

15th International Conference on Economics
and Business 2021



**CHALLENGES IN THE CARPATHIAN
BASIN**

**Global Challenges - Local Answers.
Interdependencies or Slobalisation?**

Sapientia - Hungarian University of Transylvania, Faculty of
Economics, Socio-Human Sciences and Engineering,
Miercurea-Ciuc, 2021

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**Global Challenges - Local Answers.
Interdependencies or Globalisation?**

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Abstract

In this study, we present the planning difficulties of municipally owned companies in Hungary. Current legislation does not clearly define how these companies should perform their planning. In Hungary, municipally owned companies typically use public property during their operations, so transparent, well-founded and efficient planning is essential. An average of 1,900 such companies have been operating in recent years, but their number has been declining slowly over the years. The main difficulties in planning are the lack of managerial accounting and sufficient and adequate human resources. In addition, it causes difficulties for companies that there is no integrated directive, guidelines on the basis of which they would design, or they are highly dependent on the owner, as it finances their operations. The COVID-19 pandemic also had an impact on companies' planning for 2021.

Key words: changes, regulation, short-term plan, business

Introduction

In Hungary, municipally owned companies also perform public functions and manage national assets. Hungary's Constitution

stipulates that the property of local governments is national property, which is managed by both state and municipally owned companies. There is no legal obligation to make planning mandatory for them, however, a good plan facilitates the operation of the company, and managers may even be held accountable under the plan.

In Hungary, the regulation of municipally owned companies comes to the fore year by year, in 2020 the mandatory application of the regulations on the internal control system was introduced. In our opinion, planning by these companies and a deeper understanding of longer-term strategic planning is important. At the beginning of this paper, we want to explain what exactly we mean by a municipally owned company in Hungary, and why the presence of these organizations is so important. Between 2014 and 2018, the average number of municipally owned companies operating in Hungary was around 1,900, so it is extremely important that their planning have to be well-founded.

Materials and Methods

Our study focuses on municipally owned companies. The research methods used in the present study were exploratory method and document analysis within that. To implement the method in practice, we collected data and reviewed several national and international studies. The aim of the research is to explore how municipally owned companies have developed in Hungary over the years, what planning methods are used by these companies and what difficulties they encounter. Our findings are based on the database provided by the Central Statistical Office, and with the help of qualitative research we conducted interviews with the experts involved in the planning procedure.

1. WHAT KIND OF COMPANIES ARE MUNICIPALLY OWNED COMPANIES IN HUNGARY?

The definition of municipally owned companies is not clearly set out in Hungarian legislation. Act CXXII of 2009 on the More Economical Operation of Publicly Owned Companies defines a publicly owned company, according to which a publicly owned company is a company in which the Hungarian State, a local government, an association of local government with a legal personality, a national minority government, an association of national minority government with a legal personality, a budgetary body or a public foundation has a majority influence, either individually or jointly.

Local governments can perform their public tasks assigned to them through their majority-owned companies, and they generally make use of this possibility. To do this, however, they must provide assets to the companies (Lehoczki, 2019). This means that these companies manage national assets, so the principle of business continuity, efficient and effective management of public funds, is of paramount importance for these companies. (Czech - Lentner, 2020)

2. MUNICIPALLY OWNED COMPANIES IN HUNGARY BETWEEN 2014-2018

There is no publicly available list of the number of municipally owned companies in Hungary, only their business report is available. In order to be able to analyze the development of these companies, we obtained the total number of municipally owned companies operating in Hungary between 2014 and 2018 from the Central Statistical Office upon individual request. Based on the data, it can be observed that the number of municipally owned companies has been declining slightly every year since 2015, by almost 2 percent per year. Between 2014 and 2018, there were an average of 1,892 such companies operating in Hungary.

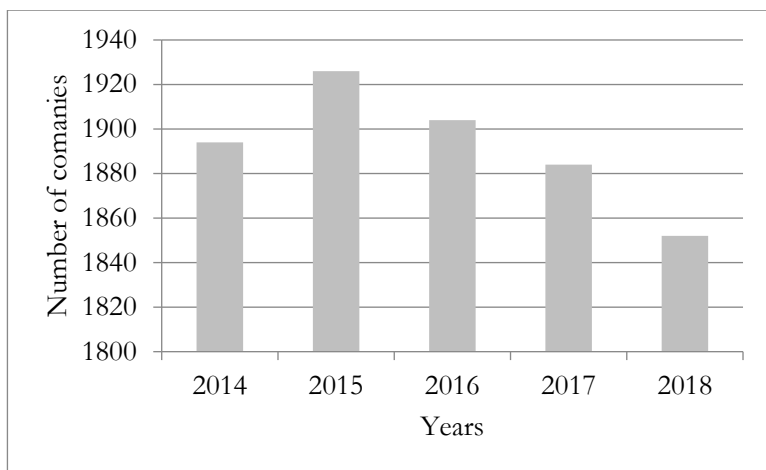


Fig. 1.: Changes in the number of municipally owned companies in Hungary

Source: Own resource based on the tabular data set of the Central Statistical Office compiled on individual request.

Figure 2. shows the development of municipally owned companies in Hungary in the years 2014-2018 according to the grouping of the public sector. It is worth highlighting the very striking change in the sectoral distribution of municipally owned companies: while the number of companies with water supply, wastewater collection and waste management has decreased by more than 30 percent since 2014, the number of companies with activities in the field of accommodation services and hospitality is more as doubled. It can be observed from Figure 2. that, in addition to water supply, wastewater collection and waste management, the majority of such companies carry out administrative and support service activities, arts, entertainment and leisure activities. Only one municipally owned company deals with mining or financial insurance activity.

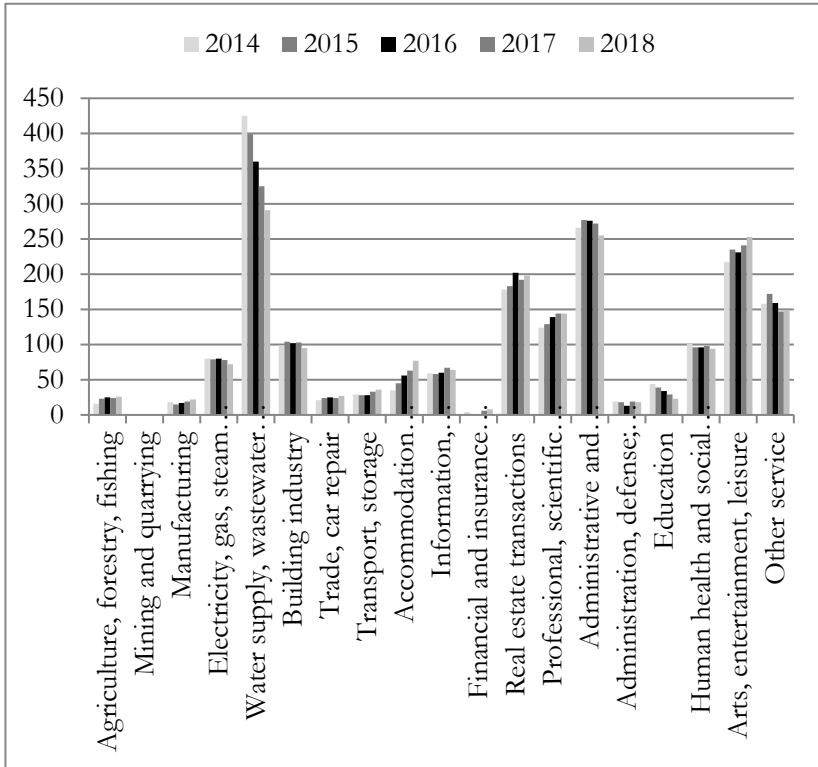


Fig. 2.: Changes in the number of municipally owned companies between 2014 and 2018 by sectoral distribution

Source: Own resource based on the tabular data set of the Central Statistical Office compiled on individual request.

3. PURPOSE AND METHODS OF CORPORATE PLANNING

The operation of any business is fundamentally influenced by the ever-changing social and economic environment.

Therefore, in order to operate successfully and sustainably, companies have to be prepared for unexpected events and

changes, which can be achieved in a long term period by planning future activities. Planning aims to create harmony between organizational objectives and concrete options (Szöllősi- Szűcs, 2015). Corporate planning is used to prepare for the implementation of the strategies formulated by the company. Most of the literature discusses business planning in relation to start-ups, in which future strategic goals appear (West, 1992). However, we consider it important to emphasize that if corporate planning is carried out year by year and is modified if it is necessary, the results to be achieved from the activities of the organization (especially the balance sheet and profit and loss plan) and the comparison of property, financial, and market situation becomes analyzable. By preparing the financial plan, it must be borne in mind that it have to be transparent, well-founded and contain all relevant information that is forward-looking in the life of the company (Nagy, 2013). The business plan, and within it the financial plan, prepared with the appropriate content, enables the annual comparability of the data of the individual business lines, thereby the transparency of the management.

Corporate planning was already present in the 20th century, it really spread in the socialist society, and nowadays it is used in many industries, including municipally owned companies. Initially, planning was informal, then in the 1960s, formal planning was formed in the developed countries (Lukács, 2005). The first manifestation of formalized planning in American and Western European companies was the simple financial planning. The essence of this planning system was the short-term approach, as well as the prescription and accountability of financial indicators (Gardner et al., 1986). Over the years, the most striking change has been the replacement of formalized short-term planning with longer-term planning, up to 5-10 years, meaning that the time horizon of planning has expanded. Among the cornerstones of

long-term planning are mentioned the production plan, the marketing and the financial plan (Barakonyi, 1999).

Hungarian municipally owned companies typically do not compile their business plans for longer term, rather annually. In this sector the law does not prescribe the formal and substantive elements of the plan approved by the owner, a financial planning model has not yet been developed for Hungarian companies performing public tasks, which would be used in connection with their business planning. If we look into what is characteristic of corporate planning, we can see that a profit and loss plan and a balance sheet plan are prepared as part of the business plan. In Hungarian practice, the balance sheet plan is not applied by municipally owned companies. In our opinion, in addition to profitability, presenting the financial situation would be very important, as it shows the process of the company's solvency and the development of its assets.

In Hungary, there is no legal obligation for companies to prepare a business plan, the Accounting Act only makes business reporting mandatory for some companies, but it does not cover planning. The business plan is able to show whether it is worthwhile to start the implementation of the given enterprise or development idea, or whether, according to the objective analysis, our enterprise can become successful. There are companies that prepare so-called "simplified" business plans, which have to be compiled e.g. to get loan or grant a tender support, however, these plans cannot always be called business plans according to their content. Even if companies are obliged to prepare a business plan, presenting the profit plan and financial plan in it separately, there is no integrated directive and methodology for compiling them, thus different plans with different structures can be created.

Perhaps the most common separation of planning and plans takes place according to their time horizon. The planning system is divided into three separate time periods, the aim of which is to

ensure the short-, medium- and long-term solvency of the company with the proper management of financial management and to maintain a balanced balance sheet structure and financing in the following years.

- short term planning is set in 1-2 years
- medium term in 3-5 years
- longer term in more than 5 years

The concretisation of plans covering a longer period is realized in the plans prepared for shorter periods, therefore the substantiation of the long-term plan is of paramount importance. The time horizon of a company's business plan can be defined in 2-3 years. A period of three years is the most often recommended in the literature as well (Kresalek, 2007).

Planning can be performed both formally and informally. Already in the second half of the 20th century, formal planning was taken into account by companies according to their own characteristics and strategy (Lukács, 2005).

By companies planning not only can be grouped by time period, but we can differentiate between operational plans, tactical plans, and strategic plans. Tactical planning means defining the objectives of each subsystem and the related planning of the resources required. Strategic planning includes long-term goals that affect the entire system of the company. The main task of strategic planning is to identify and respond to the organization's opportunities in a timely manner. We can also say that strategic planning includes large-scale changes and comprehensive goals for the future.

4. MUNICIPAL PLANNING DIFFICULTIES

As already mentioned, the average number of municipal companies operating in Hungary between 2014 and 2018 is less than 1,900. It is important for the owner local governments that their companies operate profitably and do not accumulate debt.

This requires planning in practice, in the financial areas, but also in the development of strategy and objectives. In order to take a closer look at this topic, we conducted interviews at the beginning of 2021 with municipally owned companies based in Budapest and Pest County. In the course of the 11 interviews, we were interested in what methods are used in practice by the coworkers involved in the planning process and whether they receive any guidance from the owner.

The results of our research revealed that such companies usually have annual planning, and long-term planning is not typical, although it would be forward-looking to develop strategies with a volume larger than the 5-year mandate of a manager. Within business planning, the planning of the result is currently carried out by the local governments on a base basis in practice. In addition, public task-based planning was also highlighted by the interviewees, which means that the revenues and expenditures required for a given task are summarized and the financial plan is prepared based on that. This helps the companies to a large extent to operate efficiently and effectively, as they cannot count on unnecessary expenses and the local government also provides coverage, on which in its opinion is essential for the performance of the task. The financing plan of municipally owned companies is important because local governments are also obliged to be accepted their budgets annually by the representative body, which includes ownership support related to the operation of the companies. If the year of the municipally owned company is not financially sound, there is a risk that there will be no funds left to cover the expenses by the end of the year. The effectiveness of planning can be verified by comparing annual data and fact data, which provides information to the owner (Mansur - Tangl, 2018). It is not presented by municipally owned companies during planning.

Among the planning difficulties, interviewees mentioned that they do not receive any guidance from the owner. In addition, it was emphasized that the tactical and strategic planning used by business companies is not typical for them, only the annual operational plan have to be compiled at the request of the owner. For this reason, it is not typical for municipally owned companies to prepare their financial plan in writing for the medium or long term, as their financing depends largely on the owner. If there is no longer-term planning, the financing of longer-term investments in annual financial planning becomes unpredictable, which can affect the future operation of municipal companies. The lack of longer-term planning may also create the risk that a municipal enterprise may accumulate a significant amount of debt to ensure its liquidity. Interviewees said that the fact that there is no such person in the municipally owned companies who could professionally compile the balance sheet plan, the profit plan and the financing plan even in accordance with the accounting management methods also causes difficulties in planning.

The pandemic also brought changes and difficulties in planning, as with the COVID-19 pandemic erupted in 2020, it was necessary for companies to plan with it in 2021 as well, as several municipally owned companies were affected by the restrictions in the first quarter of this year as well. At the same time, companies can plan for 2021 by incorporating the experience gained from 2020, which significantly helps well-founded planning and it is not necessary to make changes to the plan during the year.

In Hungary, the approved plans are not usually modified, as the plans for the current year are approved together with the annual report by 05.31., so if an extraordinary event occurred in the first half of the year, the plan that has not yet been approved can be modified. We consider it important to emphasize that municipally owned companies receive the necessary resources for their operation from the owner local government, therefore there may

be a risk that the owner will limit developments in 2021 due to the reduction of resources in a pandemic situation, which must be taken into account in planning.

Conclusions

At the beginning of the study, we presented how municipally-owned enterprises developed in Hungary between 2014 and 2018 according to their number and scope of activities. While the number of these companies is declining by 2% every year, the importance of corporate planning is increasing. The number of currently operating municipal companies is still around 1,900. Long-term planning is not typical of these company's planning. In our opinion, long-term strategic and financial planning would also facilitate the efficient and effective management of companies. Municipally-owned companies also do not receive guidance in their short-term planning, which in practice makes their tasks more difficult. The situation of the managers of these companies is further complicated by the fact that they are usually not assisted by a controlling staff member who can carry out the planning in accordance with management accounting methods. The pandemic also brought changes and difficulties in planning. Based on our study, it can be stated that although in Hungary municipally owned companies have to face many difficulties in planning, corporate planning is essential for the successful, efficient and sustainable operation. The most effective way to do this would be for the owner local government to define an integrated system of criteria for the method and content of planning.

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