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The Role of Controlling for the Development of Planning, Information and Reporting Systems in SMEs**Abstract:**

In this paper we analyze the application of Controlling in Croatian SMEs by investigating the development of Planning, Information and Reporting Systems. Controlling is an English term mostly used in the German-speaking countries (but also in Croatia) describing the field that would in international discourse be labeled as management accounting. Our research takes into consideration the specifics of Croatian companies, emphasizing the fact that the development of Controlling in Croatia is in the early stages compared to the German-speaking countries. The level of development of planning, information and reporting systems was investigated for the following reason: when Controlling is introduced into SMEs the emphasis should be on the preparation of information necessary for the management, and on the use of appropriate methods and instruments of Controlling. The design of planning, information, and reporting system enables that.

Keywords - Management Accounting; Controlling; SMEs; Planning; Informing; Reporting
JEL classification – M41, M49

I. INTRODUCTION

Small and medium-size enterprises (SMEs) are the backbone of most world economies. According to the data from the year 2005, 99.8% of all enterprises in the EU-27 were classified as SMEs (data excluding financial institutions). They employed about 67.1% of the total labor force and generated 57.6% of added value [Schmieman, 2008, p.2]. The situation is almost identical in the Republic of Croatia. According to the analysis done by The Croatian Financial Agency⁷ and The Croatian Chamber of Economy⁸, in 2009 there were almost 91 000 small businesses (companies) and they represented 99.5% of all businesses in the

⁷ Details about The Financial Agency available on <http://www.fina.hr/Default.aspx?sec=1134>

⁸ Details about The Croatian Chamber of Economy on <http://www.hgk.hr/>

Republic of Croatia, they employed 66% (about 587 000) employees and participated with 57.72% in the total profit of all businesses [Croatian Chamber of Economy, 2010, p.5].

As can be seen from the data, SMEs are of high importance in every country and the world as a whole and that is the reason for a growing interest in investigating the problems they face. By identifying the problems we can detect ways in which these problems can be reduced or fully overcome and through that increase the sustainability and development of SMEs. The information about the number of companies that have experienced failure and bankruptcy clearly shows the presence of problems in SMEs. Information about businesses in Europe shows that a lot of new businesses are being created, but many of them fail within 5 years. For example, from the companies that were founded in year 2000 only 51% survived until year 2005 (data relating to the 10 EU member states for which data was available) [Schrör, 2008, p.4]. The reasons for this are not only globalization, structural and conjuncture changes, but also the mistakes done by the management.

We highlight some of the examples of management failure in SMEs:

- Bad product or service policy that leads to weak demand for products or services of the company - if the company does not constantly innovate its products or services, it can hardly survive in the market.
- Bad product placement, and poor pricing policy - for a good price policy it is very important to accurately track the costs of a product or service, which is often not the case for small businesses.
- Lack of capital - many entrepreneurs enter into business not considering that a certain level of business activity brings with it the need for working capital so that the business process could proceed unhindered. Commercial banks are not particularly interested in funding start-ups and alternative funding sources are often unavailable.
- Lack of business plans - many SMEs do not implement planning, which means they do not clearly define the objectives of the enterprise.

Michael Ames states, in his book *Small Business Management*, the following reasons that cause the collapse of small businesses [U.S. Small Business Administration]:

- Lack of experience
- Poor location
- Bad inventory management
- Over-investment in fixed assets
- Bad agreements with suppliers
- Personal use of company funds
- Unexpected growth.

All these reasons of small business collapse represent the inner framework conditions, i.e. an internal impetus for the development of management accounting (Controlling) in SMEs. Significant external stimulus to the development of Controlling in SMEs is their higher sensitivity to market changes compared to the large companies, which exposes them to greater pressure to adapt to the market. 'Controlling' is a term borrowed from English, used in German-speaking countries⁹ and comprising "most tasks that would be considered in international discourse as management accounting tasks" [Becker, Messner, 2005, p.418]. More precisely, management accounting issues in German-speaking countries fall into two categories: (1) "Kostenrechnung" (cost accounting) or "Interne Unternehmensrechnung" (internal accounting); and (2) "Controlling" inspired by what controllers do [Wagenhofer, 2006, p.1-2]. Many companies in German-speaking countries have Controlling

⁹ German-speaking countries refers to Germany, Austria and part of Switzerland

institutionalized [Osmanagic Bedenik, 2007, p.47] and in Croatia this practice is followed as well, so that many large companies have their own Controlling departments. Research conducted in the year 2007 showed that 74% of large companies in Croatia had Controlling as an organizational unit [Osmanagic Bedenik, 2007, p.54] compared to year 2001 when only 53% of large companies had it.

Controlling as a function is defined by Horváth as "the management subsystem that system-formable and system-bindingly coordinates planning and control system, and information system towards the goal of result achievement and thus supports the adaptation and coordination of the entire management system" [Horváth, 2006, p.134]. Weber and Schäffer define Controlling as "a special management function that is carried out by different persons - including, but not limited to controllers" [Weber, Schäffer, 2006, p.1].

A survey of "Controlling" practice in small- and medium-sized enterprises in the Varazdin County (Northwest Croatia) was conducted in the period from December 2009 to February 2010. The objective of the survey was the insight into the current state of Controlling in SME's through the analysis of:

- The level of the development of planning, information and reporting systems
- The most important sources of information for management
- The initiative for the development of information systems and reporting in SMEs.

The data are processed using the methods of analysis and synthesis, induction and deduction and description. The data are also analyzed by descriptive statistics.

II. CONTROLLING IN SMEs

A. Need for Controlling in SMEs

Large enterprises are managed by professional managers and this leads to the agency problems i.e. to the problem of asymmetric information between owners and managers. Large enterprises are also characterized by a decentralized management and by allocation of responsibility. On the other side SMEs are characterized by strong centralization of management and decision making because they are usually managed by the owners. Therefore, we talk about the concept of owner-managers meaning that the entrepreneur is at the same time also the manager.

At the beginning of operations the entrepreneur is focused on innovation, creativity and risk-taking, while with the gradual growth of enterprise, management functions are becoming increasingly important, so that the entrepreneur step by step has to transform into a manager [Skrtic, 2006, p.86-87]. The ideal manager "that could perform all management functions such as planning, organizing and stewardship" [Skrtic, 2006, p.85] does not exist. While the company and the number of transactions are small, it is possible to manage based on personal instruction and to do informal control of business, all by the owner-manager. With the growth of a company and increase in the number of transactions, the need for delegation of responsibility and control rises, i.e. the need for the formation of a management team rises. In practice, it happens that a large number of SMEs collapses just in the development stage since an entrepreneur himself "cannot at the stage of increasing demand and growing business problems independently deal with the growing problems of markets, finance, manufacturing, competition, etc." [Skrtic, 2006, p.81]. The owner is increasingly becoming a manager responsible for the management of those areas for which he has no necessary skills, which then leads to the emergence of business crises. Coordination, exclusively through personal instruction is no longer appropriate management mechanism because, although this mechanism reflects the flexibility as an important characteristic of SMEs, a manager who is overloaded is not able to make optimal decisions. Management mechanism, like additional

coordination through plans, can significantly relieve management of their overburdening. Therefore, the development of a planning system in the enterprise becomes a necessity. This is where Controlling and controllers can be of assistance. The manager is the one who manages and leads, and the controller offers him expert assistance. The manager is responsible for the result and the controller for the transparency of the result, where the Controlling is “a process of planning and control oriented towards goal achievement” resulting from the cooperation of manager and controller [Internationaler Controller Verein]. It is often seen in SMEs that the existence of a person exclusively "responsible" for Controlling or existence of a Controlling department is not necessary, but what is important is the philosophy of Controlling and the introduction and use of the Controlling instruments. [Osmanagic Bedenik, 2005, p.116]

B. Introduction of Controlling in SMEs and related literature

SMEs face many challenges in their operations. Research conducted in the EU member states during February and March 2008 (Figure 1) shows that entrepreneurs mostly encounter administrative and regulatory obstacles, problems related with the access to finance, problems related to taxation, lack of skills and problems with the access to public procurement [European Commission, 2008, p.2].

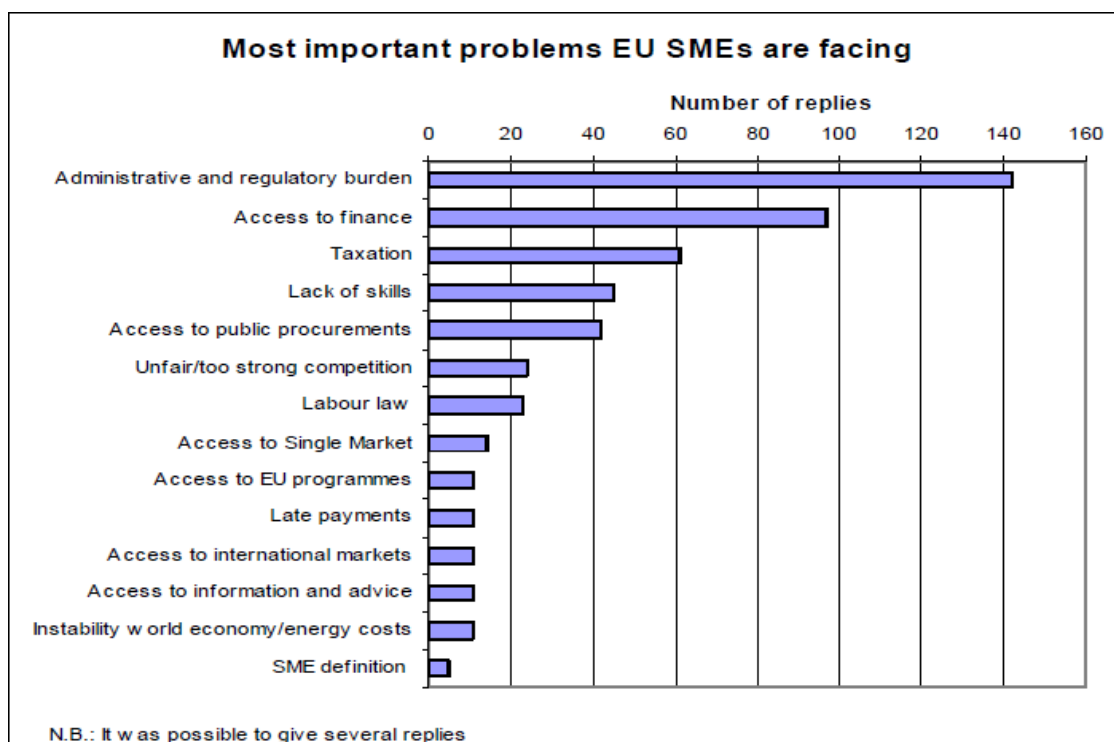


Figure 1. Most important problems EU SMEs are facing [EC, 2008.p.2]

When internal sources of finance are no longer sufficient, the owners of SMEs do not go to the capital market because they do not want any change in the ownership structure nor loss of independence. The need for extra finance in the phase of development and growth is mostly solved by bank loans. On the other hand, the banks are not always ready to credit viable SMEs when they need it because of the following reasons [Audretsch et al., 2009, p.34]:

- Lack of a track record,
- Inadequate security,
- Breach of a threshold limit,

- A credit rating outside an acceptable range.

To be able to assess the riskiness of a client, the banks have a need for different types of information. The prompt delivery of business related documentation such as the delivery of quarterly reports is positively evaluated. However, companies should strive to prepare information about the future of their business as well as information about potential risks and measures for their elimination or reduction. Research conducted in banks in 2005 related to Basel II showed that two thirds of banks would require more information from the client, with one of the requests being the presentation by SMEs of financial planning data or a business plan [European Commission, Enterprise and Industry, 2005, p.21]. Preparation of a business plan and other reports is possible if there are quality information and reporting systems in the enterprise.

When introducing Controlling in SME the emphasis should be on the preparation of information necessary for the management, as well as on the use of appropriate methods and instruments through the design of information, planning and control systems. Controlling acceptance will depend on the understandability of prepared information and methods used [Ossadnik et al., 2008, p.23]. Controlling system for SMEs should be simple and cost efficient and the steps that enable this are [according to Horváth, 1980, in Ossadnik et al., 2008, p.116]:

- Development of management oriented accounting system
- Development of planning and control system
- Development of appropriate information and reporting system
- Organizational placement of Controlling system

Design of information and reporting system is one of the fundamental tasks of Controlling. The goal of the system is to provide necessary information for managing purposes at right time with the reasonable costs. To make this possible, it is necessary to gather a variety of relevant information from the overall supply of information and to present them in a form of understandable reports to the management. Information is collected based on the knowledge about managers' demand for information, and the managers demand is based on the needs which depend on business problems. In SMEs, particularly in those characterized by the situation of owner-managers, information and reporting system is poorly developed. Owner-managers have strong entrepreneurial spirit and all the essential information about the company are held in their minds. Research in 2008 in Germany by Deloitte Mittelstandsinstitut found that small businesses with an annual revenues up to € 6 million only in 13% of cases have developed management information system (MIS), while companies with annual revenues up to € 60 million in 55% of cases [Delloite&Tousche, 2008, p.16]. The same situation i.e. developed MIS at 55% of companies was with the middle enterprises with annual revenues between €60 and 600 million.

One of essential information systems is accounting information system. Small businesses often do not have accountants within the firm but use the services of external accounting firms for financial accounting purposes. Many owner-managers of such firms have trouble understanding the information contained in mandatory financial statements. That was confirmed for example by the research in 1998 in the UK (South Wales) on 15 small firms characterized by the situation of owner-manager [Marriott, Marriott, 2000, p.486]. In such a situation, where the low level of economic knowledge of owner-manager is evident, it is difficult to expect a manager's incentive for the development of an information and reporting system. A possible solution is the education of entrepreneurs, since ongoing education is considered to be a crucial factor for better performance and greater survival of SMEs.

Financial Accounting, as a source of information for Controlling in SMEs, is usually not utilized enough due to lack of time/people, although it provides very useful information about the company. A better use of that information is the first step in the introduction of Controlling in SMEs. What is relatively easy to do, is the following:

- Analysis and interpretation of data from the mandatory financial statements,
- Calculation of specific financial indicators on a monthly basis, based on the data from financial accounting, and
- Regular monitoring of liquidity, profitability, etc.

The step that follows is more precise and clearer identification of costs, because it is often the case that until the introduction of the Controlling, managing was mostly based on intuition and experience of the owner-managers. Clear information about the costs and additionally the use of other internal and external sources of information will enable the implementation of planning.

Design of planning and control systems is the next step. Planning begins by defining objectives. The basis for quantifying the target it wants to achieve, at a time when companies operate in a highly dynamic environment, should not only be the information obtained from the accounting. Planning is closely linked to the control of the achieved goals, and the variance analysis contributes to the increasing of knowledge for management purposes.

Finally, it is necessary to establish a meaningful system of reporting, which is capable to present all the information in the appropriate format to the management. These tasks can be successfully carried out with the selection and use of appropriate instruments of strategic and operational Controlling.

III. RELATED RESEARCH

Studies about Controlling in large enterprises in the Republic of Croatia were conducted in years 2001 and 2007 by Nidzara Osmanagic-Bedenik. To the best of our knowledge, there was no similar research aimed specially at Controlling in SMEs in Croatia. At the European level, the situation is different. Many studies on the practice of Controlling in SMEs have been conducted in German-speaking countries, which indicate the importance of Controlling for their business. The most common subjects of research are tasks and instruments of Controlling that companies utilize.

Usually large empirical researches based on questionnaires are done in order to investigate which tasks controllers perform in practice. Empirical research on the key tasks of controllers in a number of countries have led to the conclusion that, although the tasks of controllers in practice vary between different countries and even between different companies within the same country, there are several key tasks that are set aside and are common to all [Weber, Schäffer, 2006, p.13]:

- Shaping the planning process,
- Control of the goals achievement,
- Supply of the management with information needed to manage,
- Business support to the management.

Research conducted at the end of 2002 in the region Osnabrück-Emsland in Germany, showed the dominance of classic operational tasks of Controlling in SMEs of this region. As the most important tasks of Controlling the respondents pointed out the following [Ossadnik et al., 2008, p.54-55]:

- Developing and building a system of planning and control
- Comparison of plans and realization

- Current adjustment of planning, control and reporting systems
- Identification of weak points in the company

Predominantly used Controlling instruments were related to liquidity and costs tracing. Strategic Controlling instruments were used extremely rarely, and one of them, product life-cycle analysis, was not used at all.

According to a study conducted in 2004 in Germany only 21% of SMEs had its own Controlling department, while in 70% of SMEs, the company's management performed the Controlling tasks besides all other tasks they did [Berens et al., 2005, p.187]. The study also showed that with the growth of the company, the number of those companies which have their own Controlling department rises, thus reducing management participation in carrying out the tasks of Controlling.

Research conducted on SMEs in the northwest Germany in 2006 covered, among others, the following areas of Controlling: cost accounting, controlling institutionalization, planning and reporting [Wilken, 2007]. The analysis showed that Controlling is firmly established in SMEs, but there is relatively weak application of modern Controlling instruments. Cost accounting was used by 83% of surveyed companies, 10% of surveyed companies had a special cost accounting department, but in most companies cost accounting was part of the (financial) accounting department, and the most commonly used tools were spreadsheets (like Excel). The most commonly used cost accounting system was full costing so it appears that the advantage of modern cost accounting systems was still not widely recognized. In 30% of the companies Controlling was subordinated to the department of accounting, while in 38% of the companies Controlling had its own position in the company organization.

In a survey conducted in Germany in the period from 2003 to 2006, the respondents indicated that the following tasks were specifically designated as controller tasks in SMEs [Ruda et al., 2008, p. 50-51]:

- Reporting and variance analysis (in 100% of responses),
- Operative planning (in 78% of responses),
- Consulting and regulatory tasks (in 67% of responses),
- Investment analysis and internal accounting (in 44% of responses).

All the aforementioned studies show some similarities, for example they show that the presence of Controlling departments in institutional terms increases with the growth of companies. Furthermore, they show that operative Controlling instruments are not sufficiently applied, particularly in smaller companies, and that there is a limited use of instruments of strategic Controlling in all analyzed companies regardless of their size. All the studies have shown that there is still considerable scope for the development of Controlling in SMEs.

IV. RESEARCH AND ANALYSIS

The abovementioned studies on the status and development of Controlling in SMEs in Germany were in part used as guidance in defining the research conducted within this paper. Our research has taken into consideration the specifics of Croatian companies, emphasizing the fact that the development of Controlling in Croatia is in the early stages compared to the status in the German-speaking countries. Therefore, since we assumed that prerequisites, such as sufficient development of planning, information and reporting systems, are not fulfilled in Croatian companies, it was not possible to make such a detailed investigation of Controlling instruments and controllers' tasks.

The research of "Controlling" practice in SMEs in Varazdin County was conducted through a survey available on the Internet since there is a higher likelihood of filling out online surveys. The questions in a questionnaire were mostly closed ended, which means that the participants responded by choosing only one response or choosing between one or more answers. The

emphasis was on the closed questions for better comparability of results. Part of the questions in the survey was focused on the confirmation of certain characteristics and specificities of SMEs. The survey was intended for managers of SMEs.

Questionnaire consisted of several groups of questions. The first group was related to the general information, followed by questions about experience, the planning (budgeting) and control system, partial plans that are the result of the process of business planning, information and reporting system, the most important sources of information, the means used for the preparation of the information and the reports that are used for managing purposes.

A. Hypotheses

The following hypotheses are set out in the paper:

H.1 Planning, information and reporting systems are inadequately developed in most SMEs in Croatia. Most important sources of information for management are mandatory annual and quarterly financial statements, which leads to the dominance of management based on the intuition.

H.2. Accounting professionals (within the company/external accounting services) focus on the mandatory financial statements and do not initiate the preparation of additional reports that are to be presented to the management, despite the needs of SMEs for more developed internal reporting systems.

B. 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 used¹⁰. 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 kunas¹¹ 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.

C. General information

According to Croatian legislation, at the time of research most of the companies that responded to the questionnaire were classified as micro enterprises (Table I).

TABLE I. 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%

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

¹⁰ Database available at <http://www1.biznet.hr/HgkWeb/do/advsearch>

¹¹ Around € 130.000 which is insignificant

TABLE II. Firms according to industry

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

Since the study was intended for managers, in order to check whether a competent person was answering the questions, the participants had to indicate their function in the company and whether they are owners/co-owners of the companies. According to the function in the enterprise, in 97.5% of the cases the respondents had a management positions. Two respondents indicated that the tasks they perform and the function they have in the company was not directly quoted. Out of the 80 respondents, 60 of them (75%) were also the owners /co-owners of the companies in question.

One of the characteristics of SME's is that in many cases they are managed by their owners. In our research we wanted to find out whether and to what extent the owners/co-owners are the part of the company management in the Varazdin County, Croatia (in case that the respondent is not the owner/co-owner). Final results show that altogether in almost 87% of companies there is the situation of owner-managers.

SMEs are mainly managed by the owner-manager or by a small management team, so in order to confirm this assumption we asked how many members does the company management consist of. In 86% of enterprises management consists of up to 4 members, and in 34% of businesses only one person is making all the important decisions for the company. It is evident that in most cases the operations and success of the company is in the hands of one person or a small team, and all depends on their competencies and characteristics.

D. Managerial experience

Managerial decisions should be largely based on facts, but sometimes it is necessary to use the manager's intuition, especially when you urgently need to make a decision. In assessing the foundation of their decisions the majority of respondents i.e. 73% felt that their decisions are based equally on both intuition and facts (Figure 2).

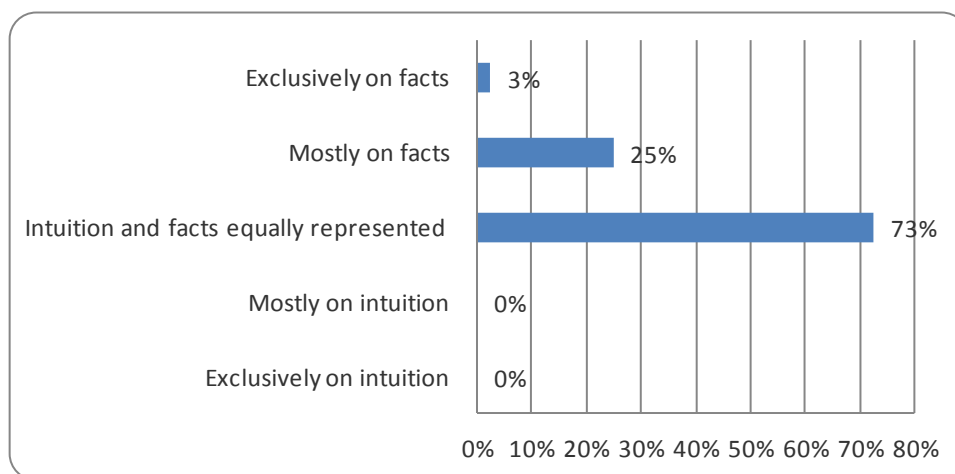


Figure 2. Basis for decision making in SMEs

E. Planning and control

The group of questions that followed was related to the planning and control of the plans realization.

Planning is considered to be an important factor in the success of businesses. Out of 80 respondents, 13% indicated that they do not carry out planning in any form. These companies were able to list several reasons why they do not plan. The following answers were given:

- We believe that plans do not bring us any benefits
- We do not have enough information to implement the planning
- We do not have enough people to implement the planning
- We do not have experience in planning
- It is too expensive.

Companies were able to express other reasons for not planning. What is interesting is that the companies' argument for not planning is that they believe plans do not bring them any benefits, so they do not bother making them.

In most of the surveyed companies, 87% of them, planning is to certain extent formally implemented. Among the companies that do plan:

- 51% of companies have defined the planning process, while 49% of the companies have not
- 83% of them also plan measures to achieve the goals, while the remaining 17% does not
- 80% of companies have centralized planning (everything is done in one place), while 20% of companies have decentralized planning (by areas/departments)
- 91% of companies control the implementation of plans, meaning they compare plan and realization and analyze the differences.

Plans are usually short-term since operational planning prevails. In 60 % of companies this is the only planning that is done. Planning that also encompasses mid-term (1 to 5 years) is implemented in 40% of companies that do plan. Strategic planning is something that has not yet been properly considered.

Business planning consists of several steps i.e. several partial plans of operational plan are being compiled which enables the compilation of budgeted financial reports. There was a selection of different partial plans, and respondents if compiling some of them should have specified how often they compile them (Figure 3). Most companies prepare sales budget (80%) and the projected cash flow statement (74,29 %).

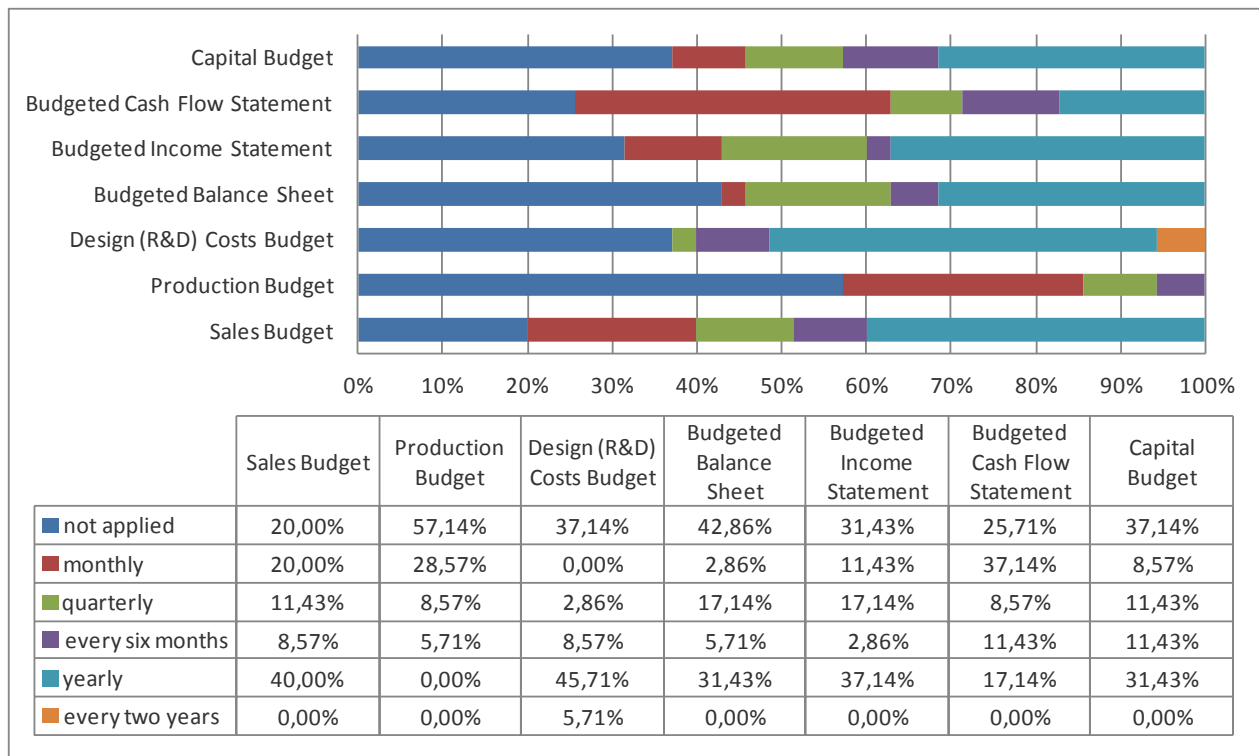


Figure 3. Partial budgets that are results of planning process in SMEs

Production budget and budgeted cash flow statement if compiled, is done on a monthly basis; other plans if prepared are mostly made on an annual basis.

Based on all the answers and analysis it can be concluded that the first part of hypothesis 1, planning system in most businesses is not adequately developed, is confirmed.

F. Informing and reporting

One group of questions focused on informing and reporting in the company. Development of accounting information systems gives an indication of the development of information and reporting systems in SMEs, since accounting in many small and medium enterprises is the only place where information about the business is collected and processed.

Ease of preparation, availability and frequency of compiling information for management can be significantly improved by using information and communication technology. Today, all companies use computers, and the use of accounting software is widespread. Such programs allow the creation of a variety of information. Among the respondents, 64% of them use accounting software. Some of them perform their accounting tasks completely independent (34 firms, or 67%), while the remaining 33% also use external accounting services (Table III).

TABLE III. Use of accounting software and external accountants' services

Do you use accounting software within the company?	No. of companies (N=80)	Pct	Do you have a person carrying out the accounting tasks employed within the company (bookkeeping, financial statements preparation)?	No. of companies (N=80)	Pct
Yes	51	64%	All accounting tasks are carried out within the	34	43%

No	29	36%	company (we do not have external accountants) Part of accounting tasks are carried out within the company (we also have external accountants)	17	21%
			All accounting tasks are carried out by external accountants	29	36%
Total:	80	100%		80	100%

The focus of the accounting professionals in 54% of the cases is on the statutory financial statements (Table IV).

TABLE IV. Initiative for preparation of additional management reports

Do your accounting experts (within the company/ external accounting service) show the initiative for preparation of additional reports for the management or are they just focused on statutory financial statements?	No. of companies (N=80)	Percentage
They are focused on statutory financial statements and show no initiative for the preparation of additional reports for the management	43	54%
They show certain initiative for the preparation of additional reports for the management	25	31%
They regularly initiate the prepare additional reports for the management	12	15%
Total:	80	100%

Additional reports for management are prepared regularly in only 15% of the companies, although in 79% of the cases respondents think that additional reports facilitate (would facilitate) managing of the company (Table V), and those who use the services of external accountants in 54% of the cases would be willing to pay an additional fee for this service. These results show that managers in SMEs recognize the need for the development of information and reporting system.

TABLE V. Usefulness of additional reports for management

Do you consider that preparation of additional reports for management facilitates (would facilitate) managing the company?	No. of companies (N=80)	Percentage
Yes	63	79%
No	17	21%
Total:	80	100%

The fact that more than half of accounting experts is focused on mandatory reporting, and normally does not initiate the preparation of additional reports for management, confirms the hypothesis 2 that "accounting professionals (within the company/ external accounting services) focus on the mandatory financial statements and do not initiate the preparation of additional reports that are to be presented to the management, despite the needs of SMEs for

more developed internal reporting systems". The impetus for further research may be the search for reasons of such a weak initiative. We assume that one reason is the burden of extra work to the financial accounting job, the other reason are scarce technical resources they possess (software support), and the third one is the increased costs that additional services would cause (the need to recruit new employees, to buy new software).

G. Sources of information for management and the means used for the preparation of the information

The fifth group of questions was related to sources of information for management and frequency of use of individual sources. The most used information is from financial accounting (in 96,25% of answers), information from other areas of business such as supply, production, sales, marketing, finance is used often as well (in 86,25% of answers), as is the information from external sources (in 86,25% of answers).

When we only observe the regular use of information, then the information from financial accounting is used by 88,75% of respondents on a regular basis, the information from other areas of business is used by 77,5%, and external information sources are used by 35% of respondents (Figure 4).

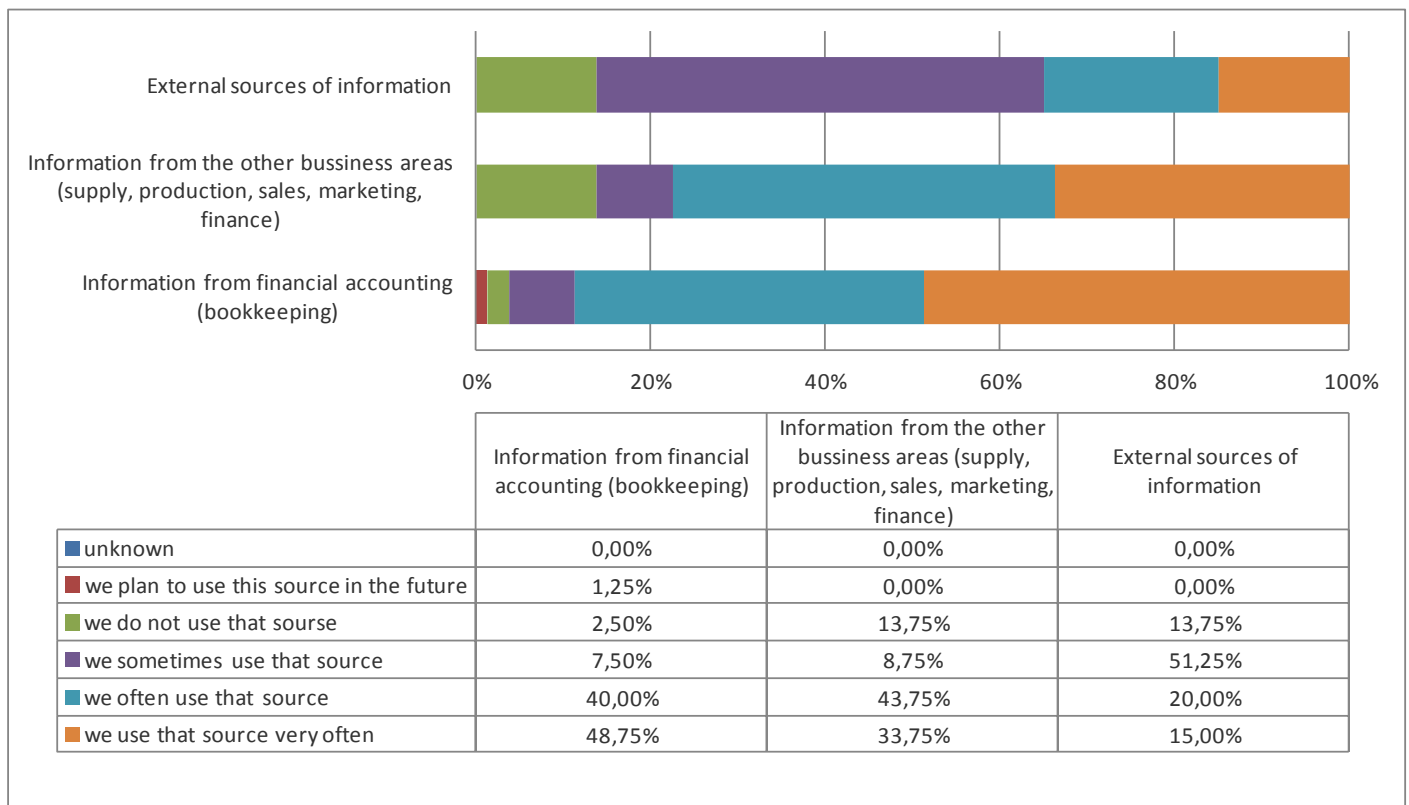


Figure 4. Frequency of use of different sources of information for management

Regarding the use of information and communication technology that can significantly facilitate the preparation of the information required for the management, the results indicate that software solutions are rarely used. The results show that operative planning software is used by 17,5% of companies, strategic planning software by 5%, cost accounting software by 41,25%, risk management software by 6,25% and reporting software by 33,75%, respectively. Decentralized systems i.e. spreadsheets such as Excel are used most often (95% of respondents uses them).

With regard to the frequency of use, 75% of the companies use decentralized systems for the preparation of information, only 27,5% of companies use appropriate software for reporting and 27,5% of the companies use cost accounting software (Figure 5) very often or often.

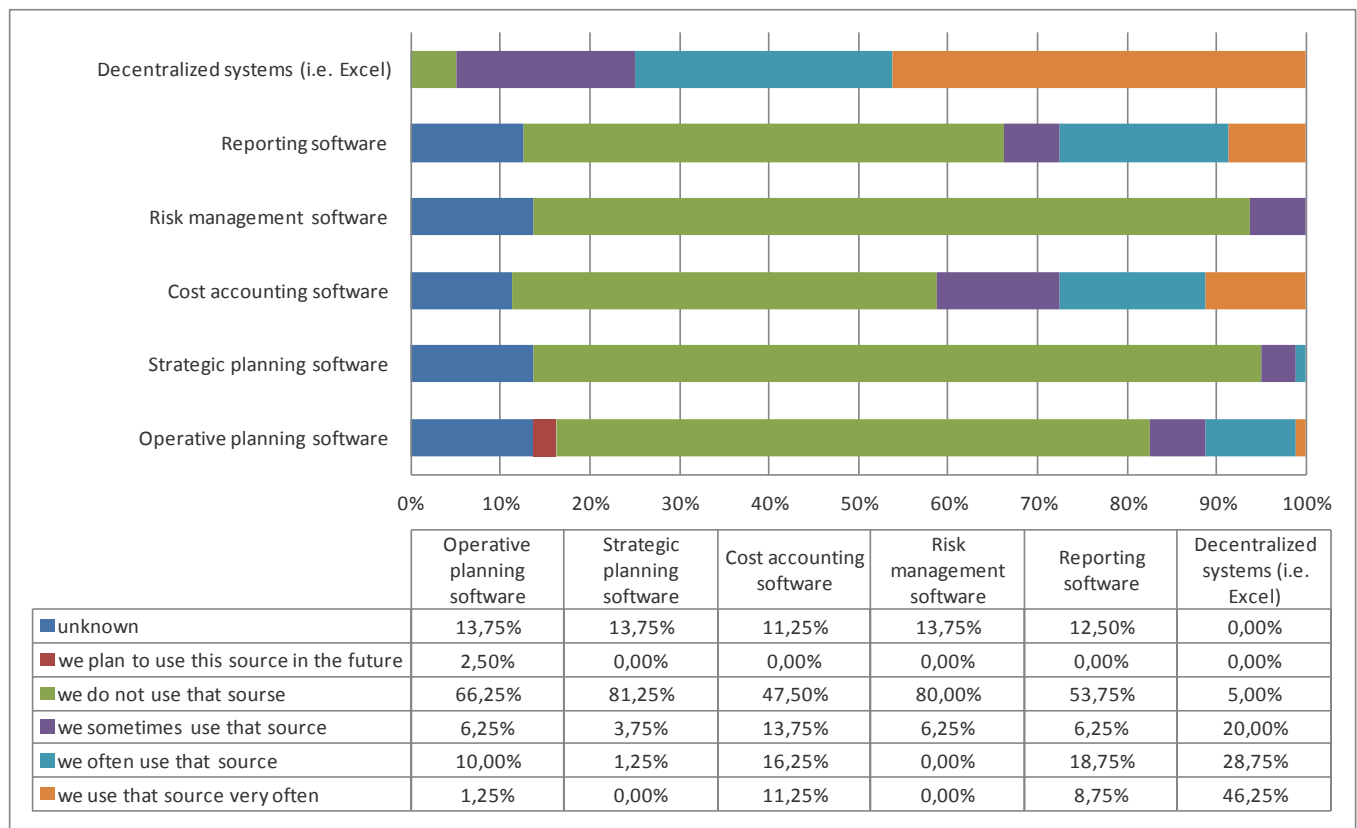


Figure 5. Frequency of use of ICT technology solutions

H. Reports for management and evaluation of their usefulness

The questions that followed were about the use of certain reports as a basis for managing and assessment of their usefulness. For that purpose, mandatory annual financial statements are used by all companies, bank statements are used in a very high percentage of companies (98,75%), mandatory quarterly statistical reports are used by 96,25% of the companies and reports on VAT by 93,75%. These reports are also the reports rated as the most useful once (Figure 6). Special yearly reports for management are used by 82,5% of companies, monthly/quarterly reports for management by 73,75%, reports published by the Croatian Chamber of Economy by 48,75% and reports published by Croatian Bureau of Statistics by 43,75%, respectively. For the mandatory annual reports, 70% of respondents felt that they are of high or exceptional benefit, for quarterly statistical reports 51,25% felt the same ways, and for bank statements 48,75% felt they were highly beneficial (Figure 6).

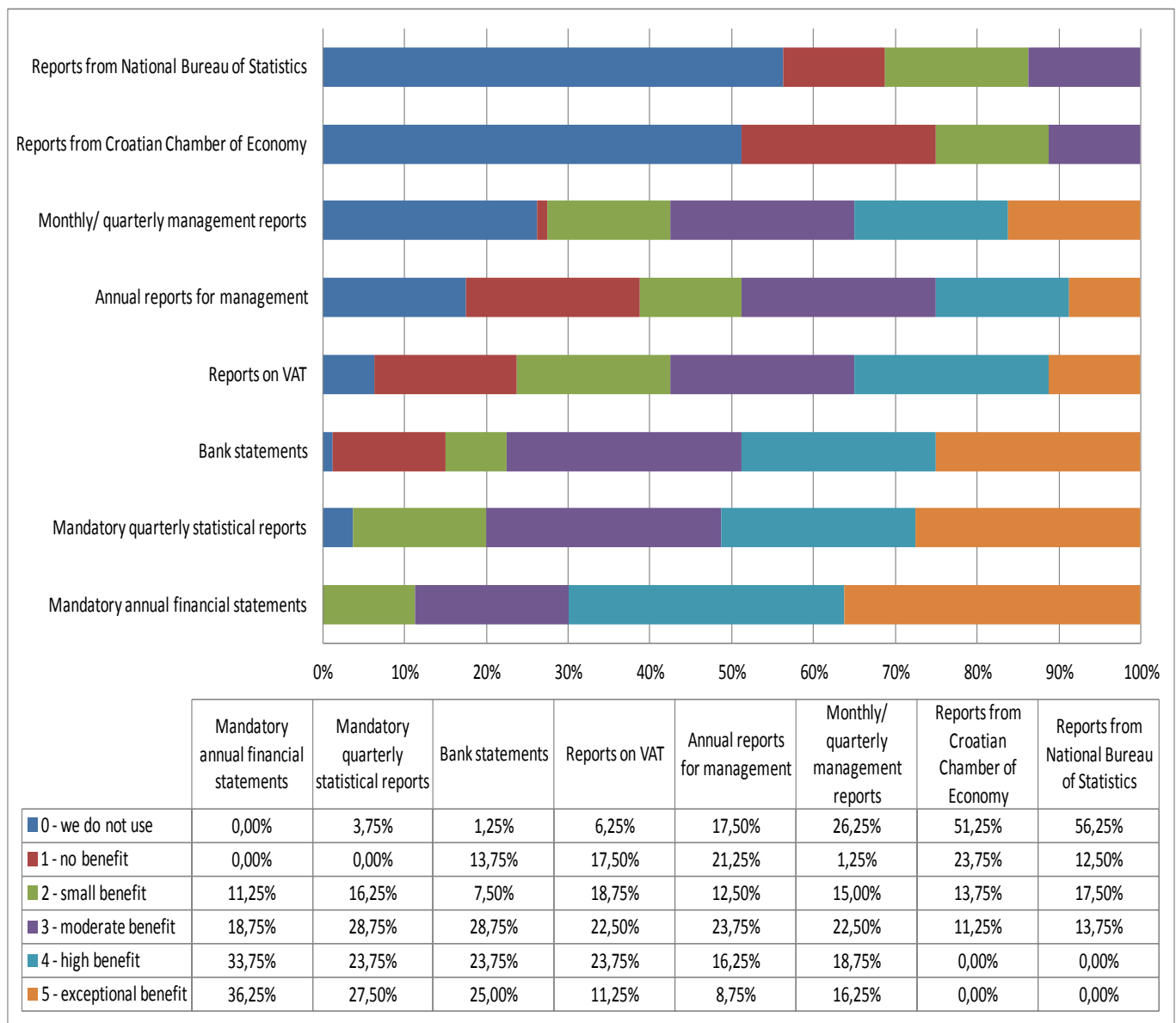


Figure 6. Importance of individual reports as a basis for managing

Companies that indicated the use of annual or monthly/quarterly management reports had to specify which reports they actually use. Among annual reports for management the following dominate: mandatory financial statements specially prepared for management (that usually means that there is a narrative and/or graphical interpretation of the most significant items), analysis of financial ratios based on mandatory financial statements, and budgeted financial statements (Table VI).

TABLE VI. Frequency of annual reports used for management purposes

Please, specify which annual management reports you use	No. of companies (N=66)	Percentage
Profit and loss account	59	89%
Balance sheet	48	73%
Cash flow statement	35	53%

Financial ratios (liquidity, debt, profitability,...)	34	52%
Budgeted balance sheet	33	50%
Budgeted profit and loss account	33	50%
Budgeted cash flow statement	27	41%
Competition analysis	25	38%
Variance analysis	24	36%
Master budget	9	14%
Industrial trends	8	12%
other	0	0%

Quarterly or monthly reports for the management are less often used, and if used these are again mostly the financial statements prepared in an end-user (management) appropriate form (Table VII).

TABLE VII. Frequency of use of monthly/quarterly reports for management

Please specify which monthly/quarterly management reports you use	No. of companies (N=59)	Percentage
Profit and loss account	31	47%
Balance sheet	29	44%
Cash flow statement	28	42%
Financial ratios (liquidity, debt, profitability,...)	25	38%
Variance analysis	19	29%
Budgeted profit and loss account	14	21%
Budgeted cash flow statement	14	21%
Budgeted balance sheet	11	17%
Competition analysis	7	11%
Master budget	5	8%
Industrial trends	1	2%
other	0	0%

Among the companies that are not using reports for management dominate micro-enterprises (13 out of 14 even do not use annual reports, and 20 out of 21 do not use monthly/quarterly reports for the management).

Part of the hypothesis 1, that "Information and reporting systems are inadequately developed in most businesses. Most important source of information for management are mandatory annual and quarterly financial statements, which leads to the dominance of management based on the intuition" is confirmed by the research and here we highlight some facts for the proof of it:

- 36% of the respondents do not use any accounting software in the company, which limits direct access to information about the business (Table III).
- Focus of accounting professionals is solely on mandatory financial reports (in 54% of cases) (Table IV) which also points to the inadequate development of information and reporting systems since SMEs do not have a large base of personnel to perform the tasks related to the informing and reporting (not many, if any employees in accounting, finance and Controlling departments).
- In addition to financial accounting as a source of information, the information from other areas of business and from external sources are used (Figure 4), but for management purposes mandatory annual and quarterly financial statements are mostly used, which are also rated as the most useful (Figure 6).

- Software solutions that facilitate the preparation of the information are rarely used (Figure 5).
- For companies using annual or monthly/quarterly reports for management, there is again a domination of financial statements prepared now in a form appropriate to the end user (management) (Tables VI and VII).
- When managing the company, facts should dominate. 73% of the respondents believe that they manage the company partially on the basis of intuition and partially on the basis of facts (Figure 2).

The impetus for further research could be to examine the causes of underdevelopment of information and reporting systems in SMEs.

V. RECOMMENDATIONS FOR PRACTICAL IMPLEMENTATION IN SMALL AND MEDIUM-SIZED ENTERPRISES BASED ON THE RESEARCH RESULTS

Development of a strategic and operative planning system is something that every SME should consider. In general, for successful planning in SMEs the following is needed:

- The existence of the information from internal and external sources.
- Planning of business performance based on a detailed output plan: customers, products, regions, sales channels have to be taken into account; indirect costs should be allocated as accurately as possible; the economic benefits of investments must be critically reviewed.
- Besides the planning of results (budgeted profit and loss account) it is important to develop a liquidity plan (cash flow projections) and budgeted balance sheet.
- Planning of measures which are intended to accomplish goals: monitoring of measures during the year as well as gathering of data on the necessity of measures or target correction.
- The extension of planning on medium-term planning: business plan should be extended to the horizon of up to 5 years and investments should be planned for the period adjusted to each investment.
- The integration of non-financial indicators: non-financial indicators contribute to up-to-date managing and market signals (consumer behavior) or data related to the product/service quality can affect the earlier implementation of appropriate measures for financial goal achievement.

Given the fact that the respondents in 79% of the cases (Table V) responded that they would consider additional reports as a help for management, it is evident that they recognize the importance of information and importance of managing based on facts. The first step in developing an information and reporting system may be the focus on the informational power of mandatory financial statements that are already commonly used as a source of information. Some research has shown that particularly in small businesses, owner-managers do not sufficiently understand the information in the financial statements (Marriott, Marriott, 2000, p. 486). Graphically displayed information and narrative interpretation of most important items provides the manager with great help. The next step in the development of the system is the formation of additional reports for management.

To enable all this, it is necessary to analyze the capabilities of existing employees that participate in the creation of additional reports for the management (expertise, technical knowledge, availability of time), to consider the need for their possible additional education in the field of business administration through various courses/seminars, and in case of external accounting firms to consider enhanced cooperation (A new issue and an interesting topic for further research are the opportunities and obstacles that stand in front of accounting services

when they want to provide additional consulting services to the SMEs). Despite the fact that companies often find that the services of an external accounting service are expensive, 54% of respondents would be willing to pay an extra fee for high quality reports for management.

VI. CONCLUSION

The main reason for a growing interest in investigating the problems that SMEs face is their importance in the overall economy. By investigating the problems and the ways in which they can be reduced or overcome leads to an increase in the sustainability and development of SMEs. Today's business environment is extremely turbulent, many new businesses are being started but at the same time many businesses fail. The information on the number of companies that experience failure and bankruptcy clearly shows the presence of difficulties in SMEs. The reasons for this are not only globalization, structural and conjuncture changes, but also the mistakes of the management. As a help to management in the last forty years, Controlling has significantly developed in the German-speaking countries, both in theory and practice. Development of Controlling in practice is related to both large enterprises and SMEs. The literature from the German-speaking countries was predominantly used to check the findings of existing research on Controlling in SMEs.

Large companies in Croatia also apply Controlling to the significant extent, but our topic of interest was the level of application of Controlling in SMEs. Our research has taken into consideration the specifics of Croatian SMEs, emphasizing the fact that the development of Controlling in Croatia is in the early stages compared to German-speaking countries. Therefore, it was not possible to make such a detailed investigation of Controlling instruments and controllers' tasks, bearing in mind that the prerequisites, such as sufficient development of planning, information and reporting systems, were not fulfilled. What we analyzed was the level of development of previously mentioned management subsystems. The reason for that was the notion that when Controlling is introduced in SME the emphasis should be on the preparation of information necessary for the management, and on the use of appropriate methods and instruments of Controlling. This can be achieved through the design of planning, information and reporting systems.

Both hypotheses set in the paper were confirmed by empirical research. Firstly, planning, information and reporting systems are indeed inadequately developed in most businesses and mandatory annual and quarterly financial statements proved to be the most important sources of information for management. Secondly, focus of the accountants is on the mandatory financial statements and they do not initiate the preparation of additional reports to management despite the recognized need for them. Analysis of theoretical assumptions, analysis of research on Controlling in SMEs in other countries, as well as empirical research conducted within the paper, all indicate the need for the development of Controlling in SMEs in Croatia. Based on research some recommendations for practical implementation in SMEs were given.

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