THE UNIVERSITY OF WEST HUNGARY

FACULTY OF ECONOMICS

GRADUATE SCHOOL THEORIES AND PRACTISES OF ECONOMIC PROCESSES

The coherences and pratice of the financial planning and controlling

(in particularly regard to the small and middle enterprises)

Thesis of the Ph.D. dissertation

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1. The history and goals of the research

The planning and the retrospection are the part of the life of every people; everybody is planning, sometimes consciously and sometimes unconsciously. Planning is important in every field of our life, as much as in our private life also in economic ways or in the successful operations of different businesses. The planning is showing forward and the reviews of different decisions are giving feedbacks, in between these two parts there is the controlling. Controlling tries to correct and help the efficiency of the businesses and gives information to the decision makers. I was always interested in – and still I am interested in- the accounting- and financial planning and the field of controlling. After getting know the professional fundaments I begun to think about the different theories and practices that are available in the Hungarian economic and Worldwide. Since 1960's there more and more literature about planning and controlling, and two theoretical schools got developed. These literatures are available in Hungarian translation since 1980, and there are literatures that are written by Hungarian authors. We can see a very serious building system in financial and controlling systems, because of the different experts and foreign owners that been taking their own well-operating system used by their native companies. Some of the Hungarian experts built their own controlling systems and programs. Today the market has a huge range of supply.

The literature of the discourse is big also, there are a lot of translations and Hungarian works also. I tried to introduce the most interesting ones, and we translated some studies that did not have any Hungarian translation before- these studies were mostly new ones. In the last few years the controlling and the Balanced Scorecard and its tools got a big promotion, but I think that there are a lot of fields of these topics that are still a black-hole for the people dealing with this issue. I would like to introduce and clear these fields, and to introduce the result of the new researches in my work.

My discourse got a subtitle next to the "Coherences and practices of the financial-accounting planning and controlling" title, because my work would like to introduce the practical side of this issue also. After 1990, and mostly after that Hungary became a Member State of the European Union there is a huge competition between the different companies, so the informational systems that are helping the businesses are getting more important role.

The main direction of my research is not dealing with the computing accessories but with the fundament of the financial planning and controlling their methods and use. The main field of my research and PhD thesis is the Small-and Medium sized Enterprises (SME's). I choose

this field in one hand because they are very important in the Hungarian economic, so we have to be clear in the actual situation of the sector, its development, strength and weaknesses, in other hand all the small and medium sized enterprises have special programs so this topic is important by this segment of the market. The rating of the SME' got changed in the last few years, in 2004 and in 2005 the limit values got increased (gross revenue, balance-sheet footing), so a lot of enterprises "felt down", the most medium sized enterprises are now only small enterprises. So I can not define the actual target group of my work about the planning and controlling system, the market got to heterogenic. I think not the target group is the most important but those who are still not buying the enterprise-leading and controlling systems.

The main goal of the research is to develop a financial and controlling system for the practical small enterprises. The starting assumption of my work was that only a small number of SME's are using these tools. In terms of my survey and through my hypothesizes this statement got confirmed.

The reason of the choice of direction of my research is my own interested and that the planning and controlling status in the market of SME's in not cleared enough yet.

Because of this my work is analyzing the significance of the SME's and their problems, and as a "part"-goal analyzing the strategic planning, financial- and accounting planning theories, the theory of controlling and the latest researches. The introduction of the Balanced Scorecard and its importance, also the controlling and financial planning of SME's is a part if my work also

One of the most important element of my work is the development of a practical and easy used financial and controlling system, that can increase their efficiency. With this system there is a way to get more information and better strategic thinking.

2. The content of the research, the used methods

The research was very complex and took more than four years. I used the following methods to systematization of information.

At first step my goal was to find and read the necessary literature. The secondary research was the processing of the Hungarian and foreign literature. That needed a library work and participation in some professional conferenceses.

I have a lot of books my own that helped my research, but made it more expensive. As You can see in the discourse the experts did not have the same position/personal equation, there are two different schools, the German and the Nautical. They have different theories, they

trying to analyze different problems. I tried to introduce both schools and their methods in my dissertation. There are a lot of studies online which I read, but I had to take with a grain of salt.

There are a lot of Hungarian and foreign websites[1] and professional portals that helped my work. I think that it is very important to introduce the latest theories and methods as the third Balanced Scorecard or the activity based finance-planning etc. I used descriptive books and also **other researches** like the ERFARET research made by the West-Hungarian University, Forester faculty and the statistics of APEH and KSH.

The other element of my work is the **primer, survey research**. We made the survey in the end of 2003, and we posted them in 2004. We asked 350 SME's about the accounting, financial planning, controlling and taxation. I used the basic rules of making surveys and this is the reason why these surveys are not too long and too crowded. We had to dismiss 29 of the enterprises, because they weren't SME's. We analyzed the surveys with the SPSS mathematical-statistic program (Version 14) with the method of Khi square and frequency. I begun to find the mistakes after the analysis of the surveys, and than I solved and fixed them, in the winter of 2007. This is a test, qualitative research that is followed by the determination of the possible proposals and solution models. The research process is flexible and the model is "small" (only 321 enterprises) and not representative, its goal is the maximal introspection. This kind of survey is mostly the beginning and the final point of the researches, at this time it was its beginning. The collection of the primer data has been done, the time period was long, take than two years. The process looked like this: idea → development → postage → analysis→ evaluation → tasks, in this case the financial planning and the controlling system. By first step we defined the goal of the research, which is the practice of controlling and finance by SME's. There are measurable and evaluable systems in the center of my discourse which are assign numbers to the process. The type of the questions are variable, because there are closed, opened and hybrid questions also. The scales are choosable, stand out by five variants and I used a five scaled Linker-scale, which is a summary scale. I developed a score for all the appraising which are based on the set of statement and show the approach to the topic. The phrasing of the question is defining the answers. I solved the problem by the following process: I gave the surveys to those experts who are working at the measured enterprises with financial or accounting fields They could also find an answer possibility called by „no data/ I don't like to answer because you never know it they can or want to answer to my question by those businesses. The order of the questions is not random either. After the introduction there are the general data, that the financial planning and final the

controlling. If the answer was negative he/she had to answer the next question in this case the person who made the answers could not meet with anomalies.

After **analyzing the surveys** I introduced the controlling and financial planning systems of the SME's and the used methods. I could make some conclusion about the actual stage of the financial-accounting system. I searched detailed the different controlling tools which can help to the enterprises to be more efficient. After the analysis of the surveys I find out from the answers that only a small number of the SME's are using controlling and they are afraid of the use or introduction of these systems. One of the goals of my work is to collect and introduce those theories and methods which are helpful for those enterprises which are standing before the introduction of controlling systems.

3. The main thesises of the discourse

My thesises in the discourse are based on the Hungarian and foreign literature, on my and others research and on different statistics and my own controlling knowledge. The hypothesis is a statement which needs to be proved and it is handling about an option or elements which are important for the researcher or his/her job. The basic of the hypothesis and thesis analysis are the primer researches, the surveys and their analyzed data.

The hypothesizes of my dissertation are my own statements, which are based on the domestic and foreign secondary information:

H1: The Hungarian small and medium sized enterprises (SME's) are taking a huge part in the Hungarian economics. The number of the enterprises, and the employees, the payed taxes and the percentage of GDP shows that also. Because they are huge participants of the domestic market, we have to deal with their opportunities, problems and their development opportunities also.

H2.a.: Based on the business practice of SME's, most of the SME's are making financial plan.

H2.b.: Because the bigger SME's are making financial plans, we can say that there is a relation between the size and revenue of the enterprises and between the financial plan. The relation looks like that: More bigly the enterprise's size is, more ensured that the enterprise is making financial plan.

H2.c.: Those SME's which are using planning are this planning activity done by the bookkeeper or the manager of the enterprise.

H3.a.: The SME's know the meaning and the fields of controlling.

H3.b.: There are no professional in the controlling units by the SME's, the controlling analysis are done by the accouter or by the manager of the enterprises.

H3.c.: There is a demand on controlling unit by those SME's which are not using it yet.

H3.d.: There is a strong cohesion between the financial planning and controlling. If an enterprise has financial planning than it has controlling also and conversely.

H4.a.: The SME's like better if the financial planning are based on Balanced Scorecard measures.

H4.b.: There is a relation between the size of enterprises and between the importance of the used measures. More bigly the SME is, more important the use of other measures than financial measures.

H5: Because the economic knowledge of the SME's is not perfect, there is a need of the education of the bookkeepers and of the use of consultancy services

The results of the primary and secondary researches

H1: hypothesis is dealing with the questions that are the SME's taking a huge participation in the domestic economic market. This hypothesis is well done, and proved by the secondary researches of mine and based on the data and statistics of KSH and APEH.

H2.a.: this hypothesis is dealing with the practice of financial planning of SME's can be proved by easy empirical researches. I can say that the most SME's are (two third of SME's) making financial plans, mostly these plans are yearly plans. So this hypothesis is acceptable also.

H2.b.: this hypothesis is dealing with the topic of the relation between the size of the SME's and the actual existence of the financial plan. I stated that the hypothesis is acceptable, because more bigly the size of SME's are, more rarely the miss of financial plan is. But that is also true that there is no relation between the size of the SME's and the frequency of the reading trough of these plans, it does not depend from the size of revenue either.

H2.c.: this hypothesis is dealing with the question that who is doing the financial plan by the companies. I accepted the hypothesis because the frequency table shows clearly that the 72 per scent of the planner are manager or bookkeepers.

H3.a.: this hypothesis is dealing with the good controlling knowledge of SME's. From the results of the surveys, so about the answer of the questions, I made a statement that the SME's do not have a clear picture about the mechanism and function of controlling, so I had to dismiss this hypothesis.

H3.b.: That is true that by those enterprises which are making controlling activity there is a controller, so the hypothesis is dismissed. We can see from the results of the surveys that 53 % of the controlling works are made by actual controllers.

H3.c.: this hypothesis is dealing with those enterprises which do not have controlling. To answer the question that would you like to introduce controlling the managers said no. The reason was mostly the size of the enterprises. They said that they do not need controlling because their enterprise is too small. So this hypothesis has to be dismissed also.

H3.d.: this hypothesis is dealing with the relation between the financial planning and controlling. I made a statement that the relation between these two components is only one sided, because the SME's which are doing controlling are having financial plan also, but not every enterprises have controlling which having financial plan. So the hypothesis is not fully proved.

H4.a.: this hypothesis is dealing with the question that does the SME's know that non-financial measures? Do they think that these measures are important? The analysis of the answers says that they think that the knowledge of these measures is important for them. So I accepted this hypothesis.

H4.b.: this hypothesis is dealing with the bigger SME's and their connection with the financial measures. I used the cross-tabled analysis, and it showed that there is a relation between the big of the revenue and the use of the financial measures. Only a small number of the asked people said that these are not important at all, so I accepted the Hypothesis.

H5: this hypothesis is dealing with the questions that do the managers and bookkeepers of the SME's need education or postgraduational education in the future. This hypothesis is proved by a lot of domestic and foreign literature, and by my secondary research and my empirical research also. The managers answered that the employees and they also need marketing and project management education. So I accepted the hypothesis. The financial planning and controlling education are involved in the basic education like the tax-consultancy course or the accounting course.

4. Conclusions and suggestions

The SME's are very important elements of the economy in the Member States of the European Union and as a Member of the EU, in Hungary as well, so their funding is an important element in the development of their competitiveness. As anyone can see in the statistics of the KSH and APEH, I stated that the SME's are taking a huge part of the Hungarian labour market and in GO also, so they have to be in the center of my research. I just made a basic statement in my discourse, because this issue is already accepted anyways. There is a two sided situation on the SME's market, because there are enterprises that have an "over-management" and there are some which have a miss of good management. Some of the enterprises having a problem to change their own management or they can not do their daily services perfectly. Mostly they spending less money on education that is needed, and they do not have strategy and future-plans.

The efficiency and the competitiveness of the different SME's show that the managers need to be educated. So the SME's need to be informed about the education opportunities, and about the modern economical knowledge. We can see that the enterprises see now that the increase of the economical knowledge is needed. The biggest demands are for the marketing, project manager and business knowledge education. They are looking for a two or three days long training and some of the managers are interested in the different one-day long seminars also.

We can see that the sphere of the SME's is huge. The involved enterprises are mostly trading companies. So the introduced financial planning and controlling system is suited to the trading SME's. Because of the increase of the limit numbers of the SME's in 204 and 2005 the SME's sphere got heterogenic. The involved enterprises are mostly small enterprises so the statements are directed to them.

We can see from the answers of the survey that the enterprises done the financial plans only for reasons made by outer goals like credits or projects. I can tell by my empirical research that the examined enterprises are using the normative planning methods and two thirds of the companies have financial plan. These financial plans are mostly for one year of time period. But this time period is not good for an overview of its operation. The parts of these financial plans are mostly the evaluation of the revenue and costs, the amount of credits, the amount of investments, the taxation costs. But these are too complex examined for the SME's.

There is a relation between the size of the enterprises and the existence of the financial plan. We can say that more bigly the SME's size is mostly they have financial plan also. But we

can say that there is no relation between the size of the SME's and the frequency of the number of overview of the financial plans.

The effective writer of the financial plan are mostly the bookkeepers and the managers, their activity is based on their accounting and finance knowledge.

The other two parts of the empirical research are dealing with the controlling. We can sadly say that the SME's do not know the tools of controlling so they are not using them either. I did not see any strong relation between the existence of the financial plan and controlling activity, the relation is only one sided, so the enterprises which have financial plan are making some controlling activity also. I can assume that after an enterprise making its financial plan, the next step for its competitiveness if it is doing some controlling activity also.

Anyone can se from my research and from the data of the cross-table that the trading enterprises are not using the controlling system, because of that I am suggesting the use of this system, because they will need it when their competitors will appear and their efficiency should grow intensively.

I read out from the answers that there is a need for the controlling, but the managers having disapproval against it. The managers think that controlling is too difficult, expensive and complex. So there should be a clear and easy system introduced to them. These managers should be asked and informed. The introduction of the controlling system mostly means that the enterprise is thinking about the betterment and changing. The introduction of this system is not easy, because it is a huge assignment for the managers to fill the system with correct purport. The built of controlling system is not a one time process, it should take some more steps also.

As a complementary of controlling we can add that the companies know the non-financial measures, this is the reason why I think that the introduction of the Balanced Scorecard is important for them. This system is easy and clear. If the employees are working comfortable at their working place, and they get all the necessary information they need than the level of their work will be higher and the enterprise will be more successful.

Suggestions

There is a need for an education system which's goal is to educate the mangers, bookkeepers. The financial planning and controlling education are involved in the basic education like the tax-consultancy course or the accounting course. These courses should be weekend courses or a few days long courses, the different universities and colleges can take a huge part in its

organization. The "students" have to learn the basics first, and only than can they understand the professional operation of the system. If they can understand the learned material, than they will see that isn't that difficult and they will have their own will to learn more. The other kind of the education is based on computers. The excel program is well-known and data-based so it is perfect to use I for the financial planning and controlling.

The SME's do not need the most difficult systems, or cash-flow, they do not have to count a lot of measures. Their strategy is to plan their future and their efficiency, this step is the most important. The system that I am introducing is easy and clear, so the introduction of this system is good for the SM's. As a part-goal I deal with the revenue and cost planning also. We should make an overview about the last few years' revenue, costs per market and per costumers. In trade there is a need for the supervision of the stock, because this is the "product" of these enterprises. We should make an analysis in every semester, quarter year or in every month than we can find easily the reasons of the differences. The bookkeeper neither should nor be overwhelmed.

The costumer based system is important also, it is already mentioned in Balanced Scorecard and it is the key of success nowadays. It is important to satisfy our customers and to give them the best qualified products they need. At first there should be 4 point of views and ever point of view should have 4-5 measures. The system should start from the highest level, we should find out what is the best value for the measures by our enterprise, the results and data of the last few years' can help us in this. We should develop a system of measures. We should make an overview of these measures periodically. We should check that how did they change, what caused this change anyways, did we achieve our goals.

An other important element is learning. We have to learn from others mistakes, because we do not have time and money to learn from ours. We always have to have an alternative to every single plan; if the things are not coming as we waited we can always do something different that can help us. We have to make some brainstorming periodically, we have to develop teamwork in our own business, and we have to watch out against the subservience. In this way the controlling system is a future building and helpful system, not a negative, monitoring system. All of our collaborator should be professional; they have to be sent to different trainings and courses. If an SME is doing its work following these suggestions it should be successful.

The new and newly results of the discourse

The new and newly results of my discourse are stated by the SME's on the field of financial planning and controlling.

On of the most important result of my research is that my discourse gives a summary about the financial planning and controlling Hungarian, English and German literature. As a result of my discourse I can mark that it connected the practice of the financial planning and controlling. The financial planning is looking forward, the controlling is an value making system.

The best result of my PhD dissertation is that by analyzing the domestic SME's' financial planning and controlling and their methods and development I categorized them and I could give suggestions to them. For this analyzing I used frequency-analysis and independency-analysis (khi square).

The practical value of the discourse is that it can be used in education, because now the financial and controlling education should be amended on the Economic Faculty of the West-Hungarian University.

I showed a choice to the domestic SME's about the practice of financial planning and controlling. This choice shows the tools of these systems also, and it is completed with the Balanced Scorecard so the management of the business can be more informed. The system is capable for development, of course, and I am working on this development constantly.

5. Further research possibilities

As a continue of the research I am thinking about different focus-group examinations and deep-interviews which would show the used guiding system and their tools also. It would be important to examine the reason of the use of these guiding systems or the not-use of the controlling and other tools that would be needed.

The research should be increased to other countries (neighbors or other EU Member States). That would be informative also to compare their SME's' advanced state to ours.

This research should be repeated to see the differences and their reason on this field.

There is an important step to have cooperation with the different chambers.

Important to develop the system which is based on Excel, in the second semester of the year 2007/2008 there will be a class about this on the Faculty of Wood industry of West-Hungarian University.

The related publications of the author

1. Károly Szóka [2003]: Financial planning and controlling

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