

INSTITUTIONAL ASPECTS OF CONTROLLING IN SME'S IN NORTHWEST CROATIA

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ABSTRACT

Small and medium size enterprises (SMEs) represent a very important segment of the Croatian economy as is the case in many other countries. That is the main reason for a growing number of studies about the problems they face. The first identified problem is a necessity for adjustment to a turbulent environment. Another important problem is internal weaknesses of SMEs, including errors on the side of management that stand out. Controlling (field which in many aspects overlaps with management accounting in international discourse) and controllers provide support to management by performing various tasks that are important for SMEs. These are the tasks related to the two management subsystems: Planning and control and Information and reporting. However, in many SMEs where these tasks are indeed performed, they are predominantly done by managers themselves, which leads to their overburdening and an increased number of errors. In this paper the emphasis is on institutional aspects of Controlling. We investigate to what extent is Controlling present in SMEs (in institutional sense) and who performs Controlling tasks related to the management subsystems. Since Controlling is mostly developed in the German-speaking countries and most intensive studies about Controlling are carried out in these countries, some of them served as guidance to our study. The study was conducted in Northwest Croatia. The following hypothesis is set out in the paper: Within SMEs in the Varazdin County Controlling is not present in the institutional sense and tasks in the field of Controlling are performed by managers themselves, with the help of employees in finance or accounting/bookkeeping. The results of our empirical research confirm the hypothesis, which means that Controlling tasks are not performed within SMEs in a manner that would enable increased efficiency of management.

Keywords: *Controlling, Management accounting, SMEs*

1 INTRODUCTION

There are several reasons that influence the success or failure of an enterprise. Some of the influence comes from the environment, where the company can hardly or not at all affect these reasons. However, recognition of environmental factors is important in order to better adapt to them. Business environment is an extremely dynamic one and it is becoming more and more turbulent every day, where many factors affect the performance of a company and goals and strategy it adopts. Such factors are political, economic, social, technological, legislative and ecological (ethical). The second group of reasons for the failure of many companies consists of internal weaknesses. With small and medium size businesses (SMEs) management's weaknesses and errors stand out immensely. Everyday operating jobs in SMEs do not leave enough time to the management for an active managing, directed towards the future. The situation in SMEs is the one where every business day is not characterized by an

action but by a reaction, and planning (if any) and managing are short-term focused. The search for what causes the problems starts only when the business is already heading in the wrong direction, and then it is often too late. Therefore, SMEs often do not operate in line with their potential. It is clear that in a situation like this, with so many factors that a company should take into account, the risks and the chances are closely linked to each other. Adapting to the situation in the environment and overcoming internal weaknesses are essential to the success of SMEs. The answer to the question “how to achieve it?” is in the use of appropriate tools for planning, control and informing, directed towards both operational and strategic area. In doing so, the management of an SME needs professional help and support provided by Controlling and controllers.

Controlling evolved in the recent decades in large companies as a successful response to the problems of their adaptation to internal and external changes. However, Controlling systems that were developed for the needs of large companies are not directly applicable to SMEs. SME requires measures and procedures different from a large company due to the specifics characterizing it i.e. due to a series of differences in comparison with large enterprises. Because of that, there will be differences in the institutional aspects of Controlling between large enterprises and SMEs, meaning differences in organization and the performers of Controlling tasks. In this paper we investigate to what extent is Controlling present in SMEs (in institutional sense) and who performs Controlling tasks related to the management subsystems.

2 RELATED LITERATURE IDENTIFYING THE KEY TASKS OF CONTROLLING AND CONFIRMING THE NEED FOR CONTROLLING IN SMEs

Controlling is an English term used in German-speaking countries¹ and refers to “most tasks that would be considered in international discourse as management accounting tasks” (Becker and Messner, 2005, p. 418). Even more accurately, management accounting issues in German-speaking countries can be categorized to “Kostenrechnung” (cost accounting) or “Interne Unternehmensrechnung” (internal accounting) and “Controlling” motivated by what controllers do (Wagenhofer, 2006, pp. 1–2). Following that, many companies in German-speaking countries have Controlling institutionalized (Osmanagic Bedenik, 2007, p. 47). The situation in Croatia is identical, meaning that many large enterprises have Controlling departments. The first important study in the practice of Controlling in large enterprises in Croatia was conducted by Nidzara Osmanagic Bedenik in year 2001, followed by a new research in 2007 without the change in the research methodology, which enabled a comparative analysis of the development of Controlling through this period. Research conducted in year 2007 showed that 74% of large companies in Croatia had Controlling as an organizational unit (Osmanagic Bedenik, 2007, p. 54). This was a significant increase compared to the data from the year 2001 when 53% of large companies had Controlling as an organizational unit. Altogether, Controlling is a young function in companies in Croatia. Research on the specifics of institutional aspects of Controlling in SMEs in Croatia was up to now to the best of our knowledge not conducted.

Controlling in SMEs varies from Controlling in large enterprises both in institutional aspects (organization and carriers of Controlling tasks) and in terms of Controlling instruments used, and can be defined as "a system of planning, information, control and management of

¹ Refers to Germany, Austria and parts of Switzerland.

important ongoing processes in the company adapted to the company” (Spraul and Oeser, 2004, p. 1). One of the characteristics of SMEs is the situation of owner-manager where an entrepreneur manages the company but also does most administrative tasks, especially when the company is smaller. Given this entire burden on the entrepreneur, it is expected that some management tasks will have to be ignored. In such a situation all management tasks are concentrated and performed by one person or a small group of people, and on them the success of the company depends. Many things depend on the management style of this person - the significance of achieving goals, decision-making, informal relationships among employees, control, delegation of responsibility, attitude towards information, and concern for subordinates. Paternalistic management style prevails in SMEs (Ossadnik et al., 2008, p. 5). Delegating responsibility for decision-making is not a characteristic for this style of management, though the subordinates are consulted and their views taken into account. The final decision is always made by the manager. The mere management style in SMEs can represent a possible obstacle to introducing and applying Controlling. It is noteworthy that the managers are aware of positive implications of making more informed decisions.

The increase in efficiency and effectiveness of management is emphasized as the goal of Controlling. In large enterprises controllers are those employees involved in carrying out the Controlling tasks, giving the management their expertise. The controller is a person that supports management in the execution of his duties, an internal consultant to management, "an employee that executes a specific set of tasks for the manager (e.g. preparation of information on costs, monitoring achievement of results, etc.)" (Weber and Schäffer, 2006, p. 1). Controller's mission from International Group of Controlling (IGC) shows that the key activities associated with the controllers are (International Group of Controlling, 2002):

- Planning,
- Informing/reporting,
- Analyzing/monitoring,
- Control.

In general, Controlling is not only associated to the person called the controller. Controlling tasks should be performed by each manager, particularly because this shortens the reaction time to variances in plans (Horvath & Partners, 2006, p. 297). A prerequisite for a successful performance of Controlling tasks by managers is firstly, a clear definition of Controlling tasks that should be done, and secondly ways in which expert support to them is assured. Expert support to managers is one of the activities of controllers. This expert support can come from external advisors, as is particularly the case with the smaller companies.

Controlling activities that are emphasized when implementing planning activities in SMEs are mainly support with planning and managing of planning process. Key tasks of controllers during the planning process are the design and coordination of plans and budgets, while the content of plans and budgets is the responsibility of management. Planning in SMEs is essential for ensuring good management, but in practice it often happens that planning is not carried out at all. In 2004, The Institute for market research Brainstudio conducted a research on behalf of Bank Austria-Creditanstalt on 500 clients about their planning activities. The research showed that among small businesses nearly 50% of them did not have a defined planning process, and among those who carried out planning, half of them turned that job over to tax advisers (UniCredit Bank Austria, 2004).

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Tasks of controlling are all activities that enable achieving the objectives of Controlling, thereby contributing to the achievement of company objectives (Ossadnik et al., 2008, p. 18). Whether SMEs will opt for internal or external carriers of Controlling tasks, when introducing Controlling, depends on several factors (Ossadnik et al., 2008, p. 20):

- Company size (micro, small, medium), and by that on the extent of tasks in the field of Controlling,
- Whether the tasks need to be done only occasionally, i.e. are they of limited duration,
- The costs of internal and external experts in Controlling,
- Availability of professionals in the labor market,
- The desire for a neutral advisor.

There is also a possibility to perform Controlling tasks partially from within the company, and partially to engage external experts. In this case one should think about the competences that people, who perform the tasks in the field of Controlling, should have. When asked to specify important characteristics of controllers in SMEs, the respondents who themselves carried out Controlling tasks in SMEs, mentioned the following once (Ruda et al., 2008, pp. 51–53):

- Analytical thinking
- Power to persuade
- Ability to impose authority
- Social competences (ability for team work, ability for conflict solving, ability for consensus realization).

In a survey conducted by Ruda et al. (2008, pp. 50–51) all the respondents identified that reporting and variance analysis are tasks specifically designated as controller's tasks. Additionally, operative planning was identified by 78% of respondents as a controller's task, consulting/coaching by 67%, and regulating tasks, investment analysis and internal accounting by 44% of respondents.

The study by Deloitte Mittelstands-Institute showed that there is a difference in implementation of Controlling tasks between SMEs managed by their owners and managed by professional managers (Deloitte & Tausche, 2008, p. 8). Only 50% of owner-managed companies employ a person specialized for Controlling tasks compared to 90% of professionally managed SMEs. In owner-managed companies the owner-managers perform the Controlling tasks themselves in 32% of the observed cases, in 20% of cases these tasks are also done by other managers in the company, and in 6% they are done by external performers of Controlling tasks. In professionally managed companies, besides controllers, Controlling tasks are performed by different managers within the company in 38% of cases and by external professionals in 4% of the cases.

Both, scientists and experts from the practice, agree that Controlling is not a function reserved exclusively for the large companies. Empirical research confirms that controlling in SMEs provides expert support to managers, thus contributing to their disburdening, to a higher quality of managing and better performance of an enterprise. For example, in the research conducted on SMEs in Osnabrück-Emsland region in Germany, 95% of respondents confirmed that Controlling is important or very important for the success of the enterprise (Ossadnik et al., 2008, pp. 59–60). In most companies the main performers of Controlling tasks were managers (53%), additionally the Controlling tasks were also performed by Controlling departments/controllers (35%) or accounting/bookkeeping department (34%) (Ossadnik et al., 2008, pp. 67–68).

All above mentioned studies confirm that applying Controlling in SMEs is very important for their success and long-term survival on the market.

3 RESEARCH OF CONTROLLING TASKS IN SMEs IN THE VARAZDIN COUNTY

Controlling in Croatia is at a lower stage of development than in the German-speaking countries. Therefore, our research could not be as detailed when we assumed that Controlling is not applied in Croatian SMEs to the extent to which it was done in the German-speaking countries. Our objective was to get the first insight in the institutional aspects of Controlling in SMEs in Croatia. That was done through the investigation of the presence of Controlling department within SMEs and the performers of Controlling tasks in SMEs.

3.1 Hypothesis

The following hypothesis is set out in the paper: Within SMEs in Varazdin County Controlling is not present in the institutional sense, and tasks in the field of Controlling are performed by managers themselves with the help of employees in finance or accounting/ bookkeeping departments.

3.2 Selecting a sample

The study was conducted on SMEs in the Varazdin County, Croatia. To identify companies, the database of the Croatian Chamber of Economy was used². The selection criterion was the fact that the company submitted an annual financial report for the year 2008, which was taken as evidence that the company is active. According to this criterion, there were 63 medium-sized enterprises and 2280 small businesses identified in the Varazdin County. 1359 micro-enterprises were excluded from the sample, because their total annual income is under million Croatian kunas³ and in most cases there was no information about the e-mail address either. A link to the questionnaire was sent to 675 of the remaining 984 SME's who had an active e-mail address (sample consisted of 68.6% of the identified companies). The response rate was 11.85%, as 80 companies in the sample responded to the questionnaire.

3.3 Research

According to Croatian legislation, at the time of research most of the companies that responded to the questionnaire were classified as micro enterprises (Table 1). Based on that, it cannot be expected that Controlling department is present in high percentage within the investigated companies.

Table 1: Firms according to their size

Category	Total revenues in year 2008 (in Croatian kunas)	Number of firms (N=80)	Percentage
Micro	1-14 million	61	76%
Small	14-54 million	5	6%
Medium	more than 54 million	14	18%
	Total:	80	100%

² Database available at <http://www1.biznet.hr/HgkWeb/do/advsearch>.

³ Around € 130.000 which is insignificant.

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The structure of the surveyed companies by industry is shown in Table 2.

Table 2: Firms according to industry

<i>Industry</i>	<i>Number of firms (N=80)</i>	<i>Percentage</i>
Services	24	30%
Wholesale	19	24%
Production	19	24%
Construction and architecture	13	16%
Retail	5	6%
Total:	80	100%

SMEs are frequently managed by their owners. The study shows that 60 out of 80 (75%) questioned managers who responded to our questionnaire were also owners or co-owners of the companies. Additionally, there was a question for the remaining 25% of the respondents (case where the respondent is not the owner/co-owner) whether the owners/co-owners are a part of the company management. Final results show that in total, in almost 87% of the companies there is a situation of owner-managers.

Part of general questions consisted of questions about the organizational structure, whether the company is a part of a group of companies and if so in what way. The goal of the organizational structure questions was to determine how the companies built and defined their formal organizational structure, having in mind that the organizational structure affects the existence of Controlling in institutional terms. It is well known that the degree of organization's formalization is directly related to the size and complexity of companies (large and complex enterprises must have more formalized organizational structure than small businesses (Kolaković, 2006, p. 41)). Investigated companies have largely been organized by function (45%) or there was no special way of formal organization (40%) (Figure 1). Therefore, we expected that Controlling would not be significantly present in the institutional sense.

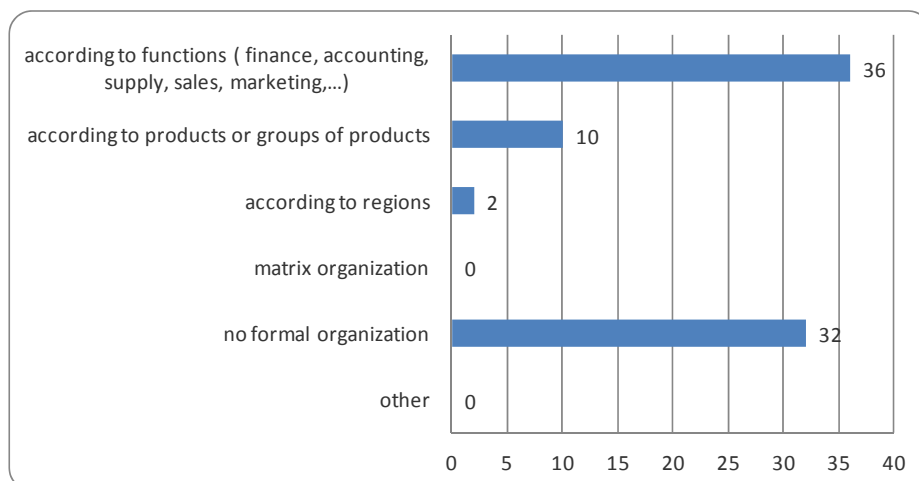


Figure 1: Formal organizational structure

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11 companies or 14% of them were a member of a group and in all the cases they operated as a subsidiary.

Moreover, the respondents were asked about the existence of accounting/bookkeeping, finance and Controlling department in the company, and the number of employees in them. The results are shown in Table 3:

- In 54% of companies there is an accounting / bookkeeping department
- 39% of companies have a finance department
- Only 11% of companies have a Controlling department.

Table 3: Number of employees in departments

<i>No. of employees per department</i>	<i>No. of firms: Accounting/ bookkeeping department (N=80)</i>	<i>Pct</i>	<i>No. of firms: finance dept. (N=80)</i>	<i>Pct</i>	<i>No. of firms: controlling dept. (N=80)</i>	<i>Pct</i>
no such department	37	46%	49	61%	71	89%
1	17	21%	18	23%	9	11%
2	4	5%	11	14%	0	0%
3	8	10%	0	0%	0	0%
4	9	11%	0	0%	0	0%
5	0	0%	2	3%	0	0%
more than 5	5	6%	0	0%	0	0%
Total:	80	100%	80	100%	80	100%

Interestingly, Controlling department only exists in 9 companies, among which five are independent companies, and four are subsidiaries. In each of them where the controlling department exists, the department itself only has one employee. Subsidiaries of larger firms are more likely to have a Controlling department, since Controlling in large companies, both in German-speaking countries and in Croatia, is highly present in the institutional sense.

Given that the size of companies is one of the factors influencing the presence of individual departments, in an institutional sense, the analysis of the absence of individual departments associated with company size (micro, small, and medium) is presented in table 4.

Table 4: Absence of certain departments depending on the size of the company

	<i>Absence of accounting dept. (N=37)</i>	<i>Pct</i>	<i>Percentage of the total No. of companies of the same size.</i>	<i>Absence of finance dept. (N=49)</i>	<i>Pct</i>	<i>Percentage of the total No. of companies of the same size.</i>	<i>Absence of Controlling dept. (N=71)</i>	<i>Pct</i>	<i>Percentage of the total No. of companies of the same size.</i>
Micro (N=61)	37	100%	61%	46	94%	75%	61	86%	100%
Small (N=5)	0	0%	0%	0	0%	0%	2	3%	40%
Medium (N=14)	0	0%	0%	3	6%	21%	8	11%	57%
Total:	37	100%	-	49	100%	-	71	100%	-

The analysis shows that all micro-enterprises, 40% of small and 57% of medium businesses do not have a Controlling department. This largely confirmed the first part of the hypothesis that "Within SMEs in Varazdin County Controlling is not present in the institutional sense".

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The results of our study coincide with the research results from the German-speaking countries, which show that the presence of Controlling in institutional sense rises with the growth of the company. The possibility for further research is to study the frequency of Controlling department presence based on SMEs segmentation according to the total revenue for the whole of Croatia.

The question that followed was about who performs the Controlling tasks within the company. It was expected that besides the management the employees from some of the above mentioned departments are responsible for the Controlling tasks at a large extent. To ease the answer to this question some of the most common tasks of Controlling were mentioned in the questionnaire (business planning, budgeting, control of plan implementation, variance analysis, cost analysis, an analysis of financial ratios etc.).

The results show (Table 5) that the tasks in the field of Controlling in SMEs are generally performed by the management (79% of cases), with the help of accounting professionals, either within the company (21%) or from external accounting services (18%), and to a lesser extent with the help of employees in Controlling (11%) or finance (11%) department. Furthermore, companies rarely use external advisers other than lawyers and bankers (Table 6) and external accounting services (Table 5). Specialized consultants, whose services are often subsidized for SMEs, as is the case with the Consultant Network Project⁴ in Croatia, could be a significant source of advice in the Controlling area, especially for the smallest companies.

Table 5: Performers of tasks in the field of controlling

<i>Tasks from the field of controlling are carried out by:</i>	<i>No. of companies N= 80</i>	<i>Percentage</i>
Management	63	79%
Employees in the accounting/bookkeeping dept.	17	21%
External accounting service	14	18%
Employees in controlling dept.	9	11%
Employees in finance dept.	9	11%
Controlling tasks are not performed in our company	1	1%

⁴ More about the project available on <http://www.hamag.hr/en/consultant-services-co-financing.html>.

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Table 6: Use of Advisory services

<i>Adviser</i>	<i>No. of companies (N=44)</i>	<i>Pct</i>
Lawyers	23	52%
Bankers	13	30%
Auditors	5	11%
State Agencies	3	7%
Croatian Chamber of Economy	3	7%
Consultants	2	5%
Faculty of Mechanical Engineering	2	5%
Local Authorities	1	2%
Tax advisers	1	2%
Accounting and Finance Associations	1	2%
Ministries	1	2%

The answers confirmed the second part of the hypothesis that "tasks in the field of Controlling are performed by managers themselves with the help of employees in the finance or accounting/ bookkeeping department".

The results clearly show that managers in SMEs in Croatia perform Controlling tasks in a higher percentage than shown in studies from the German-speaking countries. With all these additional tasks they carry a higher overall burden.

4 CONCLUSION

Successful adaptation of SMEs to the situation in the environment and overcoming internal weaknesses are essential to the success of SMEs. These can be achieved through the use of appropriate tools for planning, control and informing directed on both operational and strategic area with a professional help and support provided by Controlling and controllers. Because of specific characteristics of SMEs there are differences in the institutional aspects of Controlling between large enterprises and SMEs, meaning, differences in organization and the performers of Controlling tasks. The existence of either Controlling department or a person called 'controller' is not a necessity for every SME. Managers themselves should perform Controlling tasks to a certain extent because that shortens the reaction time in different business situations. One of the frequent characteristics of SMEs is the situation of owner-manager and the performance of Controlling tasks by managers in such a situation is even more emphasized. What managers need to have is knowledge about the business and expert help from either, controllers within the company or external advisers.

The topics that were investigated on a sample of SMEs from northwest Croatia were the existence of Controlling in the institutional sense and the carriers of Controlling tasks. The results show that Controlling is not heavily present in the institutional sense: no micro enterprise and a very low percentage of small and medium companies have Controlling departments. This topic was additionally investigated according to company size which confirmed that the institutional presence of Controlling rises with the growth of a company. This result coincides with the studies from German-speaking countries. Main performers of Controlling tasks in investigated SMEs are managers themselves. They perform these tasks with the help of the employees from accounting/bookkeeping and finance department since Controlling department is present in just several companies. Therefore it can be concluded that the hypothesis set in the paper was confirmed.

However, it is evident that managers in Croatian SMEs perform Controlling tasks in higher percentage than their German counterparts. To lower the managers' burden, additional expert consultant help should be considered. For SMEs in Croatia, a most efficient combination would be the one with an internal performer of Controlling tasks (besides management those are employees in accounting/bookkeeping or finance department if there is no Controlling department) combined with the external advising services.

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