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OPINION PIECE

A POINT OF VIEW ON THE KEY PERFORMANCE INDICATORS OF PROFITABILITY FOR ENTREPRENEURS

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Entrepreneurship and corporate life are usually seen as very different alternatives of reality. They operate with different theories and tools and seem to apply different management rules. Anyway, it seems that they are relating in many ways. As an example, the new concept of intrapreneurship is gaining new adepts within corporations, since they are appreciating flexibility and innovation more and more. On the other side, we should take into consideration the idea of using corporate ways of doing business in start-ups, too. Start-ups and small companies could learn to use modern management and controlling tools in order to increase their efficiency and profit.

Controlling is described as being related to defining objectives, planning actions and monitoring their results, as well as taking decisions based on defined indicators. Since there is the managers' responsibility to define the company's objectives and they are also responsible for the achieved results, they should practice controlling as part of their normal management activity. (http://www.controllerverein.com) At the same time, the controlling methods and the best practices are mostly associated to large corporations, which are considered to be most suitable for such activities.

There is no unanimous accepted definition of controlling. There are rather a range of definitions given by practitioners, managers, accountants and consultants. According to the related literature, controlling as a management function was established in the USA at the beginning of the twentieth century, gaining the widespread adoption in Europe - France, U.K. and especially Germany. (Oarga, 1996)

The controllers are in charge with assuring transparency in areas such as: strategy, performance measurement, finance and processes, thus helping to achieve greater efficiency. They elaborate, coordinate and control the various plans and budgets; establish company's reporting systems; design the controlling process of goal-finding, planning and management control so that decision makers can target their efforts; provide the key data and information needed for business decisions.

The meaning of controlling is more than just to control. Controlling means to have something under control, to be informed about processes and occurrences as well as the possibility to recommend and intervene in order to achieve the ideas and visions of the management and the business objectives. (Merl, 2007)

The lack of data and relevant researches concerning Romanian companies does not allow us to clearly appreciate how many of Romanian companies are using controlling. But according to estimations, it is likely that less than 10% of organizations use this management tool in their activity. Most of them are the multinational companies, since the needs for controlling of their mother-companies resulted in implementing controlling tools in Romania. In many companies it can be found one controller position, though sometimes a controlling department is in place, depending on the volume of activity. (Oarga, 2009)

Both the internal and the external accounting are very important for controlling. For a controller, the internal accounting holds the first place (Horvath&Partners 2009), but they both represent the sources of collecting information that is to be processed by the controlling. If the internal accounting is oriented both to the past and the future by providing only information, the controlling is oriented exclusively to the future by having a role of interpreting and capitalizing the information. Controlling has extended beyond the goal of managerial accounting and came to be considered a constitutive element of the management process (Roso, Vormweg and Wall, 2005). Little academic interest exists in Romania in the field of controlling, despite an increasing number of practitioners.

It is also true that the small companies and the entrepreneurs have also the same objectives concerning the efficiency and profit; even they are rather doing it in a more empirical way then based on official procedures.

However, I do believe that, by understanding the impact of the use of controlling indicators and methods, the entrepreneurs could achieve better business results. There is no argue that, having in view the strong market competition and the persistence of the economic crisis, small enterprises need to improve their operational efficiency and boost their profitability.

Various controlling procedures and methods could be adapted to this purpose. Entrepreneurs should be opened to the new innovative informational systems and incorporate them into their everyday decision-making mechanisms. Effective and rational thinking is essential in the decision-making processes of the entrepreneurs. Also, improved efficiency could be achieved by adopting a controlling-based approach in new enterprises.

Researches proved that small and medium enterprises using controlling have a clear competitive advantage over their competitors. In this respect, a recent research showed that the small-and medium-sized enterprises that apply controlling are more competitive than the others as their efficiency is growing and management is becoming more and more balanced. (Hagen, 2009)

Effectiveness prevails in the increase of profit per person as well as in the growth of revenue, own capital and total assets. At the same time, the changing nature of the environment forces enterprises to adapt and to renew permanently, and this should also be considered when establishing the strategy. It is said that most of the times the entrepreneurs take their decisions based less on the financial data and more on subjective impressions and under the market's influence. Even those who evaluate the productivity of their company usually do this by comparing the profits over two certain periods of time, and if they notice an increase they consider the decisions taken were correct. Actually, the company's productivity analysis must focus on certain indicators, among which the profit has a secondary importance. In my opinion, such indicators could be:

a) Gross margin – the difference between the profits obtained through selling goods and services and their actual costs;

b) Operating profit - it defines the surplus generated by the operational activity;

c) Profit before taxes - the profit achieved before taxes and after the deduction of the expenses with interest.

Many entrepreneurs measure the performances based solely on the indicators given by profit and loss. But a correct analysis of the performances should take into account the information about profit and loss, but also information about the assets and liabilities and their evolution in time.

I also suggest other performance indicators that comprise the performances' size reported to the generated business volume (the activity flow), such as:

d) Sales' productivity rate (could extract information about the profit that was obtained on each unit sale);

e) Assets' productivity rate (could extract information about the profit obtained on each used resource).

The profitability rates have different values in terms of information and they mirror more sides of the economic – financial activity within the company. Counted in different ways, depending on the report effect – effort, the profitability rates help a company to compare different results obtained in certain periods of time, in different locations or with standardized values (widely accepted or imposed by specialized organizations).

The indicators' trend is also very important. In order to be able to correctly evaluate the course of a business, one must compare different levels registered in time. The analysis of this evolution can help one take the necessary decisions, in order to achieve the main objectives.

Important parts of controlling consist in adequate planning of the future actions and resources, in order to fulfill the designed strategy.

Many entrepreneurs focus on the short term financial planning and this is a wrong approach. On the long term, this approach can prove detrimental to the business, because the long term results can be sacrificed for short term evolutions. The strategic planning has the role to define the long term major objectives of a company, the means to achieve them, together with the assigned resources, in order to obtain the competitive advantage, according to the mission. The strategy must always consider the achievement of certain clear objectives, stated as mission and objective. The strategy refers to the future of the company, about 3-5 years from the present, and also takes into account the risks and uncertainties, and their effect in the operational processes. It is based on the correlative approach of the organization and environment and it reflects the interests of at least a part of the stakeholders. The strategic planning aims to design the organization's competitive behavior on a long term, taking into account both the company's culture, and the environment's evolution.

Budgets, estimations and financial forecasts are part of the strategic objectives and they help the company to plan ahead its actions. Most of the companies, especially the small ones, are mainly interested in the short term performances, and they do not take into considerations any aspects behind this line, neither on the strategic level, nor on the operational level. Thus many aspects are overlooked, although they could significantly influence the business' evolution in the future.

Budgets help to plan the objectives, considering the necessary resources, expenses and incomes, and necessary investments. The budget functions also as a means of controlling the achievement of objectives. This controlling tool will be able to signal all the positive or negative variations, vital in the decision making process. It is obvious that no planning system can be successful unless it has a proper and efficient controlling system.

Another interesting thing about using of controlling tools is that most of the new entrepreneurs having a corporate background are very likely to develop a new business initiative based on their expertise as employees. Having this in view, new aspects should be revealed with regard to the using of usually corporate ways of assessing financial and operational issues, within entrepreneurship initiatives, in order to assure increase their efficiency and profit.

According to some recent researches I have conducted, many young entrepreneurs are used to work with a wide range of tools, systems and management concepts, and more than this, they are fully aware of the connections between the performance management, the quality management, the strategic and financial management, and the human resources management.

For the success-oriented entrepreneurs it is essential to understand and apply the managerial tools and activities with which the tasks of the management can be made successful.

The small enterprises that apply controlling methods are more probable to be more competitive than the others as their efficiency is growing and management is becoming more and more balanced. Also, the small enterprises that introduced controlling can measurably operate more effectively than others. Effectiveness prevails in the growth of revenue, own capital and total assets. Also, Romanian entrepreneurs saw the advantages of using controlling, but the spread of such tools is not very common.

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