THE THEORETHICAL APPROACH AND PRACTICE OF CONTROLLING AND BUSSINESS RISK

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Abstract
Achieving the controlling approach at the companies has the obvious advantage that it is getting easier to exactly define the strategic and operative objectives, the planning system encourages the increase of performance and the decrease of costs and it helps by comparing plan-fact data. By defining the indices and continuous monitoring it is easier to get the fact data closer to the plans, so in case of careful planning business risk can be reduced.
With the application of the controlling approach enterprises can be made economical, efficient and effective, so the activity naturally involving several risks, namely weather conditions, biological hazards, can be made more predictable. To sum up, the application of the Balanced Scorecard at the enterprises on the one hand helps short-term profitability and on the other hand designates what to do to reach long-term financial profitability and competitiveness. The objective of the research was to conduct a survey via questionnaires suitable for analysis as well as relevant deep interviews among the small and medium sized enterprises from different branches in the Carpathian Basin.

Key words: *controlling, economical, efficient, Balanced Scorecard, SMEs*

JEL Classification: *F38, G32, D81*

I. INTRODUCTION

The presence of uncertainty is one of the most important problems in running an enterprise while performing its operative duties day by day. Uncertainty can generally be connected with the lack of information and it is present in a type of risk. Véry et al. (2004) stated in their work entitled “Branch and functional controlling” they examined the possibilities of certain activities - among them the controlling solutions of the agri – branch and concluded that it was easier for the enterprises to reach their goals by implementing their planning – controlling and managing tasks. They regarded profitability, effectiveness and predictable financing as the main evaluating criteria of controlling.

Horst - Günter H. (1996) define controlling as a way of thinking in future time and the expression of needs, expectations as well as carefully planned way of thinking. Hanyec thinks the strategic way of thinking, market orientation, customer – orientation and process – orientation also appeared besides the traditional ideas such as performance evaluation, setting goals and making plans in the application of controlling, which are required by the dynamic changes of the economic environment (Hanyec, 2006). Furthermore the International Group of Controlling (IGC) in their books published in 2004 states that controlling embraces basic activities, economic, management processes as well as setting targets so it also includes such activities like assissting decision – making, analysis and regulation.

To define business performance, we have to consider the basic aim of the business unit in question, operating in Central - Europe which is to reach maximum profit by satisfying consumer demands (Hágen and Kondorosi, 2011) . Most of the statements about performance can be applied to all organisations, as there is a common aim (Seuring, 2001). The objectives and the indicators have to be derived from the mission and the strategy of the enterprise and the BSC model offers an opportunity for doing so. With the help of controlling it is easier for the enterprise to adapt to the dynamic changes of the environment thus the activity can be made: economical, efficient and successful (Harrington, 1993). „By reaching the appropriate capital efficiency the selffinancing capacity of enterprises could significantly be improved” concludes (Borszéki 2007), which is definitely advantageous for small-and medium-sized enterprises coping with lack of capital.

Setting enterprise sizes is one of the most considered research topics in economics despite the fact that there can be such problems arising in connection with setting the size. Enterprise sizes in general can be measured by input indicators (area size, number of labour force, number of livestock), output indicators (revenue, profit) or the combination of the two (revenue per hectare or revenue per worker). It would be difficult to decide, however, which indicator is better. (Fürjész, 2005).

The Standard Gross Margin (SGM) indicator is extremely important since our accession as based on EU regulations. SGM is able to compare different braches easily and in a controllable way. (Francsovics, 2005).

II. LITERATURE REVIEW

The presence of uncertainty is one of the most important problems in running an enterprise while performing its operative duties day by day. Uncertainty can generally be connected with the lack of information and it is present in a type of risk. In this sense risk does not exist without uncertainty (Hax and Majluf, 1991). Uncertainty means that the occurrence of a given situation is not exactly known therefore we do not know about the positive or negative consequences of the process.

Risk means a quantifiable positive or negative consequence of uncertainty while the occurrence itself is uncertain but its possibility is definable (Adams, 2013).

So risk is a possibility of an event to occur which has an impact on corporate objectives in a positive or negative way. Conducting risk analyses is extremely important for enterprises as by doing so we can check, analyse differences, we can avoid risks and gather information in case of small-scale enterprises (Brigham, 2013).

In case we talk about risks, that are possible damage, we often mean financial losses (Volkart, 1998). In fact, most damages can be converted into financial losses besides the variety of the place of surveying the damage, its methods, effects etc. The Table 1. shows one possible grouping of risks.

Table 1. The grouping of risks

<table>
<tr><th>Risk sources</th><th>Risk types</th><th>The effects of risks</th></tr>
<tr><td>• Trade/business connections</td><td rowspan="9">• Natural
• Economic
• Political
• Environmental
• Human
• Place of work
• Responsibility for products
• Professional responsibility
• Security
• Technical
• Market</td><td>• Financial, money-related, company assets</td></tr>
<tr><td>• Legal connections</td><td>• Incomes and other rights</td></tr>
<tr><td>• Economic environment</td><td>• Expenses</td></tr>
<tr><td>• Social impacts</td><td>• Personnel</td></tr>
<tr><td>• The phenomena of nature</td><td>• Other company employees</td></tr>
<tr><td>• Political environment</td><td>• Persons directly involved</td></tr>
<tr><td>• Technological environment</td><td>• Normal company operation, environment</td></tr>
<tr><td>• Management activity</td><td>• Nominal wealth</td></tr>
<tr><td>• The impact of individual activity</td><td>• Reactions of competitors</td></tr>
</table>

Source: Hágen, 2010

Risk management as a corporate activity is not identical with the statement if we write “what we should do if it possibly occurs”. Corporate risk management is a systematic approach based on the conscious realisation of risks and their active control so that the company could operate smoothly in harmony with business objectives and up to the expectations of the owners and everybody involved.

The objective of risk management is not necessarily the decrease or avoidance of the number of risks, rather the minimalisation of the possible effects of risks and the optimalisation of the results of business decisions by reaching and maintaining higher and higher risk awareness.

Risk management is made up by separable but continuous steps organised into a process. The organisation into a process and the regular, repetitive execution mean the main asset of risk management as all the risks cannot be surveyed even when reaching a concrete business decision or launching a commercial agreement, projects etc. (or if they can, their possibility and potential effects will continuously be changing) (Csikós and Juhász, 1997).

In our opinion risk management does not have a general model. Problems (risks) are always individual, typical as when they occur we do not know the solution. If we did, there would be no problems or risks. It is the proof that parrying risks (problems) for al enterprises means adaptability to the dynamic environmental changes, i.e. in all cases the company's ability to react in all cases will be the narrow cross-section, the key to long-term sustainable development (Kozma, 2010).

The bigger size the enterprise has, the more complicated task it is to adapt to environment as the company is in contact with its environment at a greater "surface". Controlling has a bigger role here (Man and Mayer, 1993; Horvath and Partner, 1997). The same conclusion can be drawn when increasing organisational division.

The concrete controlling tasks are decisively influenced by the size of the enterprise, the division of organisation and the peculiarity of corporate activities (Hágen and Kondorosi, 2011).

Based on the entrepreneurial experience of controlling approach I have prepared the process of corporate risk analysis and management presented by Figure 1.

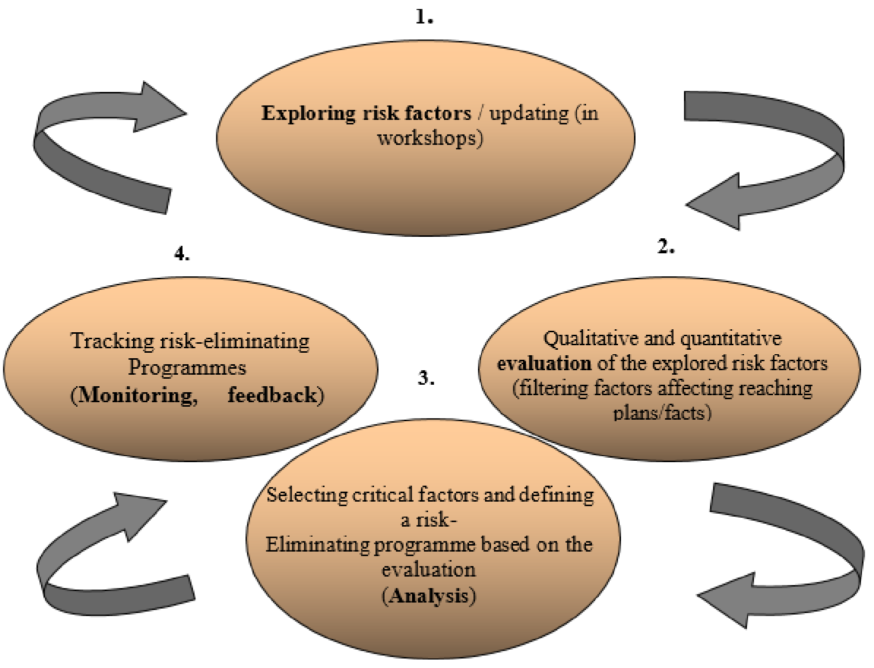

Figure 1 – The process of corporate risk analysis and management

Source: own edition 2006

As it can be seen in Figure 1, the process of risk analysis and management has four main stages:

1. Exploring risk factors.
2. The qualitative analysis of risks, selecting the critical factors and the quantitative analysis of risks above a certain limit.
3. Formulating risk-diminishing proposals to handle critical factors, the evaluation and assessment of experience, actions, and businesses.
4. Carrying on proposals, checking on implementation (performing risk-controlling activity).

It is important that risk controlling should be not only an occasional but also a continuous activity. At the end of the analysing period the effectiveness of risk managing activity should be defined.

In the Figure 2. it can be noted well that managing strategic and operating risks takes place at different levels of the business activities of small-and medium-sized enterprises. In case of agricultural enterprises the sub-division of risk factors explored while preparing the strategy is present in business planning and also at the level of projects aiming at the realisation of business plans. I mainly mean the financial resources available by means of different applications.

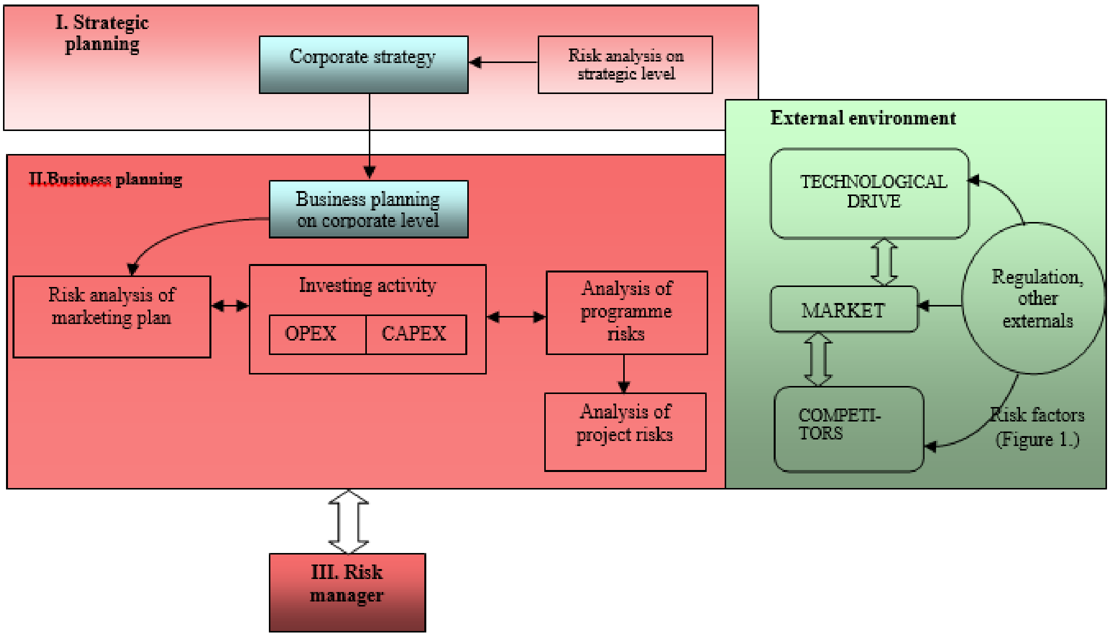

Figure 2 – Managing strategic and operating risks at small- and medium-sized enterprises
Source: Véry, 2004

At the level of creating the corporate strategy the main things to be considered are the market, technological trends, the strategy of the competitors, regulations and other externals (Hax-Majluf 1991). The application of risk analysis helps to formulate the strategic aims.

At the level of business planning corporate incomes as well as operating (OPEX) and investing (CAPEX) costs are planned (Sinkocics, 2002). The so-created model is capable to define at which level the profit expectations of owners (agricultural entrepreneurs) can be met.

This procedure can also be used when planning the operating costs. This is a fairly new area of application in risk analysis from the point of view of strategy making (Pénzes, 2013). Connecting risk analysis is justified by the fact that the capital structure of companies is being transformed in case of agricultural enterprises. Besides the visible capital units (e.g. assets), the invisible ones are gaining more and more ground such as clients (relationships with customers, suppliers), organisational capital (internal business processes), the competency of employees, responsibilities taken for employees and the different subsidies affecting agriculture. In the future the invisible capital units will be more and more highlighted (Slobodeanu and Munteanu, 2014). The risk of investing into invisible capital is higher than investing into assets. Invisible ones are e.g. investment into learning which is lost if the employee quits the enterprise before it is due. In such a case when the owner and the manager are identical, then the investment into learning will be multiplied as he makes his own profit.

At the level of accomplishing project and other tasks (executive part), generally in all cases there is a need for carrying out risk analysis. Of course, on this level the suggested methods should be filled with other contents than on the level of strategic and business planning (Pieter-Zantinge, 2008). Risk analysis carried out in different areas of small-and medium-sized enterprises is advisable to be performed by a risk manager whose task is to work out and operate a “tailor-made” system based on his own experience.

III. MATERIAL AND METHODS

The objective of our research was to conduct a number of questionnaires suitable for analysis as well as deep interviews.

During our research we carried out qualitative data collection and interview making to get the necessary amount of information to identify the problems and to establish the making of our presumptions. The interviews consisted of formal ones that means although the process is flexible and adaptive, it is also planned beforehand. It is not suitable for collecting objective numerical data but perfect for handling complex questions. We applied report as a research method in the initial phases of our empiric research to identify the problems as well as in the final part to check on the reliability of our results.

The subjects of our interviews were head of companies, middle managers and entrepreneurs. When choosing them, I took special care that all of them should be from the SME sector and also their activities should cover the wide choice of enterprises. In this sense we made interviews with agricultural entrepreneurs, commercial managers, accountants and auditors working in the service sector, manager of a construction enterprise and that of several IT companies as well as middle managers of companies from the food industry.

IV. RESULTS

After it is obvious which risks can mainly affect our enterprise, it is easier to survey if the certain risks are acceptable for the enterprise. The systematic operation of the risk management system ensures the realisation of risk factors in due time which an affect the company’s business activity, it is able to signal the alteration of the size of risks within the examined period thus it helps the effective risk management. The risk management system is advisable to be built alongside the business and management processes. In practice, it means that exploring and assessing risk factors should be performed for the certain business processes starting form management processes.

Creating the risk management system on the principles above helps accomplish a criterion that the corporate risk survey should possibly be comprehensive. Furthermore, it makes the interactions of the certain risks visible, which is extremely important in the case of the certain risk factors when quantifying its impact on corporate profit.

The objective of risk-management activity are the managers of enterprises should be aware of risks affecting certain areas- Furthermore they should make the steps necessary to reasonably diminish the explored and assessed factors. Risk management should be conducted consciously by surveying the possibilities and threats of risks as well as it should consider the interests and safety of the clients, partners and employees of the enterprise.

When applying risk controlling it is clearer to see the risk situation of the given enterprise, decision making is faster and more effective, planning can be made conscious furthermore difficulties can be made known in a broader sense. The origin of the Balanced Scorecard dates back to 1990 when the Nolan Norton Institute – the research institute of KPMG – participated in creating a one-year-long study entitled “The performance evaluation of future organisations” involving several companies. The study was motivated by the belief that the present performance assessing approaches based primarily on financial indices were old-fashioned. (Kaplan and Norton, 2002)

At the beginning of the project case studies about innovative performance assessing systems were analysed. One of the cases showed an approach that measured the development rate of activities aiming at continuous innovation. This case also described the application of a newly formed “Corporate Scorecard” that included performance indices connected to the quality and duration of production as well as the efficiency of product development besides several traditional financial indices.

Group discussions led to the expansion of the scorecard so the so-called “Balanced Scorecard” was established. This scorecard centres around four distinctive points of view, which are the following: financial performance, customers, operating processes, innovation and learning. „Balanced” means that balance should be created among the short-and long-term indices, the financial and non-financial indices, the subsequent and forecasting indices and the external and internal performance units. Several participants tried to create a prototype of the Balanced Scorecard at their own companies and after that they related their experience. The final paper summarised the feasibility and advantages of a BSC-based performance assessing system in December 1990.

The Figure 3. presents the connection between the certain points of view of the BSC. Mission and strategy are in the centre of the system of connections.

Companies could reach outstanding results by applying the BSC as they regarded it not only a surveying system but also they used it to mediate the new strategy and harmonise the organisation with this new strategy. They wanted a shift from the old strategy aiming at reducing costs in the short run and carrying out price competition to such an approach where the main point is creating growth possibilities by taking corporate peculiarities into consideration and offering products of great added value and services to their customers.

The Renaissance Solutions Inc. (RSI) is an enterprise dealing with strategic counselling using BSC to help companies make their strategies more exact and implement them. The 20-25 indices of the four points of view create an opportunity to communicate to a given strategy as well as to help its execution. So, in spite of regarding the indices as if they should require complicated conversions, the strategic links make it possible that the scorecard indices connect through the correlations of causes and results. The complexity of these connections describes the strategic goal how the investment in retraining employees, information systems and innovative products, services could radically improve financial performance in the future.

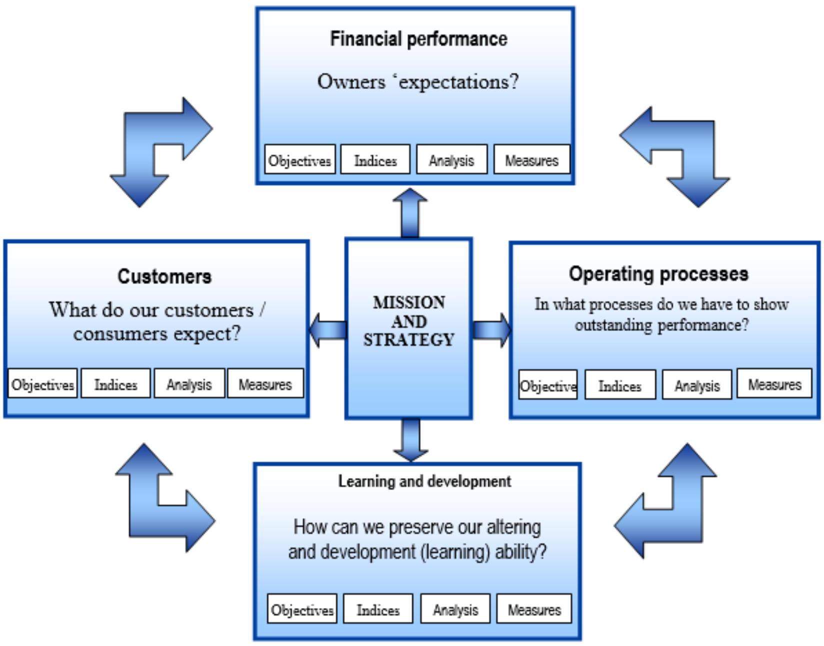

Figure 3 – The breakdown of strategy into operative objectives by using the Balanced Scorecard
Source: Kaplan-Norton, 1998

When connecting the Balanced Scorecard to the corporate strategy the following questions should be answered:
How can we create such a BSC which is able to turn the strategy into the suitable indices?
There are three principles which make it possible to connect the BSC of the company to the strategy:
1. exploring the connections between causes and effects,
2. building in performance intensifiers,
3. establishing a connection with the financial indices.

Strategy in fact is the collection of hypotheses about the connections between causes and effects. The connections between causes and effects can be expressed by the series of "if…then" statements. With the help of an appropriately built chain of such cause-effect connections of the BSC we can make a clear picture of the strategy of the business unit. The performance assessing system has to clearly define the connections (hypotheses) between the objectives and indices of the different points of view, thus ensuring their proper handling and assessment. The BSC has to identify and exactly express the hypotheses that refer to the cause-effect connections between the result indices and the performance intensifiers of the results. Every single index shown by the Balanced Scorecard is part of a cause-effect chain that communicates the main points of the business unit strategy to the organisation.

A good BSC has to contain result indices (subsequent indicators) and performance intensifiers (forecasting indicators) in a good proportion which are typical of the business unit strategy.

The general indices are primarily subsequent, preliminary indicators such as profitability, market share, customer satisfaction, the proportion of retained customers or the indices about defining the employees' ability. Performance intensifiers reflect the typical features of corporate strategy. The following ones can be listed among the factors having the most impact on profitability: relevant market segment, objectives in connection with the single operative processes, learning and development which play the most important part in the company's rendering a real value to its concrete target groups and market segments. The best changing programmes typical of the organisation highlight quality, customer satisfaction, innovation or selecting employees.

Therefore, BSC has to emphasise the results with special regard to financial results including return on operating capital and value added. The mistake that programmes aiming at performing Total Quality Management, reducing checking time, reengineering or selecting employees are not linked to results directly affecting customers thus contributing to improving future results must not be made.

V. CONCLUSIONS

Enterprises can only achieve their goals by applying the controlling model, i.e. increase their performance if report is made in compliance with the goals set. With the change in the conditions of competition, another criterion of gaining a competitive edge for the enterprises is that all the units and employees of the enterprise should contribute to the successful operation.

To sum up, the application of the Balanced Scorecard at the enterprises on one hand helps short-term profitability furthermore designates what to do to reach long-term financial profitability and easier to exactly define the strategic and operative objectives, the planning system encourages the increase of performance and the decrease of costs and it helps by comparing plan-fact data. By defining the indices and continuous monitoring it is easier to get the fact data closer to the plans, so in case of careful planning business risk can be reduced if plans are continuously made four years ahead taking periodicity into account.

Implementing the controlling system is also possible in case of small-scale enterprises, what is more, it even has advantages. Of course, it does not mean that small-scale enterprises are compelled to build a system of the same size and depth as in the case of big enterprises. We must consider the peculiarities and problematic areas of the enterprise on which the controlling system should be built and the human capital, their qualification, number should also be examined to see if it is worth creating a real "controlling department" or it is more profitable to assign controlling tasks to the present functions. With the application of the controlling approach enterprises can be made economical, efficient and effective, so the activity naturally involving several risks, namely weather conditions, biological hazards, can be made more predictable.

VI. ACKNOWLEDGMENT

This paper was supported by the János Bólyai Research Scholarship of the Hungarian Academy of Sciences.

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