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## **New Trends of Management of European SMEs: The M-C Model**

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***Abstract:***

*Business has undergone unprecedented changes over the last twenty years and these changes have significantly influenced corporate management processes. Planning and risk management systems that had been successfully used for years stopped working. The fall of totalitarian regimes, the development of “third world” countries, new technologies and means of communication, affordable intercontinental transport, European economic integration and the consequences of the biggest economic crisis in recent decades have completely changed the established company management processes. This article offers a complex and interdisciplinary view of company management based on management theory, hands-on experience, management accounting and human resource management. Company management is perceived as a logical and cross-sector interlinked company process based on the M-C model, which is applicable in this form in most small and medium-sized companies. The aim of the article is to clearly explain basic company processes in small and medium-sized companies based on management and controlling and to describe their significance and interrelationship.*

***Key Words:*** *Strategic Planning, Operational Planning, Controlling, Risk, M-C Model, SMEs*

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## **1. Introduction**

The M-C model is based on the fact that the basic management processes of small and medium-sized companies must be designed in two interconnected areas - management and controlling. Management is perceived as plans, targets, researches, missions and visions. Controlling is described as continuous monitoring and evaluation of targets, identification of deviations and proposals in the form of risk management. Management and controlling must be understood as decisive management activities (Havlíček, 2011).

Planning and controlling are very interconnected activities that have to be understood within the framework of the company management concept, not as independent and separate activities of the company departments. Orientation on long-term and short-term targets is the basic step towards successful company management. However, without good and timely suggestions, checks and searches for alternative solutions, this subject is exposed to risk. Determining measures to eliminate a problem means intensive interconnection with creation of operational and strategic plans. It is a closed process, in which the success of the entire company is significant, not just of the company department. (Havlíček, 2011). The ability to manage these processes means understanding the principle of company management.

It is a common managerial mistake to prefer soft skills to hard skills. Both approaches should be well-balanced in practice. An unusually strong competitive environment shows that marketing, innovation and human resources management become decisive company activities. However, the world crisis clearly showed that business is especially about company economics, results, specific numbers and about the ability to react to changes in time and to indicate and manage potential problems expressed in an exact way. Knowledge of the market, competent employees and innovative abilities are of no significance if the company does not generate sufficient cash to cover at least its operational needs.

## **2. Strategic Management and Planning**

To create a business strategy is a key managerial act resulting from proprietary objectives or the ambitions of owners and has a decisive influence on the determination of future position on the market. The strategy is the pillar for all other decisions, planning and implementation of operational targets<sup>3</sup>. Strategic targets are

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<sup>3</sup> Plans in small and medium-sized company can be divided between strategic (long-term) and operational (short-term). Operational plans, however, must be considered as a part of management accounting that may be based on defined balance sheet items and valuation procedures. From the point of view of management of small and medium-sized companies it is very important because the core of operational management should focus on measurable results that should be expressed both in volume and value.

superior to all activities and internal company units and are the basis for operational plans and concepts of individual company units - departments, divisions or sections. The sales, marketing, finance, quality and innovation departments or the human resources department, for example, shall base the determination of targets and plans on the business strategy and objectives of the individual company units whose targets must be adapted to the main company strategic targets.

Every company must be able to define WHAT its position and targets are (corporate strategy), while it has to respect the ambitions and requirements of the owners and involved parties (ownership strategy). Every business strategy defined at the level of top management makes sense only if it is transferred to the level of the individual departments (business, finance, marketing, production, innovation, etc.) and the long-term position of these departments (managerial strategy) is determined (Halikias, 2009; Mallya, 2007; Kašík and Havlíček, 2009).

The main output of company strategic management is creation of a strategic plan. It describes the position that the company will be in several years down the line (Havlíček, 2011). It informs us about its vision, mission and suggests ways to achieve long-term targets. It is a big managerial mistake to believe that determination of the long-term direction of the company is a marketing practice good only for an annual report, a company profile or a trailer on the corporate website. Its importance goes beyond the various departments in the company. It is an indicator for many involved parties and stakeholders. It communicates with its environment and informs employees what they can expect from the company as a whole (Kašík and Havlíček, 2009).

## ***2.1 Importance of strategic planning***

### **Basis of operational plans**

Any further operational planning (short-term sales, marketing, finance, innovation, human resources, production plans, etc.) are based on long-term management of the company, i.e. the strategy.

### **Owners**

Most owners, if not members of the management teams, usually do not monitor every step of the company. They usually focus on achieving long-term targets respecting their own ambitions and requirements.

### **Potential investors**

Many investors prefer long-term or at least medium-term effects from companies where they have placed their capital. Defining the management and their ability to defend the chosen strategy is one of the indicators for the final decision whether to invest in the company or not.

**Banks**

The bank acts as a long-term investor. It provides the long-term loans, usually associated with investment activities of the company, due in several years, and requires from the client a strategic view as the first document to decide whether to grant credit or not.

**Existing employees**

Managers must be able to tell employees at all levels what the targets of the company are, what they can expect and what perspective they have. If you want to retain competent employees, you must be able to share with them what opportunities they will have in the company in the future. This is not possible without discussing the future position of the company.

**New employees**

In the past, the main concern of candidates used to be salary. Nowadays, however, the higher the position in the hierarchy of the company, the more candidates are interested in the opportunity for professional or career growth and the direction of the company as a whole. But this does not apply only to managerial positions. The better able we are to explain to employees the direction of the company, the more confidence they will have in it.

**3. Operational management and planning**

When the general direction of the company is set, it is necessary to prepare the operational steps for implementation of interim, short-term targets. We do this through individual operational plans. It is usually prepared in the form of marketing, sales, financial and innovation plans or production and quality control plans, etc. Operational plans are fluid and are necessary for preparing financial budgets. They are usually prepared for one year (they correspond to the financial budget that is usually also prepared for one year) and they include measurable and clearly specified objectives corresponding to the department in which they are elaborated. The most important part of operational plans is a clear description of how to achieve the targets. We use tactical operational management tools such as marketing mix, quality policy, incentive systems or human resource management. Operational plans are the basis for the creation of the annual financial plans: revenue-cost (P&L plans), cash inflow-cash outflow (CF plans) and the balance sheet plans (Havlíček, 2011). Managers of the individual departments are responsible for the above-mentioned plans. The connection to strategic targets should be given by the fact that the same managers are preparing the company strategy in teams.

The operational management, however, does not include only creation of plans, but also analyzes the individual departments on the basis of detailed macro environment, micro environment and internal environment research (Kotler and

Armstrong, 2004). The time sequence is such that the environmental research is followed by an analysis of the department and then by the operational planning.

The operational plan usually includes determination of targets, description of realisation of targets and implementation of control tools (management process gradually passes into the phase of controlling).

### **3.1 Importance of operational planning**

#### **Basis for creation of financial budgets**

All operational plans (especially sales, production, innovation) create a basis for decisive operational plans of the company, which are financial plans, i.e. budgets.

#### **Basis for purchase and production planning and other operational activities**

As it is necessary to support budgets with other operational plans (sales, innovation, etc.), it is also important to interconnect them with the planning of business activities of individual departments. Preparing a production plan without a sales plan is as impossible as, for example, planning the purchase of raw materials several months in advance (which includes the purchase plan). On the contrary, a sales plan cannot be prepared without research and marketing plans.

#### **Banks and other providers of working capital**

Operational plans, particularly financial and sales plans, are the basic documents for negotiations with banks about conditions related to operational (short-term) loans. To approve the loans banks usually suggest so-called financial indicators based on the submitted plans that are necessary for renewing loans. The same system also exists in factoring or leasing companies.

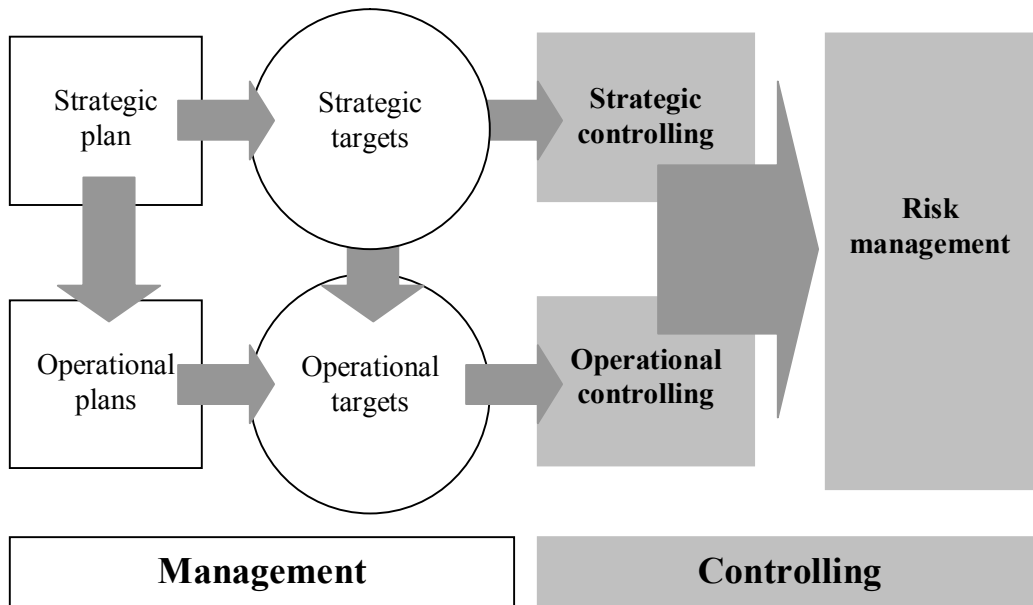
#### **Wider business area**

The implementation of operational plans has a considerable marketing effect. Competitors, employees, the media or various providers of sponsorship and donations watch very carefully what the position of the company is, even in the short term. For many, the company becomes a model within the benchmarking activities (inter-company comparison of key indicators); for many, the data are crucial for other business or media activities. The company writes its business card and it is necessary for the company to be able to properly comment on its results (positive or negative).

#### 4. Controlling

In order to properly understand the nature of controlling, it is necessary to understand the link between strategic planning, operational planning, evaluation and risk management. Management activities depend on determination of the strategy (in the form of a strategic plan), followed by operational plans (marketing, sales, financial, human resources, innovation, etc.). Control of future deviations from the targets is the responsibility of the controlling departments (sometimes belonging to the the financial department) that in small and medium-sized companies are usually responsible for risk management arising from discovered discrepancies. Given that the plans (strategic and operational) must have defined objectives, controlling is also aimed at detection and subsequent elimination of deviations of specific strategic and operational targets. The links between strategic and operational management, controlling and risk management are expressed in Figure 1 (Havlíček, 2011).

Figure 1. Business process management (M-C Model)



In procedural management the first part of planning is usually called "management" (the white diagram in Figure 1) and the second part of the targets evaluation and risk management is called "controlling" (dark diagram in Figure 1). In the first case, it is management of the operational and strategic plans, targets, missions and visions, while in the second case, we perceive the proceedings more like monitoring, finding deviations, suggesting measures and elimination of problematic and critical situations.

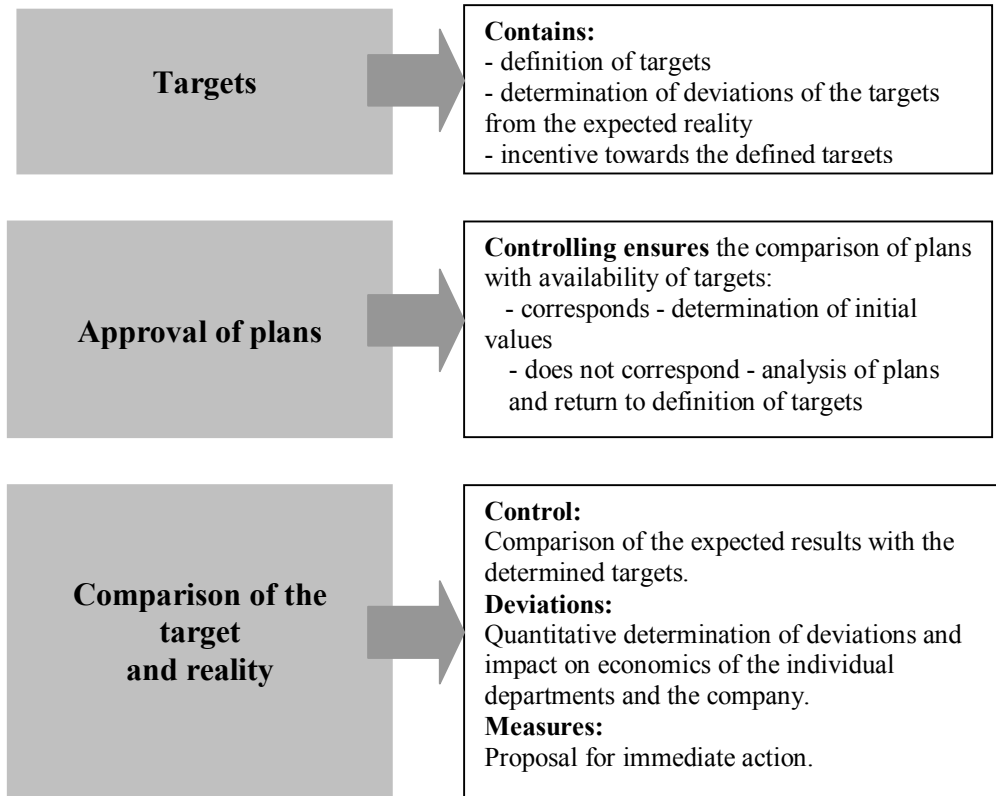
The basis of controlling is therefore a comparison of the results actually achieved by planning, research, and subsequent settlement of deviations (Král, 2010). It has to determine priorities in order to solve a problem that prevents the company from achieving strategic or operational targets. It is oriented to the future. It is interested in the past in particular in the cases that provide incentives for future proceedings (Král, 2010). Depending on the future time and depending on the nature of the targets we distinguish the operational and strategic controlling.

#### ***4.1 Operational controlling***

It is focused on the operational plans in term of 1-3 years and focused on operational planning, control and evaluation of indicators of the financial analysis based on the short-term plans of revenue-cost, income-expenditure and balance sheet items. Usually it is evaluated on the basis of quantitative parameters (Havlíček, 2011).

Operational controlling in small and medium-sized companies is linked to the fulfilment of the basic short-term targets with a direct impact on the financial indicators. These are set by the financial department or are based on the requirements of the bank that determines them as the financial indicators for operational loans. Ironically, in the absence of operational controlling in small companies this role is taken over by the bank giving the credit and it continually draws attention to unfulfilled key financial indicators. The failure of sales, marketing, production or other operational activities results in unfulfilled basic financial indicators. Measures must therefore be directed primarily to those departments. The progress of the operational controlling is described in Figure 2.

Figure 2. Operational controlling



#### 4.2 Strategic controlling

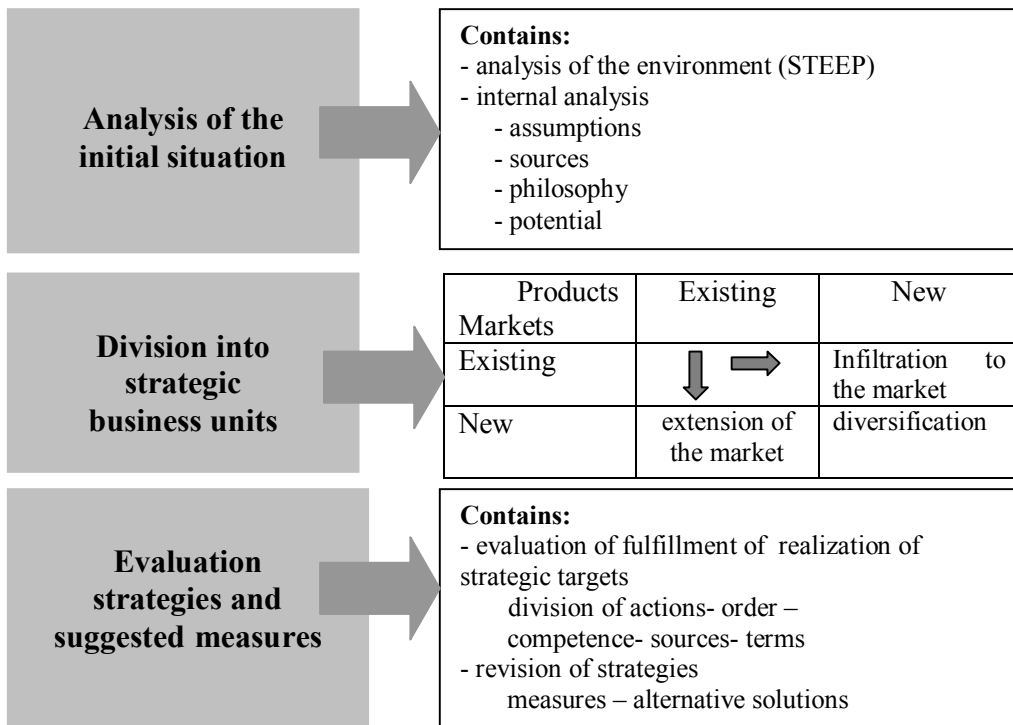
The basis for strategic controlling is a strategic plan and strategic targets. Its main task is to maintain the long-term stability of the company. Strategic targets are evaluated more on the basis of qualitative parameters and only partly on the basis of quantitative parameters (Havlíček, 2011).

The benefit of strategic controlling is not immediately recognizable; however, it has a significant impact on the long-term operation of companies. Its under-estimation or failure result in long-term disruptions that often end with restructuring or cessation of the company. Failure of the strategic targets may not be seen in the first phase (we discuss a period of a few months to two years). Every company has a certain inertia, in the framework of which it still functions, although the subsequent failure of performance (loss making), followed by a lack of cash, and in the final phase a loss of confidence, are typical signs of the crisis that was preceded by the failure of strategic vision and long-term targets. The detection of these disorders is one of the greatest skills of modern controlling and only



experienced managers who understand the importance of strategic planning can detect them. The procedure of strategic controlling is expressed in Figure 3 (Mikovcová, 2007; Havlíček, 2011).

**Figure 3. Strategic controlling**



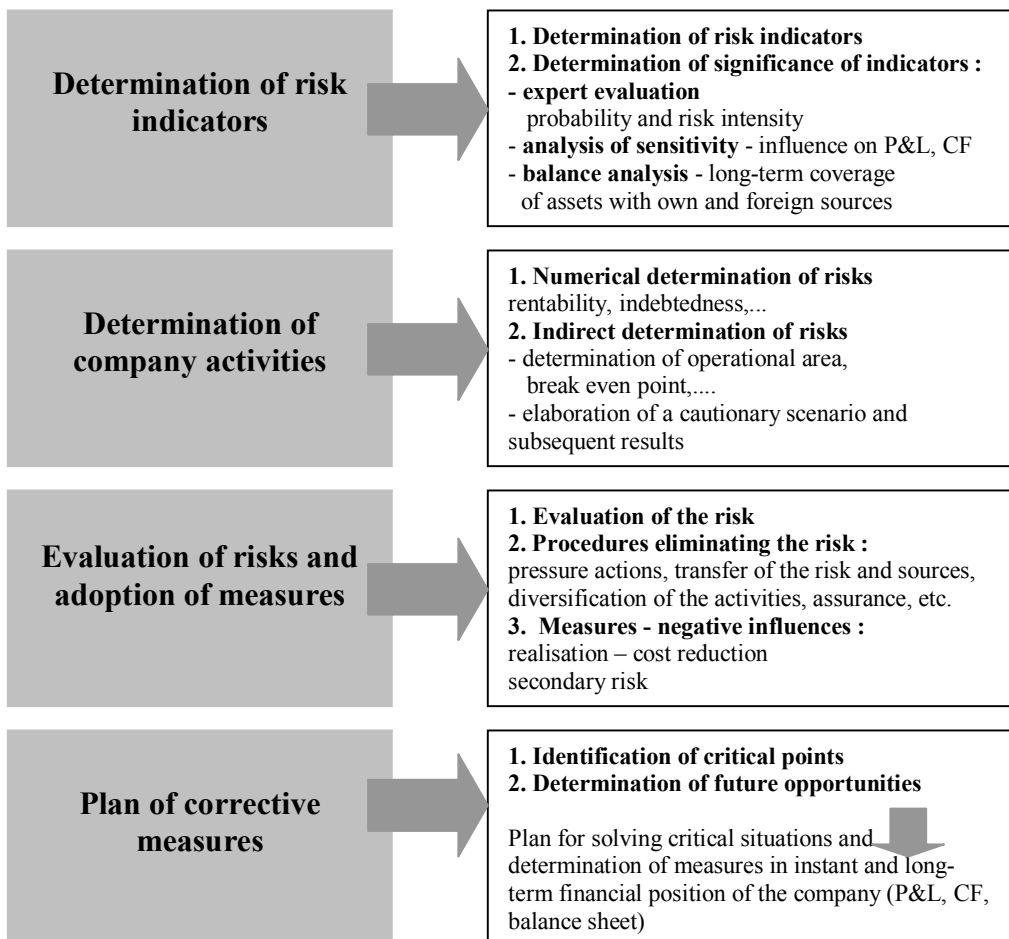
## 5. Risk management

In general, a risk can be understood as a danger that all achieved economic results of business activities will differ from the results anticipated, while exceptions may be desirable (towards the higher profit) or undesirable (towards the loss). Risk management, however, is not only the responsibility of financial managers but depends – as well as controlling – on all company departments and units. Risk management can be understood as a consequence of the individual controlling activities that should in the final phase provide a solution (Havlíček, 2011). The main managerial activity in risk management is identification and subsequent business positions, expressed in the risk plan. Briefly speaking we can say when there is no failure of performance due to non-fulfillment of corporate plans, it is necessary to systematically prepare the company for the negative situations which may arise. However, when there is no immediate danger, the company can prepare in a more cost-effective and efficient way for a crisis than when performance and

liquidity fail. It is necessary to distinguish the strategic and operational risks and work with them across the various departments (we recognize and classify the risks at the level of marketing, finance, sales, innovation, personnel or, for example, production). Elimination of the negative scenarios means understanding the complex business process management, not only the financial models. Every risk must be quantified on a financial level; however, we need to manage them across the company and risk management must not be confused with the management of financial risks.

Risk management is expressed by the risk management plan and is based on deviations set by the controlling and identification of risk factors. It is followed by determination of their significance, evaluation and adoption of measures. An essential part is preparation of the plan of correction measures. A possible procedure for preparation of the so-called risk plan is expressed in Figure 4.

Figure 4. Risk management procedure (Havlíček, 2009)



## **6. Conclusion**

If we can differentiate and organize strategic and operational planning activities in the company, and if we understand the concepts of controlling and risk management, the nature of the entire process of management can be outlined.

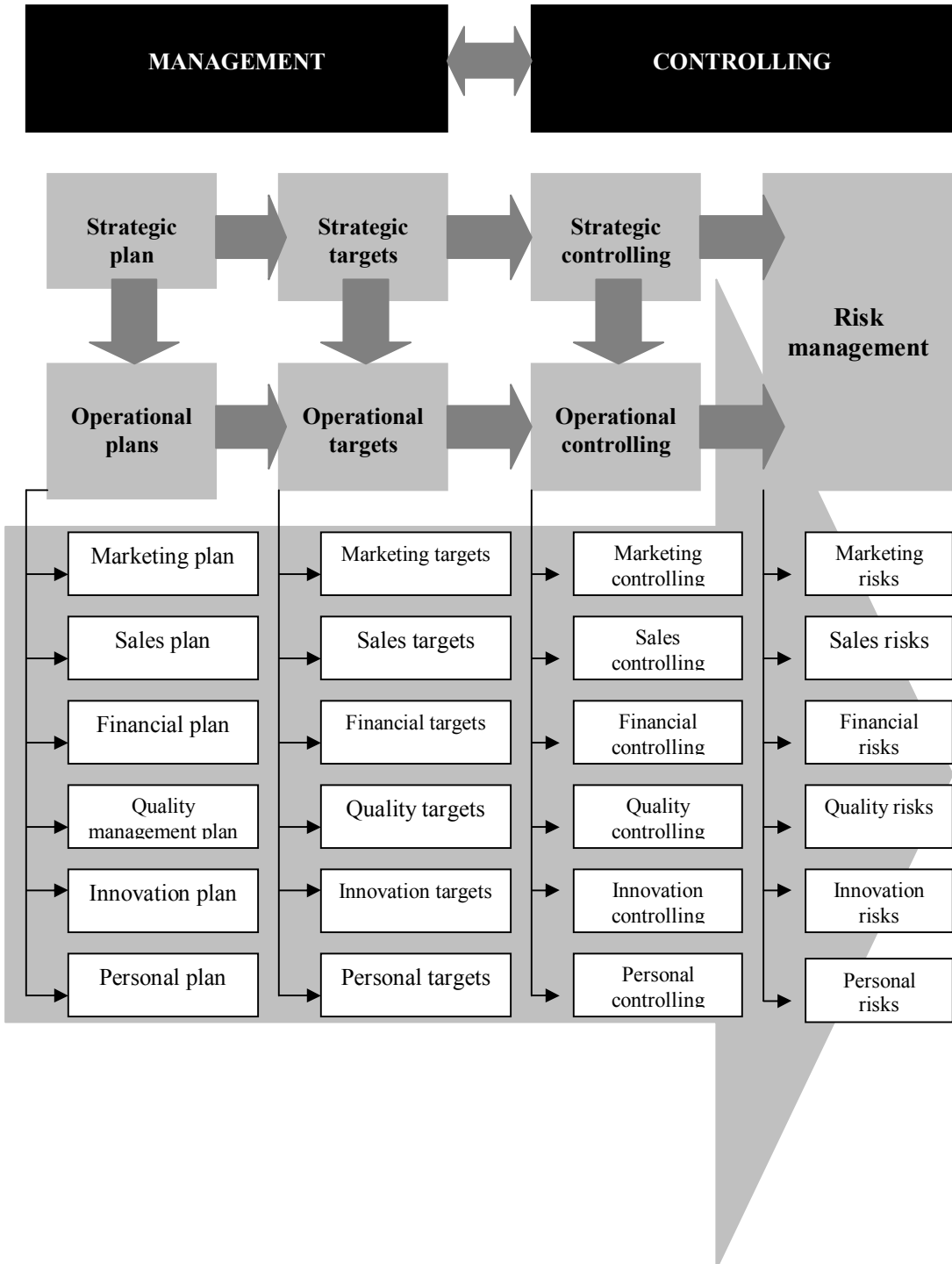
Process management based on the M-C model<sup>4</sup> can be defined as the Management Control System that includes a comprehensive view of management on the basis of management accounting, management theory and personnel management. This is an interdisciplinary management system where the individual processes are not the most important ones. The most important thing is to understand the management of the company as a whole, mastering management and controlling tools and understanding that a successful company can only work if we can grasp all of its processes and we understand how they are interconnected.

A detailed model of process management based on the M-C model of all relevant departments of the company is described in Figure 5. It should be the basis for the management of the majority of small and medium-sized companies, both in the period of their growth, and in times of crisis. A balanced approach based on management planning (soft skills) and strict controlling (hard skills) gives small and medium-sized companies the chance to survive in a hyper-competitive environment (Frame, Barnes, Edwards, 2001) with long-term competitiveness.

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<sup>4</sup> The term "M-C process management" was at first used in the publication of Havlíček, K. (2009) *Role of Managers in Company Management* Eupress, Prague. Originally, the author was interested in the M-C model (Management-Controlling) of small and medium-sized companies in terms of competencies and responsibilities of managers of individual sections, while the process model has been perceived only from the point of view of planning and evaluation of targets. Later the author added the model for controlling and active management and he described in details the model entitled the M-C in the publication Havlíček, K. (2011), "Management & Controlling of small and medium companies", Eupress, Prague, where was introduced complex business process management based on management and controlling balance and an interdisciplinary approach to management.

Figure 5. Detailed model of business process management (M-C model)



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