke (2018) searched controlling use for the system of performance measurement in SMEs, finding still low use of controlling, when SMEs can have a profit from control systems. Senftlechner and Hiebl (2015) made complex review of literature of controlling tools use in SMEs, finding that in last decade academic interest of this area increase; however, managerial accounting and control seems to be less relevant for the family business in comparing with others. Due to the mentioned importance of the controlling, the goal of the paper is to search use of controlling and its tools in SMEs and family business management, as well as finding the reasons of possible not using with consequent determination of the level of controlling tools in Slovakia conditions.

Literature review

Controlling is known in Slovakia yet after 1989. Its development began due to the privatization and consequent restructuring of the companies that gradually transferred to the private sphere of the business. In majority of business, the controlling system had been established due to the new organization structure. In past principles of controlling had been used only in low level in Slovakia, orientated more to the budgets, calculation and internal accounting. Due to the modern way of business processes management that gradually started to be used by foreign investors in Slovakia, the companies started to be acquainted by new ideas of economy, such as investment controlling, cost controlling or financial controlling. The worldwide practice proves according to Kassay (2006) that competition, providing of stable position at the market demand SMEs and big companies should use various forms of organizing and increasing of the management quality. Presently after thirty years of market liberalization in Slovakia we can say that strategy of the company is closely connected with the company environment, and by this way it influences greatly also its structure and management.

Success of the company during the competition is also influenced by the strategy of the company. Slovakian authors that defined in their publication idea of controlling, dealt with controlling, such as Foltínová and Kalafutová (1998), Gallo (2013), Horváthová and Mokrišová (2014), Gurčík (2004), Mikovcová (2007), Baran (2008), Kislingerová et al. (2011), Král et al. (2010), Synek et al. (2011). Mentioned authors showed to the importance of the information during the controlling application, and at the same time, they mention the necessity not to equal controlling with management. They pointed to the fact that controlling presents the managerial system and its orientation to the goals achievement. Their results of searching in given area are effort to implement the controlling to the business practice as single discipline in business economy. Not only foreign companies, that know the contribution of the controlling implementation, have the great credit on the controlling spreading and becoming aware in Slovakian companies, but also equipment by developed information system, which is significantly used also in abroad. In Slovakia presently there is automatic application of controlling, without closer knowing of not only the strategy, business development or internal and external environment. In Slovakia Company "Dominanta" has a significant representation, existing at the internet market since 1994, dealing with controlling, management, economy, human source management, finances and marketing (Gallo, 2020).

Controlling tools allow fixing efficiency of using any strategy in the certain company to achieve value growth of the company (Kusmin, 2008). Gallo et al. (2021) confirmed that the implementation of controlling is related to the type and legal form of the company. Small and medium-sized enterprises (SME) are a major economic factor not only in Germany, but also in the European Union. Controlling is meanwhile indispensable for large companies but for SME controlling instruments seem to be applied very heterogeneously (Britzelmaier, et al., 2009). It seems that in smaller companies, operational controlling instruments are still more common than strategic ones and the organization of controlling activities is dependent on the company size. According to research by Mohamed and Jamil (2015) very little research had been conducted on small and medium enterprises (SME). It is mostly due to the fact there is a special focus on the application tools of controlling in a specific conditions of SMEs (Zlamalova, 2017). Several authors, for example Skokan et al. (2013), had studied special conditions for controlling implementation in SMEs in the Czech and Slovak Republic. Barbelivien and Meyssonier (2018) pointed out that implementation of the controlling depends not only on the company size and that management control is more based on a logic of rationalization than on a finance one.

Presently, speaking about sustainability issues, Britzelmaier et al. (2018) conducted a study on the subject of green controlling in SME, including three sustainability dimensions. This seems still to be in its infancy, especially in SME companies. In addition, in present post-pandemic situation, controlling can be one of the most important tools of modern management, which could effectively solve the readiness of companies for changes, caused by the pandemic COVID-19 (Gallo et al., 2021). According to Akroyd et al. (2019), management controls could emerge to become a package of controlling tools, such as financial controlling, financial planning, decision-making, analysis and control.

As for the area of controlling use in different sectors, most literature deals with controlling in case in area of tourism (see for example Mohamed and Jamil, 2015; Gallo et al., 2021). The goal of the presented paper is to give other dimension to the controlling use in SMEs from the regional point of view to provide possibilities for regional and sustainable development of the regions, mainly through the SMEs development.

Methodology

Subject of searching are chosen SMEs in second biggest region of Slovakia, with territory 8 973 km² at the northeast part of Slovakia. It spreads over 18% from the Slovak Republic territory. The achievement of the main goal and partial goals is made by elaborated research through questionnaire searching with following chosen research questions:

H1: We assume that single position of controller is given in all companies with foreign property structure.

H2: We assume that in the business management more than 50% SMEs use controlling tools.

H3: We assume that use of controlling and its tools is more interest of medium enterprises in comparing with small enterprises.

H4: We assume that SMEs in the chosen region are orientated during their management to the financial indexes.

H5: We assume that the main problems during controlling installing to the SMEs management are lack of qualified workers and not sufficient knowledge of this modern system of management.

Questionnaire research had been done in November 2021 till February 2022 made through online questionnaire by web application Survio. Since the research is orientated to the use of controlling tools in SMEs in chosen region, we requested during the research 500 companies

with seat in the region. The questionnaire had been sent by e-mail to the addresses of the statutory officers or to the economic department of the companies. From total number 230 companies made responses. Total return of responds is at the level 46 %, in spite that requested companies obtained the possibility to acquaint with the questionnaire research, which could increase their management quality. We can state that there is low interest of the managers of the companies of such research, caused by reluctance and mistrust of the statutory officers and executive managers of the companies to provide or publish sensible data.

Various companies had been requested, so we needed to structure them according to the volume. From the research results that any big company connected the research, however the questionnaire had been sent to the big companies as well. The questionnaire was divided to two parts. In first part, the research orientated to the basic data of the company, such as legal form, number of employees, sector orientation and length of the company existence. In the questionnaire research, we orientated to SMEs with seat of their business activity in second biggest region of Slovakia. Following table divides individual companies, connected to the questionnaire research. Such dividing of the companies had been done according to structure and categorization of SMEs. The questionnaire had been responded from 169 small companies and 61 medium companies from the analyzed region. Basic criteria for such dividing were number of employees in the individual companies. The biggest rate on the questionnaire research had limited companies, with number 159, which present total value yet 69 %. In addition, four joint stock companies responded the questionnaire and three family businesses. Other forms did not participate at the research. From the view of sector structure, 32 business subjects with 14 % were from nonproduction sector. Totally 198 companies were from industrial sector. Between non-production companies 11 family firm participated, 2 joint stock company and 19 limited company. From the mentioned, we can state that the biggest interest of controlling has companies that are dealing with industrial activity. The biggest structure of requested companies has companies with longest position at the market over 10 years, namely 109 companies, which presents 47 %.

Results and discussion

In connection with hypothesis *H1: We assume that a separate position of controller is established in all companies with a foreign ownership structure*, in the next part of the questionnaire we investigated what the ownership structure of the companies is. Furthermore, we investigated whether there is any connection in the case of the establishment of a separate controller position, any connection between a Slovak company and a company with a foreign representative office. Totally 183 companies that took part in the questionnaire stated a purely Slovak ownership structure and 47 companies a foreign representative office.

We focused further on finding out the existence of the controller position, the use, or non-use of controlling or any of its tools in business management, as well as finding out attempts of possible implementation of controlling in management, reasons for not using the controlling system. Totally 35 companies stated that they have a controller position, which represents more than 15 % of all companies. In almost 85 % of companies, the position of controller has not been established at all. In small businesses, the owner, sometimes in cooperation with the economist, mainly performs controlling tasks. It is clear that controlling is not yet fully established in smaller companies.

Table 1. Position of controller in the analyzed companies

	No	% rate
Yes	35	15.2
No	195	84.8
Sum	230	100.0

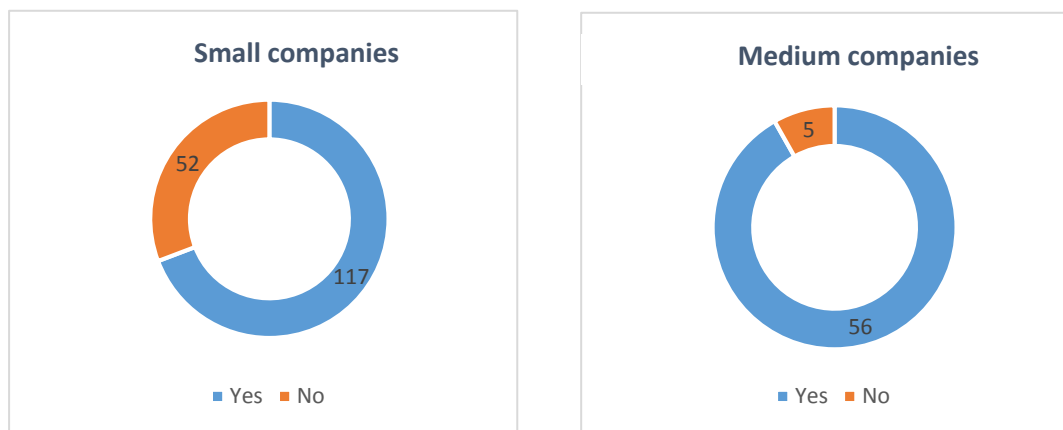
As results from the research, the position of controller is established only in medium-sized enterprises with foreign participation. It can therefore be concluded that these companies already use controlling. In companies without foreign participation, the use of controlling is no longer obvious. This was confirmed, as this position is established in joint stock companies and in limited liability companies. All these companies reported a foreign ownership structure. We can state that *hypothesis H1*, which assumed that a separate position of controller is established in every company with a foreign ownership structure, *is confirmed*.

The following questionnaire questions were linked to *hypothesis H2*: *We assume that more than 50 % of small and medium-sized enterprises use controlling tools in business management* and *hypothesis H3*: *We assume that the application of controlling and its tools is more a matter of medium-sized enterprises than small enterprises*. These two hypotheses are closely related.

In the next question of the questionnaire, the requested respondents were divided according to whether they are currently implementing any controlling activities or not.

As Figure 1 illustrates, 76 % of all companies stated that they use controlling tools in their business management. The rest of the companies do not implement any controlling tool. All medium-sized enterprises (6) reported the use of controlling tools (H3). The situation is different for small businesses, from the research we found that about a third (31 %) small business does not deal with the issue of controlling.

Figure 1. Controlling tools use



From the following table 2, it is further clear that the existence of a separate controlling department is among the least used in the organizational structure. A separate controlling department is created only in less than nine percent of all companies surveyed. In every sixth company, one worker from an unspecified department performs controlling. As mentioned above, a fifth of companies do not use controlling. More than half of the companies have integrated basic controlling tools without a specialized expert. Based on the obtained results, we can state that *hypothesis H2*, which assumed that more than 50% of small and medium-sized enterprises use controlling tools in their business management *is confirmed*. *Hypothesis H3 is also confirmed*, as we found out by processing the obtained data that all medium-sized enterprises that participated in the questionnaire survey use controlling tools.

Table 2. Participation of the controlling in the organization structure

	Responds	% rate
Not existing	49	21.3
Only basic tools or without special expert	121	52.6
Controlling through one employee	40	17.4
Controlling through number of experts	0	0.0
Single department of controlling	20	8.7

Other questions from the questionnaire were related to hypothesis *H4: We assume that small and medium-sized enterprises focus mainly on financial indicators in their corporate management.* To the question from the questionnaire “Which basic controlling tools do you use?” up to a fifth of respondents answered negatively, which means 21.3 % of companies do not use any controlling tools.

As we can see from Figure 2, less than half of the surveyed companies focus mainly on financial controlling, where they use planning and various reports from economic financial analyses, which are based mainly on internal accounting and various sources that are focused on the financial health of companies. Outputs from accounting, budgets as well as calculations, which are part of cost controlling, focused mainly on cost management, are used by more than a third of the companies surveyed.

Figure 2. Controlling tools

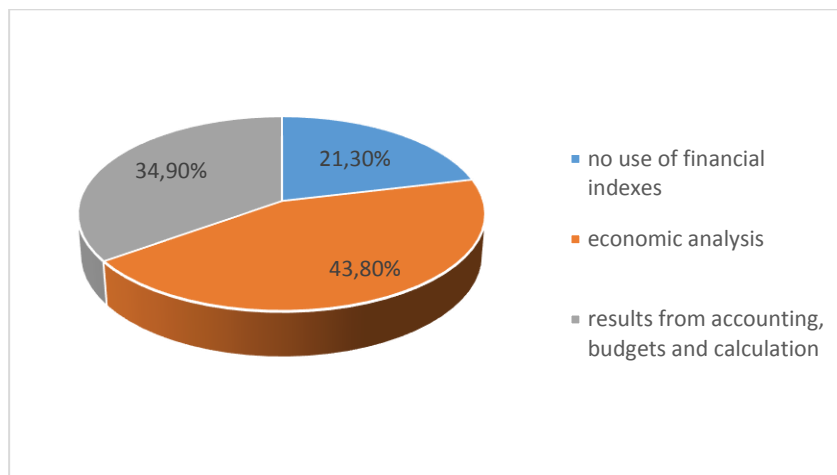


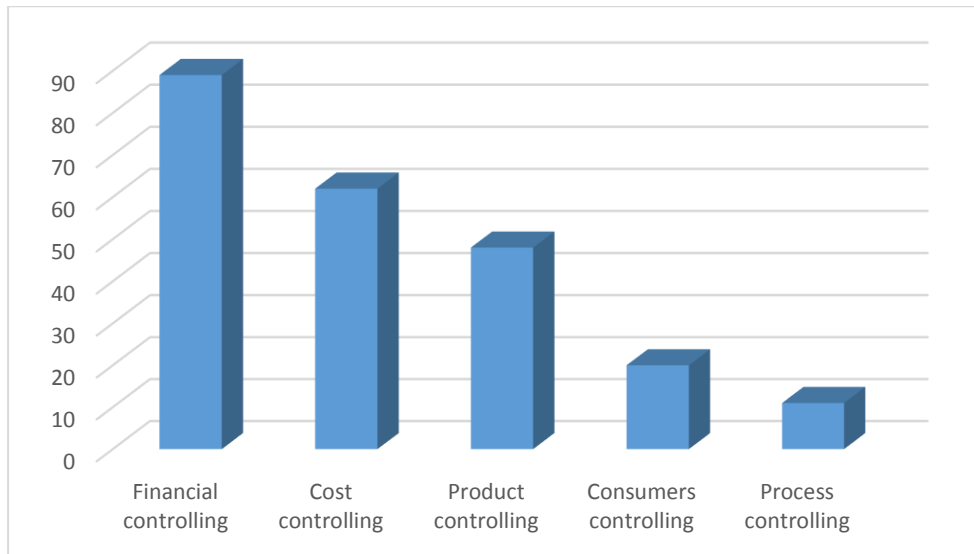
Figure No. 3 shows the areas of controlling orientation. The surveyed companies that answered the previous question had the opportunity to specify the areas of controlling orientation in their corporate management; they could also choose several options when answering.

The data obtained from the surveyed companies pointed to the fact that the majority of businesses reported that they monitor financial indicators and performance results that give them a comprehensive report on the overall management and financial health of their business. They were followed immediately by the area of cost controlling, which significantly confirmed the previous question from the questionnaire.

In of the questioned companies 48 companies focus on customers, they mentioned product orientation, in 25 case was the process orientation of controlling mentioned. Based on the obtained results, we can conclude that there is low awareness of process management in small and medium-sized enterprises (only 11 companies). *Hypothesis H4* that small and medium-sized enterprises in the region focus mainly on financial indicators in corporate management

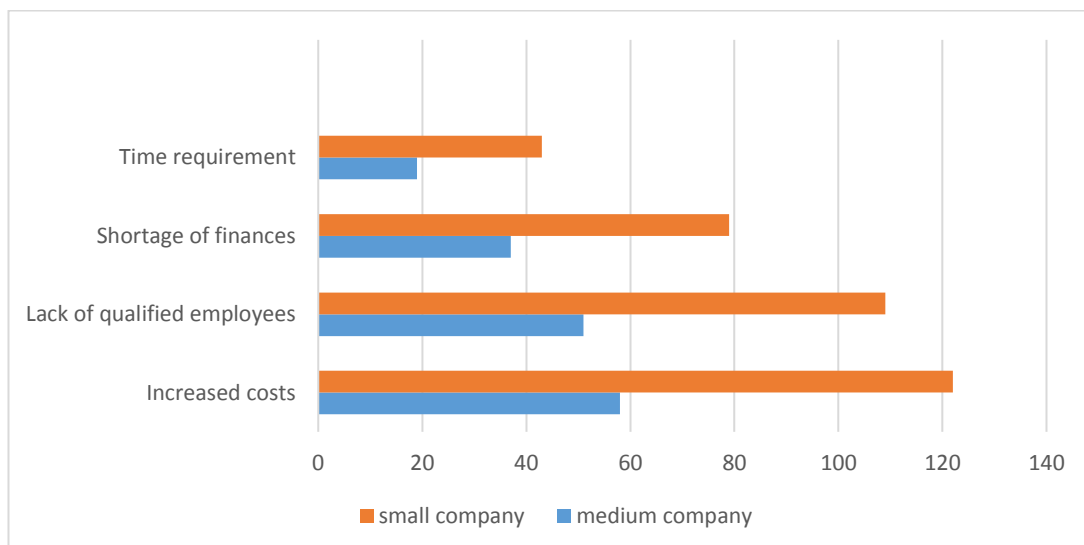
was confirmed. Results are shown in figure 3.

Figure 3. Areas of the controlling orientation in the management



In connection with the last hypothesis *H5: We assume that the main problems in the introduction of controlling in the management of small and medium-sized enterprises are the lack of qualified workers and insufficient knowledge of this modern management system*, companies had to specify the main problems during the implementation, as well as during its subsequent use. Only companies that use controlling answered this question (out of the total number of positive answers, 181, small companies were 119, and medium-sized companies were 62), while they could give multiple answers. Based on the results of the research, the increase in the cost of software equipment is for small as well as medium enterprises, the most frequently reported problem in the implementation of controlling. Only less than a third of companies do not see a problem in having enough qualified workers to perform the function of controller. As obvious from Figure 10, the greater half of the surveyed companies is also not sufficiently familiar with controlling as modern managerial management approach. For every fifth company, implementation is a problem in terms of time consumption. Most medium-sized enterprises perceive the problem of implementation from the financial and personnel point of view.

Figure 4. Main problems in the controlling implementation



As other reasons, the respondents of small and medium-sized enterprises mentioned the costs of the implementation itself, but also the costs of a possible external consulting firm. In addition to these financial barriers, they also specified possible problems from the organizational point of view, where they mentioned a long implementation period and a necessary change in the company's information system. When solving the second part of hypothesis H5, we also evaluated question from the questionnaire, if they had ever tried to introduce a controlling system into company management in the past, more than half of the respondents answered negatively. Through a deeper analysis of the data obtained from the questioned respondents, we found that the controlling system was not implemented mainly in small enterprises.

Table 3. Companies trying to implement the controlling

	Respond	% rate
No	121	52.6
Yes	109	47.4
SUM	230	100.00

Based on the research results, we found that for all companies that use controlling tools, the increased cost of software equipment was a significant problem during implementation. At the same time, we can state that there is still not enough information about the awareness of controlling in the conditions of small and medium-sized businesses. *Hypothesis H5*, which assumed that the lack of qualified workers and insufficient knowledge of this modern management system would be the main problems in introducing the controlling system into the corporate management of small and medium-sized enterprises, *was not confirmed*.

Discussion and Conclusion

Mainly in small (family) businesses, there are no separate controlling department or a separate controller position. This is a result mainly from the limited capacity options of small businesses, as the owners, often in cooperation with a financial accountant or economist, mainly perform the controlling tasks. However, accounting does not provide the answers to the questions of the best-optimized costs, the possible finance of the projects, the budgets creation or cash flow planning. The performance of controlling requires special knowledge and skills, which force the management (leaders) to learn again, which requires a certain amount of effort and time. Owners or managers often do not have the necessary expertise or qualifications to perform controlling tasks. For these companies, it would be reasonable to introduce controlling in the form of outsourcing services, or to use the services of an external controller who has extensive experience not only in the field of controlling.

In the case of medium-sized enterprises, it is appropriate to optimize the already established concept of controlling, to establish own controlling department or department with the help of using controlling software offered by various software companies (Csikosová et al., 2017). The next possibility is to interconnect the controlling solution and reporting with an already established existing information system. The advantage of such an implementation is that when using a software company, the company does not have to create a financial department or hire expensive financial specialists or a team of experts. It is enough to recruit workers who would be in charge of the controlling department from among existing employees who know the company well enough. Controlling solutions will thus provide the management with information about the current state of the company. They will be used not only to predict the economic situation, but also to plan the future.

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