Brescia Context In Italy: Management Control And Business Performance In Small And Medium Enterprises

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Brescia entrepreneurial context (located in Lombardy region, Italy) is characterized by the existence of small and medium-sized enterprises, in which the entrepreneur figure generally corresponds to the main stockholder figure. This work, after deepening the necessary theoretical references concerning the management control of the minor business dimensions, focuses on Brescia reality and has as final goal to picture the diffusion degree and the main characteristics of the control systems of the enterprises operating in this territorial context. Considerations made on the diffusion degree of the management control in the local context are based on research's results on Brescia enterprises supported by AIB (Brescia Industrial Association) and by ISFOR 2000 s.p.a (Institute of Business Administration of Brescia).

Field of Research: Management of Small Business

1. Introduction

Brescia economical and industrial context can be analysed through a report edited by the Chamber of Commerce. Concerning the third trimester of 2007, the number of the businesses is 121.307, with an increasing rate of 1,2% over the same quarter 2006. Brescia context is characterized by small medium size enterprises: in fact, the 70,67% of the corporate enterprises report less than 50 million Euros in productivity value and only 0,52% have productivity value greater than that. Brescia economy in the two year period 2005-2006 has been positive, with important growing rates being reflected in greater profitability. In the small medium sized enterprises, the entrepreneur figure is mainly the same as of the major stockholder. Companies have a nationwide and worldwide leadership position in several sectors (i.e. pottering, valves, mechanics for industry sectors). In these years, it is realizing the generation succession of continuing the business mission.

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These aspects are underlying the necessity to redefine the operating governance models of the companies, according the adoption or implementation of "management programming and controlling systems". The present work has the finality to underline relationships between the use of management control and company performances.

2. Literature Review

The topic of management control and company performance is object of several national and international studies. About national studies, several studies use a variety of theorical and methodological approaches concerning measurement of performances and management control (Baraldi, 2000; Barbato Bergamin, 1991; Brunetti, 1989; Brusa, 2000; Culasso 2004; Gandini, 2000; Salvioni, 1997; Salvioni, 2002). In an international context, others authors have studied theorical and methodological methods for management control, budgeting and target setting and alternative measures of corporate performances (Anthony, 1965; Dearden, 1965; Braker, 1998; Pearson, 1998; Hilton, 2000; Kaplan, 1990; Kaplan, 1998).

3. Methodology

The research has been performed over a sample thought to be representative of Brescia business scene. The sample has been composed using both the lists provided by AIB (Brescia Industrial Association) (called "AIB sample") and that provided by ISFOR 2000 s.p.a (called "sample ISFOR"). AIB sample is generally used by Centro Studi ABI for the conjuncture analyses. Such sample has been created starting from the universe of Brescia manufacturing enterprises (Census 2001) classified by product sector and dimension class (number of operators). Lists provided by AIB (Brescia Industrial Association) and ISFOR 2000 s.p.a allowed to identify and to contact 329 companies dislocated on the whole area of Brescia. 190 of these companies are associated to AIB, while the other 139 are not.

From the list provided have been excluded companies based outside Brescia province (Cremona and Bergamo provinces), because not inherent to the considered sample, and free lance, already represented on the ISFOR list because participants of the courses indicated above. There have been excluded 5 questionnaires, from the ones that have been returned, because related to participation holding companies (3 cases) or because controlled by foreign multinationals with a long tradition in the usage of management control systems (2 cases). There have been taken in consideration 93 full questionnaires, with a response percentage of 28,27%. There have been selected 30 from the above, because particularly interesting for the answers received and as many visits have been made to the companies to deepen the questionnaire issues. Interviews in companies have been implemented in December 2007 and January 2008. The present work considers only the corporate enterprises; this choice has been made because these are companies characterized by greater size and present management complexity as to have an interest to adopt management control systems.

The work has been developed in the following steps:
- writing the questionnaire;
- construction of the sample: the dimension of the sample has been choosed in order to suit the need to guarantee results that are statistically sufficiently significant;
- sending of the questionnaire to the companies on behalf of the AIB and ISFOR 2000 spa;
- verifying the receiving of the questionnaire and recall to remind the response;
- interviews to the manager of the Management Control in cases of greater interest;
- aggregation and analyses of the results.

The questionnaire (composed of 119 questions) is structured in six sections in order to go through the following topics:
- comprehension of the meaning perceived by the company of management control;
- analyses and in-depth examination of the informative system part;
- analyses and elaboration of non monetary performance information used by the company;
- analyses and elaboration of the creation and use of the operating budget;
- analyses and elaboration of the use of Reporting Model;
- analyses and elaboration of the financial component in the management control.

4. Discussion

The following is a representation of the results, indicating the percentage provided about each possible alternative. The first section of the questionnaire presents general questions regarding the presence or not in the company of a management control system.

1) *Is the company endowed with a management control system, analytical and/or industrial accountancy?*

Possible alternatives	Responses %
Yes	54,84%
No	45,16%
Total	100,00%

55% of the companies (equal to 51 units) that have responded to the questionnaire do not define, in this session, the meaning attributed to the management control system. Consecutively, will be considered only the companies that declared having a management control system, therefore the percentage provided has been calculated over 51 responses.

2) *How does the management control system is conceived within the company?*

Possible alternatives	Responses %
As an instrument that facilitates the correct computation of product or order cost	31,36%
As an instrument to make aware of responsibility and motivate the manager with respect to the company's goals	0,00%
As an instrument to control corporate finance	0,00%
As an instrument of controlling process costs	16,10%
As an instrument to support the entrepreneur on the strategic decisions	20,34%
As an instrument of support to the operating management	16,10%
As an instrument of lead towards company's goals	7,63%
As an instrument useful to concentrate the top decisions	8,47%
Other (specify)	0,00%
Total	100,00%

It has been given the possibility to answer to this question checking at most three answers. Considering that this question is asked only to the 51 companies that declared to own a management control system, there may be at most 153 answers. In this case the response usage degree has been 77,12% (118 answers employed). 31,36% of the companies believes that management control system is an instrument that facilitates the correct computation of product or order cost, whereas in 16,10% of the cases the product or process cost. In several cases, it has been a useful instrument in helping the entrepreneur with the management, not only as an informative value but also as a supportive value of the strategic choices (20,34%) and operating ones (16,10%).

3) *Which have been the main reasons why the company has adopted the control system?*

Possible alternatives	Responses %
Precise calculation of product cost	14,39%
Necessity of controlling operating costs	21,21%
Necessity of governing the commercial politics	7,58%
Assign responsibilities to managers	3,79%
Help the entrepreneur understanding where the company is going	21,21%
Control corporate finance	0,00%
Support investment projects	10,61%
Support dimensional growth	6,82%
Not satisfying economic situation	3,79%
Guide the company towards its targets	10,61%
Evaluate in advance company's choices	0,00%
Other purposes (specify)	0,00%
Total	100,00%

After asking about how much time the control system has been implemented in the company, it was tried to understand which have been the motivations to adopt this instrument. Even in this case it has been given the possibility to answer using at most to three answers; therefore, in this case, too, the

number of possible answers is equal to 153. The degree of answers' completeness for this question has been 86,27% (132 of the responses returned). The main reason why the companies have adopted control systems is the needs to control company's costs (14,39% referring to product costs, 21,21% referring to company's cost, 10,61% referring to projects) and to quantify the company's performances (21,21%). The second section of the questionnaire presents questions about the use or not of the analytical and industrial accountancy. This section aims to examine technical aspects of the informative part of management control system.

4) *Does budget system exist a within the company?*

Possible alternatives	Responses %
Yes	69,89%
No	30,11%
Total	100,00%

69,89% of the companies use a budget system. It is asked to answer to the other questions of the section to these companies only, while who answered negatively to the question should provide a motivation.

5) *Does a reporting system exist within the company?*

Possible alternatives	Responses %
Yes	59,14%
No	40,86%
Total	100,00%

59,14% of the companies interviewed adopt a reporting system meant to provide a synthetic and immediate result representation of the operating management. These companies only will continue to answer the questions present in this section because referred only to companies that have a reporting system within.

6) *What is the data contented in the company's reporting?*

Possible alternatives	Responses %
Budget and final information	32,48%
Final information	11,97%
Economical values and not assets	7,69%
Economical and financial values (cash flows, debits)	11,97%
Economical, financial and assets values	7,69%
Previous year information and this year information from an economical point of view	23,93%
Only the statistics	4,27%
Total	100,00%

There are different types of data contained in the company's reporting. Therefore, the companies have given at most 3 answers to this question, with a completeness degree of the answers equal to 75,48% (117 answers obtained out of 155 possible ones). The data contained in the company's reporting is, mainly, the one in the budget or (32,48%). Alternatively, it is represented by previous year data and the this year data under an economic

point of view (23,93%), by final data or economical and financial values (11,97% each), by economical and not assets values or by economical, financial and assets values (7,69% each). At last, the data contained on the company's reporting is constituted by statistics (4,27%). Finally, the sixth section of the questionnaire concerns the financial dimension within the company.

5. Conclusion

Based on last visits to companies, it has been made a in-depth examination of the topics treated on the questionnaire, developing moreover some considerations on issues judged interesting to the enterprises, as:
- − the relationship between management control and enterprise performances;
- − the analysis of some relationships between management control and typical characteristics of medium and small enterprises;
- − the analysis of the principal failure causes of the management control;
- − the analysis of causes limiting the diffusion of the management control.

Referring to the analysis of relationships between management control end enterprise performances, in many cases is possible to highlight this kind of correlation or, better, has been highlighted that enterprises that traditionally present good economic performances, not always own management control systems, while those owning them have consistently better financial and balance-sheet results just after few years from their introduction. In particular, it has been judged considerable the improvement on the profit-and-loss account referring to the savings in its principal class-value (enterprise-cost management) as well as to the partial product results (especially following the honing of the revenue analysis).

The control system is therefore perceived as a rationalization-tool of the management choices and of reduction of the complexity of the company economic governance. In particular, the role of the control system (particularly its informative part) has been important as a support to the process of list and price design as well as to run profitability analysis on agents and objects considered relevant for the company (clients, product families, geographic areas, strategic business areas). In many of the analyzed cases, management control has an important role in the company's reorganization stage through decisions of economic convenience to the internalisation or externalisation of parts of production processes in line with the consolidated trend, to externalise the processes and the company's activities judged no more strategic.

At last, it's considered positive the part played by control at the stage of valuing individual capacities to whom may be set targets subject to measurement and judgment. Another interesting aspect is the relationship between company governance models and control systems. In many of the companies object of this study, the entrepreneur family, directly or indirectly,

holds relevant positions within the organization referring to the top governance body (board of directors, or general), as well as to the economic governance body (head of some function or other managers). In some other cases, one can find the presence of an organization chart with diffusion of formal responsibilities to whom doesn't correspond the effective governance power. In this context, it is attended a fairly diffusion of the control systems, because, this is what appeared during the interviews, the control is exercised informally, it's not structured, and it's not believed necessary to introduce within the company complex and very expensive tools.

In cases where it is present an effective delegation process of the responsibilities with a progressive separation of the entrepreneur or the family from the management choices, the management control system is developed even because it was given the role of stockholder protection. Another important correlation is the one between control systems and shareholders type. In most of the examined cases, the partnership is composed by the entrepreneur and the family, whereas in other cases one can find among the partnership subjects other than the entrepreneur and in some cases professional investors (private equity funds or holding participation subjects for non industrial reasons). There is a greater diffusion of control systems in case of partners different from the single entrepreneur, and very articulated and complex systems in case there is a professional investor among capital holders.

Another aspect pointed out during the interviews is the relationship between company's performances, prospect markets' complexity and existence of control systems. The realities historically characterised by good profitability and finance performances generally appear to be less attentive to the introduction of management control systems. Generally this is not true in case of realities that, even though presents good results of the principal economic indicators, operate in contexts characterized by high strategic complexity (strong competitive pressure, high rate of products' innovation, etc.) or organizational complexity (complexity of productive processes, production process dislocated in more than one national and/or international sites). In these last realities, the management control system exists and often is used by highly professional operators and supported by evolved information technology support. The realities characterized by worsening performances or that declare critical situations for which should frequently take tempestive decisions and within very narrow error margins, have been revealed very sensible to the topics concerning management control.

Some realities have tried several times to introduce a management control system, but with a negative result. Among principal causes of failure there have been indicated the introducing modalities of the system considered vary invasive e not consistent with the operational needs of the company's structure besides the fact that the design and implementation process often were not presided by the manager in charge of it (the controller). Other failure causes have been attributed to the lack of information technology support able to make the system introduced within the company functional. In some cases there have been designed control systems in the static part

(information and organizational structure) as well in the dynamic part (process) from external operators, without being concerned of giving effectiveness to the operation through an information technology system able to make it work effectively and efficiently.

In more than one case, the emphasis and the efforts in the introduction stage of control in the company have been reserved to the information structure, arranging several tools able to provide multiple information. These information have a limited use, inadequate or carried out by subjects that in report session (comparison goals-results), even though in charge of an important organizational role, in fact weren't able to propose or follow corrective actions on the behaviours, on the definition of short or long term company's goals. There have been indicated, at last, some factors considered restraining for the diffusion of control systems in the companies interviewed. Among these factors it has been indicated the scarce of economical and human resources that the companies can dedicate for this purpose. The pictured situation seems to arise that the aspects of enterprises' strategic and organizational complexity of the minor sized companies are not inferior compared to those of the major sized companies, as of the globalization and internalization process that is affecting all the economic agents.

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