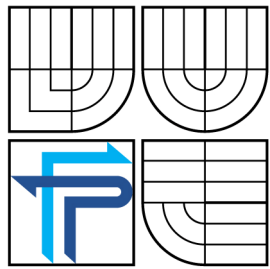




**VYSOKÉ UČENÍ TECHNICKÉ V BRNĚ**  
BRNO UNIVERSITY OF TECHNOLOGY



**FAKULTA PODNIKATELSKÁ**  
**ÚSTAV EKONOMIKY**

FACULTY OF BUSINESS AND MANAGEMENT  
INSTITUTE OF ECONOMICS

## REPORTING OF THE SELECTED FIRM

REPORTING V PODMÍNKÁCH VYBRANÉ FIRMY

**DIPLOMOVÁ PRÁCE**

MASTER'S THESIS

**AUTOR PRÁCE**

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SUPERVISOR

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# Diploma Thesis Assignment

**Bc. Ota Kuliš**

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European Business and Finance (6208T150)

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## **Reporting of the Selected Firm**

In the Czech language:

## **Reporting v podmínkách vybrané firmy**

Instructions:

Introduction  
Thesis Objectives  
Theoretical Background  
Problem Analysis and Current Situation Analysis  
Proposal and Contribution  
Conclusions  
References  
Appendices

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Literature / Sources:


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The deadline for submission for the diploma thesis is given by the Schedule of the Academic year 2009/10.



  
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Brno, 31.3.2010

## **Abstract**

The master's thesis is focused on the area of reporting in the selected firm. The theoretical part describes the concept of reporting and related theoretical framework. The practical part contains an analysis of the company and the current situation of reporting. The objective of the thesis is to enhance and improve reporting in the Czech subsidiary, on the basis of the analysis of the current situation.

## **Abstrakt**

Diplomová práce se zabývá oblastí reportingu v konkrétní firmě. Teoretická část popisuje koncepci reportingu a příslušný teoretický rámec. Praktická část obsahuje analýzu firmy a současné situace reportingu. Cílem práce je rozšíření a zlepšení reportingu v české pobočce na základě analýzy současné situace.

## **Key words**

reporting, reports, controlling, Porter's competitive forces analysis, SLEPTE analysis, SWOT analysis

## **Klíčová slova**

reporting, reporty, kontrolling, Porterova analýza konkurenčního prostředí, SLEPTE analýza, SWOT analýza

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Ota Kuliš

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## **Introduction**

*“Information is the most valuable asset I know of” – Donald Trump*

In today’s fiercely competitive environment, it is the right information available at the right time to the right person that can give our business a competitive advantage. Managers and investors require high quality information in order to make correct decisions, which then ultimately lead to success.

Accumulating business information is the key to business success. However, it is also important to be able to process this information. With the exponentially growing amounts of information stored in ever-present computerized information systems, we must have the ability to select relevant information for decision-making. The need for information in the business environment led to the rise of financial reporting. By applying financial reporting into their information systems, in the broader sense, businesses can create outputs adjusted to particular internal and external users. It is mandatory, that financial reporting not only respects the requirements of users but also caters to the changes of their needs. It must moreover flexibly respond to changes in the external economic and social environment.

In recent years, two major events have had impact on the subject of financial reporting, showing the public how manipulation of information can have catastrophic consequences.

Firstly, it was the financial scandals in the early 2000s by corporations such as Enron and Worldcom. In the example of Enron, it was revealed in 2001 that its reported financial position was sustained substantially by institutionalized, systematic and creatively planned accounting fraud. Consequently Enron stockholders, creditors and other investors lost billions of dollars. The fraudulent accounting scandal also affected

the wider business world by causing the dissolution of the Arthur Andersen accounting firm. These and other scandals entailed negative consequences not only for American capital markets, but also the rest of the world.

Most importantly, these scandals led to a loss of confidence in accounting and financial reporting, the independence and professionalism of auditors, company management, analysts and rating agencies. As a result, the U.S. Congress passed the Sarbanes-Oxley Act of 2002. This act is one of the most important laws affecting U.S. companies in recent history. Sarbanes-Oxley requires companies to maintain effective internal control in order to safeguard their assets, process information accurately and ensure compliance with laws and regulations. Due to the presence of U.S. companies in the EU and the rest of the world, Sarbanes-Oxley has influenced companies beyond the United States.

Secondly, the implications of misinformation that led to the current financial and economic crisis have also had their effect on financial reporting and transparency. The worsening situation had people all over the world asking the question – what happened? The origins reach to the sub-prime mortgage lending with adjustable rates in the United States. As adjustable rate mortgages began to reset at higher rates, mortgage delinquencies followed. The result had been a large decline in value of securities which backed the sub-prime mortgages and therefore the decline in capital of many banks and U.S. government sponsored enterprises. This led to the tightening of credit around the world and consequently recession. Who was on fault? Was it the consumers who lived on increasing debt or the banks and institutions which were the facilitators in their race for quick profits? The answer is both. This is another perfect example of incorrect decision making due to lack of relevant and quality information with a tragic aftermath.

Reporting, if well tailored to its users needs, can improve efficiency, transparency and confidence in companies and capital markets. This is also the case of the company presented in the thesis.

# **1 Thesis Objective**

The analyzed firm MUREXIN, spol. s r.o. is the Czech subsidiary of the Austrian company MUREXIN, AG. The reports it utilizes, their contents and form are assessed by the parent holding company - Schmid Industrie Holding. These external reports are periodically supplied to the parent company and are also used by the management of the Czech subsidiary. Therefore, the information used by the Czech subsidiary can be somewhat distorted and incomplete for the Czech management.

The objective of the thesis is to enhance and improve the reporting in the Czech subsidiary, on the basis of the analysis of the current situation of the firm and contemporary reporting, in order to aid the firm in achieving better results.

## 2 Theoretical Background

The theoretical section is essentially concerned with the subjects of controlling and reporting. Reporting is discussed in detail. Furthermore, the analysis of industry competitive forces, SLEPTE analysis and SWOT analysis are described.

### 2.1 Controlling

#### 2.1.1 History and definition of controlling

In the era of systems thinking, an organization consists of people, structures, and processes that work together to make an organization healthy or unhealthy. Today, top management of a company needs to make snap decisions based on incomplete information and under enormous pressure. From this need arises the **objective of controlling – to coordinate the management of the organization, to control and to provide information.** (2)

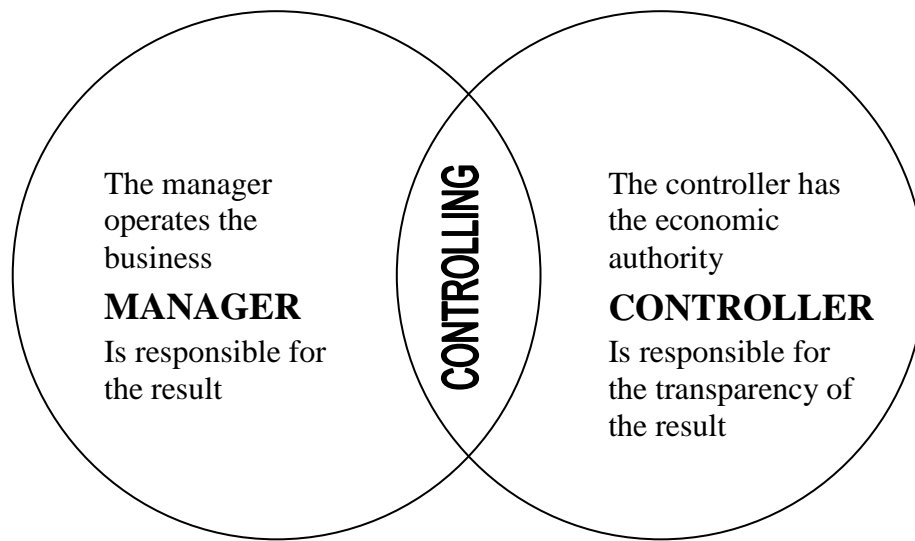
The origins of controlling go back to transportation and manufacturing business such as Ford Motor Company and General Electric in the beginning of the 20<sup>th</sup> century in the USA. Controlling experienced development in the period of the economic crisis in the 1930s and later in the 1950s and 1960s. In Europe controlling emerges after World War II with the economic recovery and the incoming of American capital.

The word controlling comes from the English word “to control”. The definition of controlling somewhat varies from author to author. According to Fibírová, **controlling is in the broader sense understood as** “a method, aiming for increasing the efficiency of a management system with the aid of continuous systematic comparing of current and desirable (previously planned) results of the business process, evaluation of

variances, searching for their causes, proposing measures for correction and eventually updating the planned goals” (3, p.10). A useful definition is by Horváth, who states that “**controlling** is a system of guidelines, which assists in achieving business objectives, prevents surprises and gives us the red light on time, when a danger requiring correction arises” (3).

### **2.1.2 The role of controlling in the firm**

The main and only **authority of the controller** is in the field of ensuring information availability for the internal management of the company, conception of information for intra-company value management, in determining its dissimilarity or connection with information from financial accounting, and in the determining of classification detail of information in the company. The **basic responsibility of controlling** is the preparation of underlying information for planning an decision making, the coordination of content of information from financial accounting, managerial accounting, reports and statistics. Furthermore, controlling is of assistance on the interpretation of the information for managers and provides consulting in the field. The controller should be an equal partner to management, but who does not make decisions about particulars of the future business development. (1, p. 228)



**Figure 1: Relationship between controller and manager (1, p. 228)**

The fundamental **functions of controlling** are:

- **Planning function** (for coordination and consulting),
- **Information function** (function of detection, documentation, control),
- **Reporting.** (3, p. 11)

## **2.2 Reporting**

### **2.2.1 History and trends of reporting**

The origin of financial reporting is linked with the development of accounting in the 14<sup>th</sup> century. The initial requirements were the recording of information about sales, asset inventory and payment of taxes. Since the 19<sup>th</sup> century, there has been a rapid increase in the need for information from its users, due to the growth of international

trade. These developments combined with the rise of economic science was the outset of controlling of which financial reporting is a function. The evolution path of reporting therefore copies the evolution of controlling discussed in the previous chapter.

The expansion of global capital markets and globalization in the second half of the 20<sup>th</sup> century exposed the insufficiencies in the transfer of information. This led to the endeavor of **harmonization** of external reporting, which is taking place at two levels. One of them is the harmonisation at the level of regional trading blocs (EU, NAFTA, APEC). The other level endeavors **worldwide harmonization** and is oriented primarily at external financial reporting of companies quoted on capital markets. It is then logical, that in this period **International Accounting Standards (IAS)** were created, gaining acceptance and wider usage almost a quarter of a century later than the **Generally Applied Accounting Principles (US GAAP)**. Since 2007 all companies quoted on capital markets must use **IAS/IFRS** (International Financial Reporting Standards). It is only a matter of time before all companies will be using these standards. Under the pressure of globalization, we are now witnessing the trend towards **convergence**; the unification of two worldwide accepted sets of financial reporting. (7)

Even though the term “reporting” in the sense of business reporting and business intelligence emerges in the Czech Republic only after the year 1990, in fact it is not a new matter in the Czech companies. As the predecessor of today’s “reporting” can be considered **all kinds of statements and communications about the fulfillment of plans to state organizations and the wide public in the then centrally planned economy**. With the collapse of the centrally planned economy, the planning in Czech companies also either ceased to exist or was limited and with it the corresponding reports and communications about the operations of the companies. Only with the transformation to a market based economy and with the arrival of foreign capital did Czech companies start discovering reporting in the modern sense. (22)

### 2.2.2 Reporting and its goals

According to Fibírová, “the **goal of reporting**, as a very important part of controlling, **is to create a complex system of indicators and information**, which should evaluate not only the progress of the business as a whole, but also partially with different views, which are decisive for management.” (3, p. 11) Reporting is therefore usually understood as **a relatively independent part of an information system**, which includes the selection, processing, formal adjustment and distribution of information about a business **designated for various groups of users**.

The **main goals of reporting** are to:

- contribute towards the fulfillment of strategic objectives and ensure decision making in line with these objectives,
- enable control by stating and analyzing variances from planned values,
- enable quality decision making,
- enable the examination of accepted decisions,
- enable the delegation of measures towards certain persons, etc. (12, p. 158)

### 2.2.3 Structure of reporting

The contents, format and frequency of reporting is dependant on the requirements of the firm in question. Whether the reporting is periodic or not, it can be subdivided as:

- **Standard reporting** – consists of reports created in regular intervals, which have a previously defined structure (real values, variances, variance analysis, prognosis, etc.). They can be created **yearly, quarterly, monthly** and even **weekly or daily**.

- **Special reporting** – consists of reports **created on request**, which could be special based on the term of creation with standard structure, or could also be of non-standard structure; such as risk analysis or segment group analysis, which aren't usually created. (3)

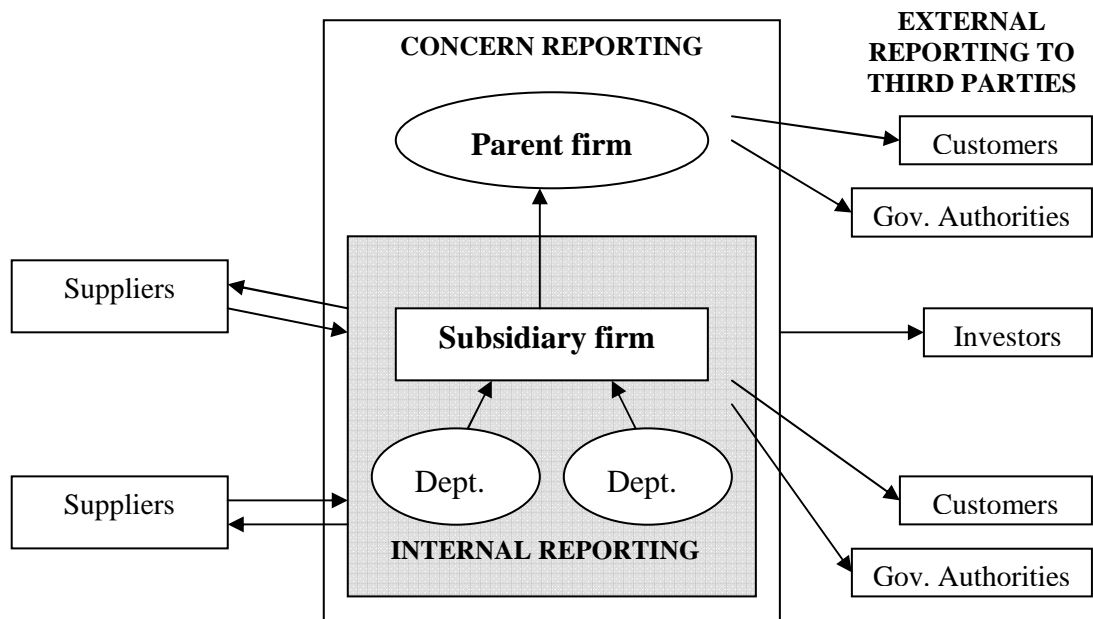
Other categories are:

- from the perspective of **time** (retrospective, future oriented),
- from the perspective of **focus** (partial, general summary),
- from the perspective of the firm's **environment** (external towards third parties, external towards parent firm, combined, internal). (9)

**Internal reporting**, in practice, is used by the top management and various departments throughout the firm. These reports must be concise, clear and comprehensible. They usually include summaries of financial statements, sales results, consumption, and personnel data.

**External reporting** is commonly considered the reporting to the parental company (concern reporting). Data is entered into reports, usually online, in monthly or quarterly intervals. The results are compared with the same period of the previous year and with the plan. These reports usually include the balance sheet, P&L, sales, etc.

**External reporting towards third parties** includes reporting towards government authorities, banking and financial institutions, securities commissions, and so on. These reports are carried out in accordance with national or international accounting standards.

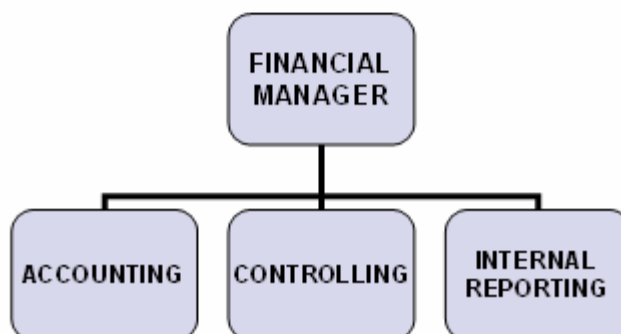
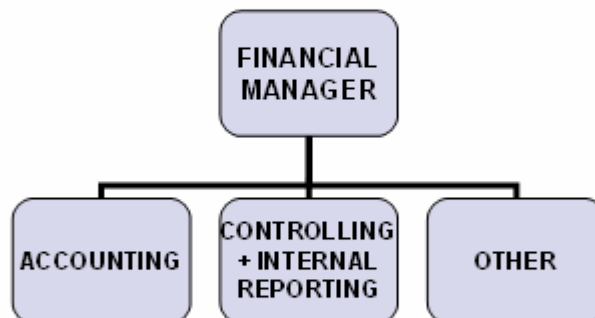
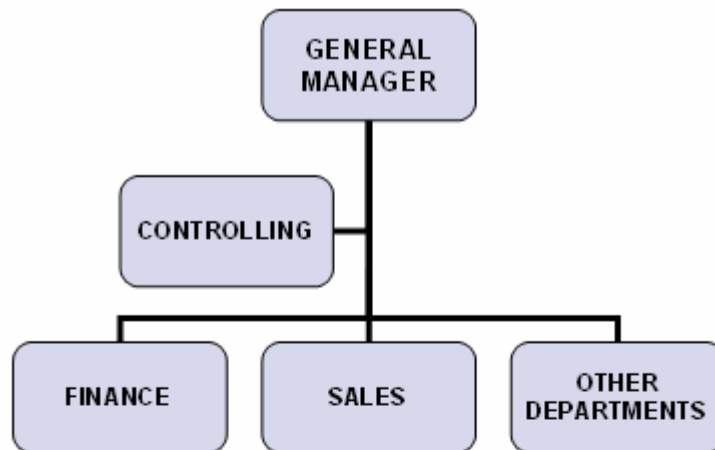


**Figure 2: Reporting in the firms environment (Author)**

#### **2.2.4 Reporting in the organizational structure**

By definition reporting is perceived as a rather autonomous **subsystem of controlling**. The placement of financial reporting is **dependant on the size of the organization**. An independent department for reporting could be found in large institutions such as banking and financial institutions, multinational corporations and companies quoted on capital markets. In medium sized businesses, it is the controllers who are concerned with reporting. In small businesses this department does not exist and these units are only concerned with mandatory reports to government institutions, which are usually created by the assigned accountant. In organizations, **internal reporting can be dealt with** by controlling, as part of controlling or as part of the financial/accounting department.

The following diagrams depict the options of the **placement of reporting into the organizational structure**:



**Figure 3: Options of placement of reporting in the organisational structure**  
(5)

## 2.3 Creating reporting in the firm

### 2.3.1 Necessary data for reporting

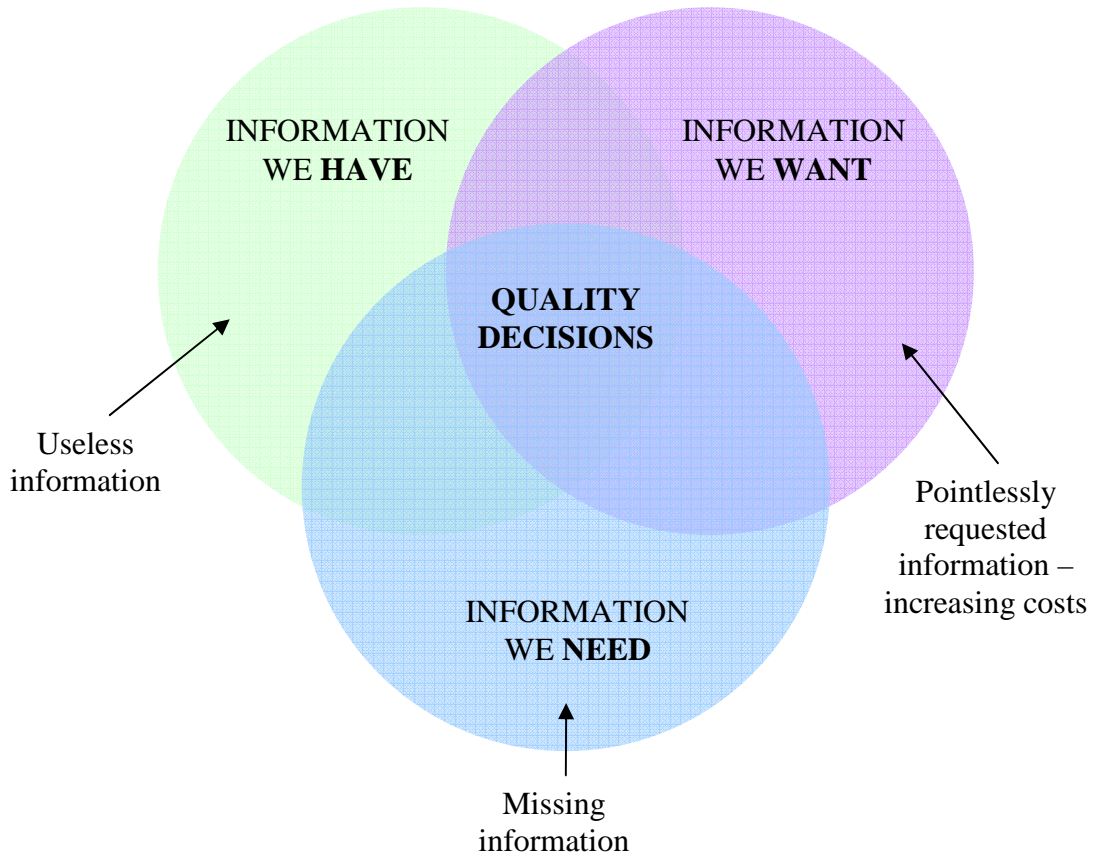
The main source of data, which constitute the basis for the creation of reports, is in most firms their **accounting data**. This alone is internal information, insufficient for quality reporting, and should be enhanced with **external information** of the firm's external environment. Unfortunately there is discordance between the existing information, the information we need and the information we want. The basic problems that can arise are:

*The information we have, isn't the information we want.*

*The information we want, isn't the information we need.*

*The information we need, isn't the information we have. (12, p.157)*

It would be ideal if we would always need and could process only the information the information basis provides. The results of empirical studies in Austria and the Czech Republic show that the reality is far from ideal. For example, the demand for information makes only 10% of the total information need, which can be objectively covered. Excessively large amounts of irrelevant information are requested, while with the growing amount of available information, the decisions made are incorrect. Studies also show that most of the times, an inadequate method for processing information is used, which leads to a wide spectrum of output data (data aren't aggregated). Moreover, whilst 90% of Austrian and 70% of Czech firms use some kind of reporting, only 20% and 18%, respectively, dispose of an information system that caters to all of their demands. (12, p. 158)



**Figure 4: Relationship between information for quality decisions (12, p. 157)**

### 2.3.2 Effective reporting

To create effective reporting in the firm we must find the answers to the following questions:

- **Who?** - Information for top management is processed only by controlling.
- **What?** - It is necessary to stop excessive routine messages and limit the number of ad hoc messages.
- **How often?** – Prevent duplication of information for top management.

- **With what?** – Data about the reality, plan and estimates must be compatible with the creators' and users' software and hardware
- **For what?** – Information for management should be the basis for decision making (12. p.159)

### 2.3.3 Interest groups and their needs

According to Mikovcová, there exist two basic interest groups, which differ in their requests for the firm information system:

- **Top management** needs primarily cumulated information about the whole firm and according to it, evaluate the single divisions, subdivisions and departments.
- **Lower management** needs a user friendly and simple system, which supplies detailed and up-to-date information about single centers and which will enable the analysis of differences and the simulation of future evolvement. (12, p. 159)

### 2.3.4 Outputs and the final report

The entire time of conducting reporting, it should be kept in mind, for whom the report is addressed. The receiver of the reported information is usually the manager at the corresponding hierarchical level. The manager is the “customer” of the controlling department and the report is the “product”. Therefore we can analyze the 4P marketing mix in this context. (12)

**The product** is either a standard or a special report. The standard report should always include planning, reality and differences.

**The price** from the perspective of the receiver of the report, is the time and effort invested in the reading and investigation of the report. The value of the report must be greater than its price. The value of the report is increased by the ability to contribute to correct decisions. The price of the report is increased by the inclusion of incomprehensible constructions, non-transparent information, inadequate graphics, numerical errors and mixing of important and unimportant information.

**The placement** can be either into “hardware”, such as tables and lists that are transferred in written form, or “software” which are interpretations and suggestions for improvement.

The fourth P is **promotion**, when the controller must enforce the continuous promotion of the “hardware” and the “software”. The controller must ensure the manager is satisfied with his or her decisions and build trust between them.

### 2.3.5 Fundamentals of the report

Mikovcová indicates the following fundamentals of a report:

- **Objectivity** due to the fact that there can be clashes of interest groups in the firm (investors x management x departments), the decisions of management should be supported by objective information.
- **Verifiability and comprehensibility** which concerns not only the presented information but also source data, applied methods and results.
- **Suitable contents, form and structure** of the report, whereby the aggregation of information increases with the movement upwards in the firm hierarchy.

- **Timeliness**, by which reports should be available at the moment when their user needs them. There is an array of tension between the report being up-to-date, accurate and complete. Usually up-to-date information is inaccurate, and with increasing completeness the accuracy increases but at the expense of being up-to-date. The principle of controlling (necessity to intervene in time and avoid negative differences) leads to the request of up-to-date reports having more weight than the request for accuracy and completeness. (12)

## 2.4 Kralick's Quicktest

When trying to assess a firm's financial situation it is suitable to conduct an analysis of financial reports. The drawback of standard financial index figures is that they evaluate relatively isolated areas about the health of a business (return on sales, liquidity, debt). This led financial analysts to create complex financial indexes. The partial values of the index are differentiated and assigned to groups which have equivalent points. The **Quickest index** is calculated according to the following table.

**Table 1: Points for partial values of Kralick's Quicktest**

	0 points	1 points	2 points	3 points	4 points
A	< 0	0 - 0,1	0,1 - 0,2	0,2 - 0,3	> 0,3
B	> 30	12 -30	5 -12	3 - 5	< 3
C	< 0	0 - 0,08	0,08 - 0,12	0,12 - 0,15	> 0,15
D	< 0	0 - 0,05	0,05 - 0,08	0,08 - 0,1	> 0,1

A = capital strength = equity / total assets

B = debt = (debt capital – short-term financial assets) / operational cash flow

C = return = EBIT / total assets

D = financial performance = operational cash flow / operational revenues

Financial stability (FS) = (A + B) / 2

Income stability (IS) = (C + D) / 2

Overall situation (OS) = (FS + IS) / 2

If the overall situation is 3 or higher, a firm is **financially healthy**. Values between 2 and 3 suggest a firm has satisfactory financial management. A firm is in financial troubles if the overall situation value is under 1. (10)

## 2.5 SLEPTE analysis

In analyzing the **macro-environment** of a business, it is crucial to identify the social, legal, economic, political, technological and environmental factors that might affect an organization's supply and demand levels and its costs. SLEPTE analysis is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations. (11, p.132)

### 2.5.1 Social factors

Social factors can markedly influence not only demand for goods and services but also supply (e.g. the will to work). These factors include health consciousness, population growth rate, age distribution, career attitudes and emphasis of safety. In the area of cultural aspects is necessary to account for the population's view of the world, themselves, the organization, foreign products and services, their lifestyle, family structure, income differences, etc. Companies may need to change their management strategies to adapt to these social trends.

### **2.5.2 Legal factors**

In the analysis of legal factors of individual countries, the role of the state is of great importance. These legal factors influence the business operations, its costs and determine its future development. Legal factors include: discrimination law, consumer law, antitrust law, employment law and health and safety law. (11)

### **2.5.3 Economic factors**

Each business and its decisions are affected by the development of macroeconomic trends in one way or another. It is essential to analyze economic growth, interest rates, exchange rates and the rate of inflation. For example, interest rates affect the growth and expansion by having influence over the firm's cost of capital. Exchange rates affect the supply and price of imported goods and the costs of exports in an economy. It is also important to view these problems globally as financial and economic crises are now on a global scale. (18)

### **2.5.4 Political factors**

Political factors are somewhat connected with legal factors, on the grounds that in both instances their originator is the state by means of its institutions. Political factors influence the degree of government intervention in the economy. Specific political factors include tax policies, labor laws, environmental law, trade barriers, tariffs, subventions and political stability. To a certain extent, governments have great influence on health, education and infrastructure in a country. (18)

### **2.5.5 Technological factors**

Determining the future trends of technological advances can shape the strategy and success of a business. Technological factors include aspects such as research and development activity, automation, technology incentives and the rate of technological change. Technological advances can affect costs, quality and lead to innovation, thereby impacting business decisions.

### **2.5.6 Environmental factors**

Environmental factors like weather and climate change are currently discussed among experts and economists as well. Major climate changes due to global warming are occurring and together with greater environmental awareness this external factor is becoming a significant issue for businesses to consider. The desire to protect the environment impacts industries such as travel and transportation and the trend towards environmentally friendly products and services is affecting demand and creating new business opportunities. (18)

## **2.6 Porter's competitive forces analysis**

In order to evaluate the attractiveness of an industry, it is appropriate to undertake a five competitive forces analysis; a framework developed by Michael Porter in 1979. **The five competitive forces include:** threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitute products and the competitive rivalry within an industry. Porter states, "Whatever their collective strength, the corporate

strategist's goal is to find a position in the industry where his or her company can best defend itself against these forces or can influence them in its favor." (25)

By analyzing the underlying economics of an industry, its overall profitability becomes evident. An unattractive industry is one where the combination of competitive forces drives down the overall profitability of the given industry. Porter refers to the forces as the micro environment, which affects a company's ability to serve customers and make a profit. If, however, an industry has low attractiveness, companies can apply their core competencies to achieve profits above the industry average.

### The Five Forces That Shape Industry Competition



Figure 5: The five competitive forces (16)

### **2.6.1 Threat of new entrants**

The level of the threat of entry for new entrants into an industry depends on the entry barriers present and on the reaction from existing competitors. **There are six major sources of barriers to entry:** economies of scale, product differentiation, capital requirements, cost disadvantages independent of size, access to distribution channels and government policy.

Economies of scale force the newcomer either to come in on a large scale or to accept a cost disadvantage. In the area of product differentiation, brand identification poses a barrier by forcing entrants to spend heavily to overcome customer loyalty. Capital requirements create barriers of entry where there is a need to invest large financial resources into up-front advertising and R&D. Cost disadvantages independent of size include the effects of the learning and experience curve, favorable locations, government subsidies, etc. Access to distribution channels poses a threat to newcomers because it must secure distribution of its product or service, which can be quite high in the retail business. Government policy can limit or foreclose entry to industries with controls such as licensing, limiting access to raw materials, standards and safety regulations. (25)

### **2.6.2 Bargaining power of suppliers**

Suppliers can exercise bargaining power over participants in an industry by raising prices or reducing the quality of purchased goods and services. Powerful suppliers can withdraw profits from an industry unable to recover cost increases in its own prices.

**A supplier group is powerful if:**

- It is dominated by a few companies and is more undiffused than the industry it sells to.
- Its product is unique or at least differentiated, or if it has built up switching costs.
- It is not obliged to confront other products for sale to the industry.
- It poses a threat of integrating forward into the industry's area of business.
- The industry is not an important customer of the supplier group. (25)

**2.6.3 Bargaining power of buyers**

Similarly to suppliers, customers can force down prices, demand higher quality or more service, and set competitors against each other – at the expense of industry profits.

**A buyer group is powerful if:**

- It is undiffused or purchases in large volumes.
- The products it purchases from the industry are undifferentiated.
- The products it purchases from the industry form a mandatory component of its product and represent a significant fraction of its cost.
- It earns low profits, creating an ample incentive to lower its purchasing costs.
- The industry's product is insignificant for the quality of the buyers' products or services.
- The industry's product does not save the buyer money.

- The buyers pose a credible threat of integrating backward to make the industry's product. (25)

#### **2.6.4 Threat of substitute products**

A **substitute product** is a product from a different industry that offers similar benefits to the consumer as the product produced by firms within the industry.

**The threat of substitutes is high when:**

- Customer switching costs are low
- The substitute product is cheaper than the industry product
- The substitute product quality or performance is equal or superior to industry product quality or performance (25)

#### **2.6.5 Competitive rivalry within an industry**

Rivalry among existing competitors takes the form of trying to grab a position using tactics like price competition, product introduction and advertising battles.

**In an intensely competitive industry, the following factors are present:**

- A large number of competitors or they are roughly equal in size and power.
- Industry growth is slow, leading to fights for market share that involve expansion-minded members.

- The product or service lacks differentiation or switching costs, which would protect the firm from raids on its customers.
- Fixed costs are high or the product is short-lived, which creates a strong temptation to cut prices.
- Exit barriers are high.
- The rivals have different ideas about how to compete and constantly confront each other. (25)

## 2.7 SWOT analysis

**SWOT analysis** is a strategic planning method used to evaluate Strengths, Weaknesses, Opportunities and Threats in a project or business. SWOT analysis draws on discoveries from the competitive forces of an organization’s industry and the SLEPTE analysis of the external environment. Used in a business context, SWOT analysis can help create a sustainable niche in the firm’s market, but can also be useful in understanding an organization or situation and decision-making for all sorts of situations. (23)



**Figure 6: SWOT analysis (22)**

**Strengths** are positive internal tangible and intangible attributes for an organization and within the organization’s control.

**Weaknesses** are internal factors within an organization's control that steer it away from attaining desired goals.

**Opportunities** are external factors which pose as positive possibilities for the organization's development. Because it is an external factor we must ask ourselves what opportunities exist in the firm's environment which would push it ahead of the competition.

**Threats** are external factors beyond the organization's control which could negatively impact the organization's achievement of set goals. The organization should be ready to address these incidents if they do arise.

**For a successful SWOT analysis, the following rules should be followed:**

- Realistic assessment of the organization's strengths and weaknesses
- SWOT analysis should distinguish between where the organization is today and where it could be in the future
- SWOT should be specific
- SWOT should be applied in relation to the organization's competition
- Complexity and over analysis should be avoided
- SWOT analysis is subjective. (23)

## 3 Problem Analysis and Current Situation Analysis

### 3.1 Firm Background and Information

#### 3.1.1 Basic information



<i>Firm:</i>	MUREXIN, spol. s r.o.
<i>Registered office:</i>	Modřice, Brněnská č.p.679, PSČ 664 42, Czech Rep.
<i>IČO:</i>	607 32 008
<i>DIČ:</i>	CZ 607 32 008
<i>Form of entity:</i>	Limited Liability Company (LLC)
<i>Subject of enterprise:</i>	wholesaling, specialized retail, mediation of sales, mediation of services, promotional activity and marketing
<i>Date of inception:</i>	22.12.1994
<i>Partners / shareholders:</i>	MUREXIN AG, 100%

#### 3.1.2 Ownership and relations with companies of the group

The company Murexin manufactures and offers a wide array of products in the areas of building construction, tiling and placing systems and paints. The Czech firm, MUREXIN, spol. s r.o., is the subsidiary of the company MUREXIN AG from Austria, which holds 100% ownership. MUREXIN AG belongs to the group Schmid

Industrieholding GmbH, which had revenues of 1,6 billion Euro in the 2009 financial year. MUREXIN AG Austria is the manufacturer of Murexin brand products and supplies the Czech subsidiary with the products to be sold on the Czech market.

The relationships of the Czech subsidiary of Murexin with other companies of the group are as follows:

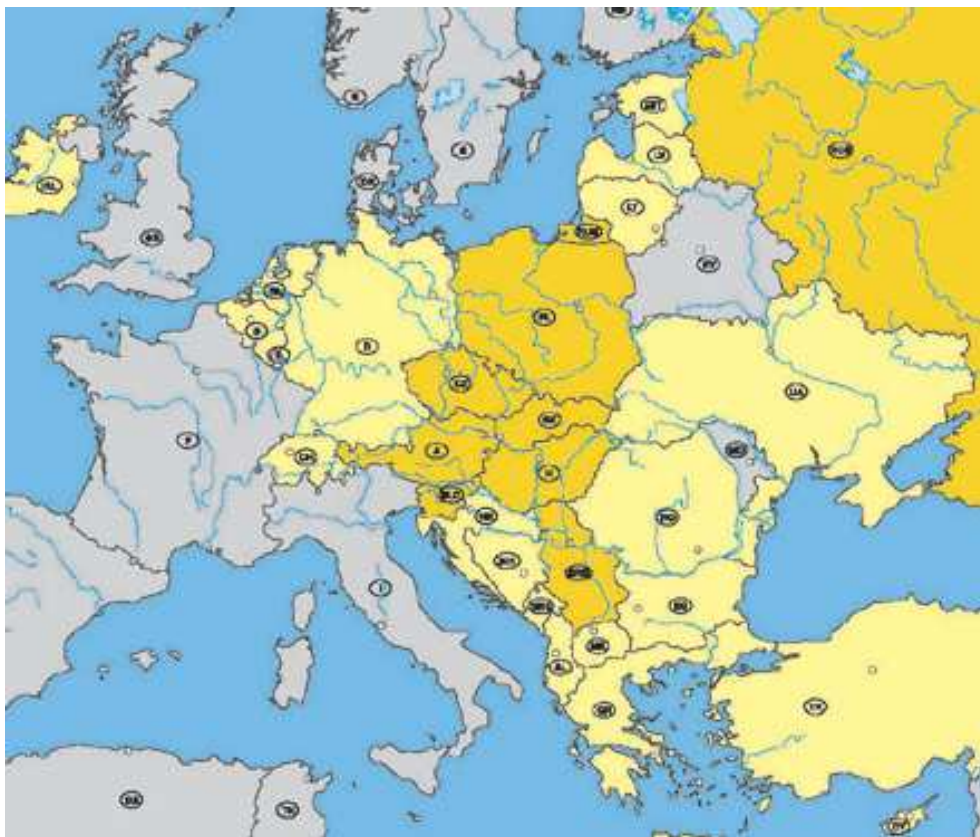
MUREXIN AG, Austria	- supplier of goods
Murexin Austrotherm, Slovakia	- supplier of marketing merchandise
Baumit spol. s r.o. Czech Republic	- supplier, purchaser of goods, leaseholder
Baumit spol. s r.o. Slovakia	- supplier of goods
Baumit Beteiligung, Austria	- supplier of goods
Schmid Industrieholding GmbH	- executes controlling
Tonstav spol. s r.o. Czech Republic	- purchaser of goods
Wopfinger Baustoffindustrie, Austria	- supplier of marketing services
Baumit Bayosan, Germany	- purchaser of marketing merchandise

### **3.1.3 History of the company and international market**

Murexin was founded in Austria in the year 1931 and shortly after its founding it achieved an excellent reputation among customers. The company started as a provider of quality products in the fields of building protection and later building construction materials. Since 1987 Murexin belongs to the Schmid Industrieholding group. In the year 1995 Murexin acquired the company Furtenbach, which later led to the inception of the independent company Furtenbach GmbH within the Schmid Industrieholding group. In the same time period Murexin acquired the company Durlin – Wenig, a traditional manufacturer of paints and varnishes. The past acquisitions were a

mandatory step towards fulfilling the main business objectives: **providing complex solutions by one company and ensuring the satisfaction of customers** not only in the present but also in the future.

The wide array of products and exceptional service of Murexin led to the expansion beyond the Austrian market. Today Murexin offers its products and services through **subsidiary companies** in Switzerland, Hungary, Slovakia, Poland, Czech Republic, Slovenia, Serbia, and Russia. Murexin products and services are also sold through **partner companies** in Germany, Lithuania, Croatia, Belgium, Romania, Bulgaria, Ukraine, Turkey, Korea, Ireland, Israel, Albania and Estonia.



**Figure 7: Murexin international: subsidiaries - orange, partner companies - yellow (15)**

### **3.1.4 Products, customers and competition**

The Czech subsidiary is primarily involved in wholesaling and merchandising Murexin products in the following product groups:

#### **Building construction:**

- Adhesives for concrete, mortar and screed
- Filling compounds, quick mortars, building materials
- Release agents, concrete treatment
- Insulations, waterproofings, bituminous compounds
- Impregnations, sealings and coatings
- Joint sealings
- Industrial floors
- Concrete maintenance
- Cleaning, maintenance

#### **Tiling systems:**

- Preparation
- Placing
- Jointing
- Insulation and construction panels UNI
- Tile border profiles
- Sealings with polysiloxane

**Placing systems:**

- Priming and bonding agents
- Leveling and filling compounds
- Adhesives
- Parquet lacquers and maintenance
- Border profiles
- Tools

**Durlin paints and lacquers****Energy saving system**

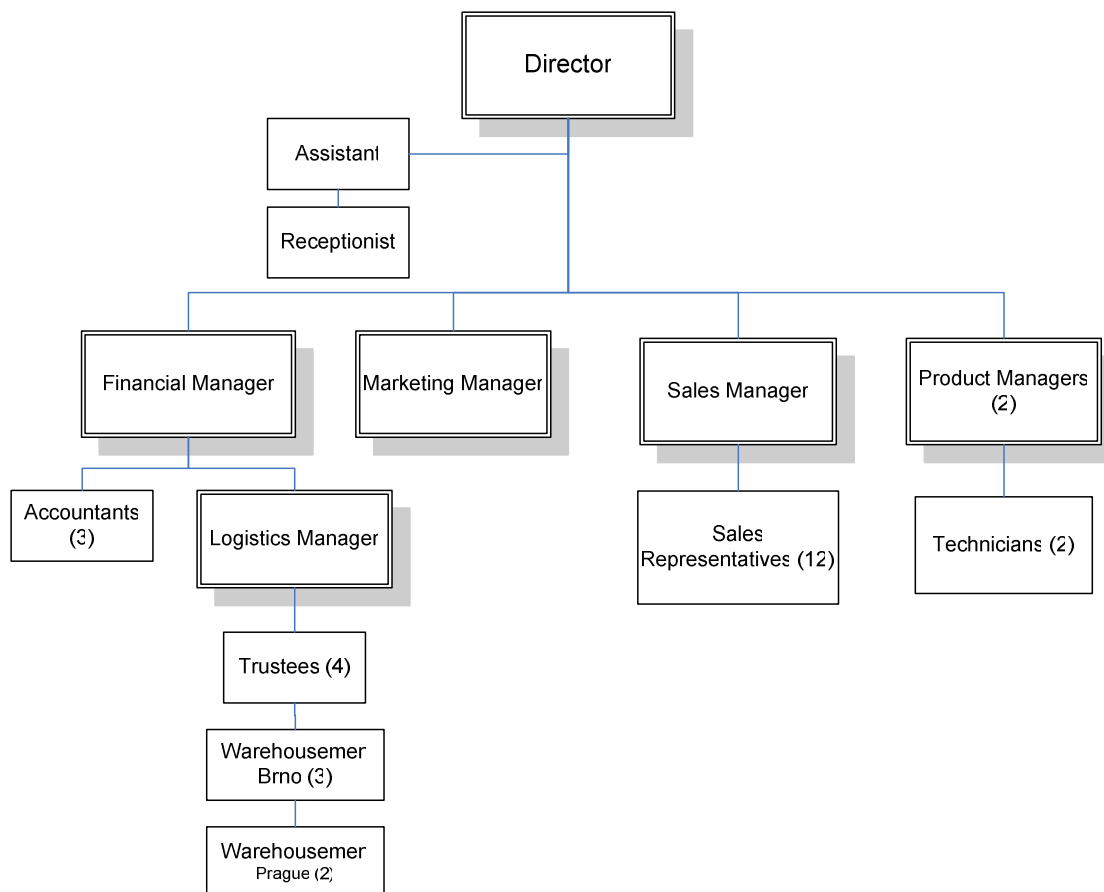
The most successful Murexin products on the Czech market are tiling systems – placing. The firm boasts that “every 10<sup>th</sup> tile in the Czech Republic is placed with Murexin”. On the contrary, the firm is constantly achieving low sales of Durlin paints and lacquers.

**Customers** of Murexin constitute primarily of construction firms and retail outlets, with contractors and end customers having a smaller share. The 20/80 rule applies to the company’s customers – 20% of customers account of 80% of the turnover. The company has recently discovered that 50% of turnover comes from 10 top customers. This is valuable information that could be used for planning and reporting the customers’ turnover.

**Competition** in the building industry is fierce, with the main competitors for Murexin being Sika, Mapei, Degussa, S.G. Weber Terranova, Bona, Henkel. The market share of Murexin on the Czech market is from 1% to 9% depending on the above mentioned product groups. The highest market share is achieved by tiling systems while other products’ market share is inferior to that of the competition.

### 3.1.5 Organizational Structure of the Firm

The Czech subsidiary has 34 employees, most of which work at the central office and warehouse in Brno. The company is organized into four departments: financial, marketing, sales and product departments. The logistics manager reports to the financial manager and is in charge of major warehouse processes and administration. Product managers and technicians are responsible for product issues and lecturing on the use and safety of products. The sales manager is responsible for the sales team and coordinates the sales operations.



**Figure 8: Organisational structure of Murexin, spol. s r.o. (29)**

### 3.1.6 Basic financial data of the firm

**Table 2: Assets**

ASSETS (thousands CZK)	Year		
	2007	2008	2009
<b>TOTAL ASSETS</b>	<b>116 119</b>	<b>113 265</b>	<b>114 635</b>
<b>Long-term assets</b>	<b>75 706</b>	<b>78 259</b>	<b>77 839</b>
Intangible fixed assets	91	424	458
Tangible fixed assets	75 615	77 835	77 381
Financial investments	0	0	0
<b>Current assets</b>	<b>38 993</b>	<b>33 449</b>	<b>35 985</b>
Inventory	11 397	11 257	11 160
Material	11		
Merchandise	11 386	11 257	11 160
Long-term receivables	0	0	0
Short-term receivables	26 061	21 418	22 643
Trade receivables	25 567	20 831	19 006
Due from state - tax receivables			3 059
Short-term advances	357	443	321
Conjectural accounts	25	29	53
Other receivables	112	115	204
Short-term financial assets	1 535	774	2 182
Cash	65	75	190
Bank accounts	1 470	699	1 992
<b>Accruals</b>	<b>1 420</b>	<b>1 557</b>	<b>811</b>
Deferred expenses	1 420	1 557	811

The total value of assets in the firm has stopped growth in the last 3 years at around 115 million CZK. Tangible fixed assets are made up of the administrative building, warehouse and building parcel in the direct ownership of the firm in Brno. The value of short-term receivables in the year 2007 was only slightly higher, but this didn't constitute overdue receivables. The merchandise inventory follows a constant trend and so does its turnover period.

**Table 3: Liabilities**

LIABILITIES (thousands CZK)	Year		
	2007	2008	2009
<b>Total liabilities</b>	<b>116 119</b>	<b>113 265</b>	<b>114 635</b>
<b>Equity</b>	<b>36 048</b>	<b>41 021</b>	<b>34 229</b>
Nominal capital	16 700	16 700	16 700
Retained earnings	6 447	10 178	14 336
Profit (loss) of current period	11 231	12 473	1 523
<b>Debt capital</b>	<b>80 071</b>	<b>71 738</b>	<b>80 379</b>
Reserves	0	0	0
Long-term payables	1 380	1 652	1 921
Short-term payables	16 724	12 877	18 270
Bank loans	61 967	57 209	60 188
Long-term bank loans	18 181	15 030	12 883
Short-term bank loans	43 786	42 179	47 305
<b>Accruals</b>	<b>0</b>	<b>506</b>	<b>27</b>

From the liabilities part of the balance sheet it can be noted that the parent company withdraws a substantial dividend from earnings, thus decreasing the growth of equity. The nominal capital of 16.7 million CZK is the capital investment of Murexin AG, which holds a 100% stake in the subsidiary. From the assets and liabilities tables it can be noticed that the company has net working capital of -29.6 million CZK. This may seem unhealthy but the fact is that the firm has a short-term bank loan that is regularly rolled over and classified as short term debt. However, the firm should keep being successful in selling its merchandise and collecting its receivables or it might have its credit line cut and interest rates increased.

**Table 4: Profit and loss account**

PROFIT AND LOSS ACCOUNT (thousands CZK)	Year		
	2007	2008	2009
Revenues from merchandise	162 240	162 276	149 863
Cost of goods sold	107 759	101 231	101 407
<b>Sales margin</b>	<b>54 481</b>	<b>61 045</b>	<b>48 456</b>
Production	2 443	3 116	3 254
Production consumption	23 962	26 740	25 603
<b>Added value</b>	<b>32 962</b>	<b>37 421</b>	<b>26 107</b>
Personal expenses	16 050	17 956	17 778
Revenues from disposals of fixed assets and material	904	123	1
<b>Operational profit (loss)</b>	<b>15 843</b>	<b>17 709</b>	<b>3 782</b>
<b>Profit (loss) from financial operations</b>	<b>-1 069</b>	<b>-1 576</b>	<b>-1 554</b>
Income tax	3 543	3 660	705
<b>Profit (loss) of current accounting period</b>	<b>11 231</b>	<b>12 473</b>	<b>1 523</b>
Profit (loss) before tax	14 774	16 133	2 228

The firm showed a 15% growth in revenues in the years 2002 to 2007. Due to the economic crisis this growth has almost stopped and in 2009 the revenue declined by 12.4 million CZK compared to 2008. The cost of goods sold stopped its growth in 2007, dropped in 2008 and remained the same for 2009. These cost cutting measures led to the year 2008 being successful in terms of profit, however the decline of revenue in 2009 cut a substantial slice of the profit for that year. The growth of personal expenses was again halted by the economic crisis as a result of lower turnover in the year 2009.

### 3.1.7 Kralick's Quicktest

The results of the quicktest for the company are quite positive and balanced. The firm has high capital strength and financial performance in all three evaluated years. The value of debt is improving, while the low profit in 2009 means the return value receives only one point.

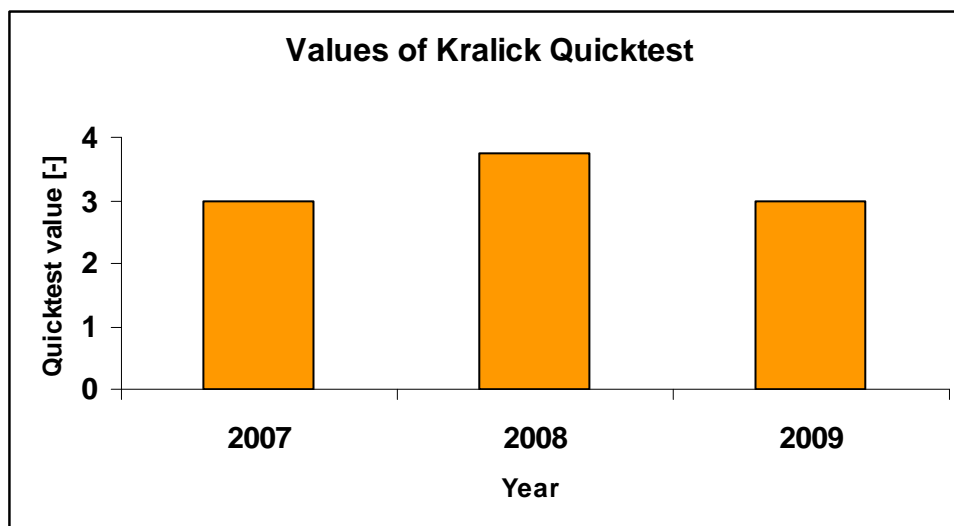
**Table 5: Points for Quicktest values**

	2 007	points	2 008	points	2 009	points
<b>A</b>	0,31	4	0,36	4	0,30	4
<b>B</b>	5,01	2	4,33	3	4,02	3
<b>C</b>	0,14	3	0,16	4	0,03	1
<b>D</b>	0,09	3	0,10	4	0,13	4

**Table 6: Values of financial stability, income stability and overall situation**

		2007	2008	2009
<b>FS</b>	$(A+B)/2$	3	3,5	3,5
<b>IS</b>	$(C+D)/2$	3	4	2,5
<b>Situation</b>	$(FS+IS)/2$	3	3,75	3

The firm achieved the most satisfactory results in the year 2008 according to the quicktest. Even though the financial stability remained strong in 2009, the index for the overall situation was degraded by low profits of 2009. Despite this decline the index still remains in the area classified as “**financially healthy**”.



**Figure 9: Values of Quicktest for 2007-2009**

## **3.2 SLEPTE analysis**

### **3.2.1 Social factors**

In relation to building construction, social factors can markedly influence demand and supply. The population of the Czech Republic, as of December 31<sup>st</sup> 2009, is 10 506 813. In 2008 the population growth was 86.4 thousand inhabitants and slowed down to an increase of 39.3 thousand. These numbers are largely made up of immigration workers, on which the economic downturn has had an effect in the year 2009. Despite the growth of the population, there is a long-term trend of ageing population and the outlook for the future is rather negative. (13)

On the contrary to the ageing population, there is a trend of mainly young people living alone in a household. Between the years 2002 and 2009 the number of households occupied by a single person has risen by 276 000. This trend is most noticeable in larger cities. The reasons are not only increasing income per capita but also the rise of individualism in the society, the decline of marriages and increase in divorces. The divorce rate is alarming at a level of half of marriages ending in divorce, but because of the crisis it has dropped from 50% in 2008 to 47% in 2009. (15)

The evaluation of implications for the building industry is difficult to predict and is rather subjective. The above mentioned social factors imply, that their influence on the building industry could be described as slightly positive in the short-term, but rather negative in the long-term.

### 3.2.2 Legislative factors

There is no doubt that legislative factors influence the business operations of a company. At one level there is EU legislation and at the national level the laws of the Czech Republic. These regulations pose extra costs to the companies as they add to administration and are usually overcomplicated. The main Czech laws influencing the operations of all companies are:

- *Act No. 513/1991 - Commercial code*
- *Act No. 563/1991 - Accounting code*
- *Act No. 262/2006 - Labor code*
- *Act No. 100/1988 - Social security*
- *Act No. 48/1997 - Public health insurance*
- *Act No. 101/2000 - Protection of personal data*

Specific laws that concern a building materials wholesaling and retailing firm are:

- *EC Regulation No 1907/2006 of the European Parliament concerning the registration, evaluation, authorization and restriction of chemicals.*
- *Act No 440/2008 on chemical substances and chemical products*
- *Act No. 634/1992 on consumer protection.*

According to the above mentioned regulations a company selling chemical products must provide technical documentation in line with these regulations. This mandatory documentation is on average 5-6 pages long for each product and its creations poses an extra cost. Another influencing legislative factor is the consumer protection act. The fact that warranty for end consumers is 2 years; this might also pose additional costs to the firm.

### **3.2.3 Economic factors**

There are mixed messages on whether the financial crisis is fading away. The outlook is rather pessimistic on the global scale due to negative information coming from the American economy, saying that the worst isn't over yet. However, data on GDP growth for the second quarter of 2010 in Europe surprised analysts with higher figures than expected.

The Czech and almost all European economies experienced high growth GDP figures from 2002 until 2008. The global financial crisis is now having an impact on the Czech economy, which had negative GDP growth in 2009. Surprisingly GDP grew at 2.2% in the second quarter 2010. This was due to increase in exports to Germany. However, unemployment is high at 8.7% in July with projections of this figure rising. Unemployment affects demand and prices. Lower consumer spending meant the level of inflation grew only by 0.8% and the forecast is in the same range. The Czech National Bank is trying to stimulate the economy by a low interest rate of 0.75%. This is a positive fact for companies with access to financing, as interest on borrowing is also low. Another important factor for importers and exporters is the appreciation of the Czech currency, with the projection of 24 CZK/EUR in 2012. (13)

### **3.2.4 Political factors**

The political stability in the Czech Republic is moderate with a right wing coalition in power. Political factors are interconnected with legal factors because the originator of both is the state. The government can largely control demand for building construction as it can control the economic development of the country. The projects launched to stimulate infrastructure in the past years include building and repairing roads, highways, and railways. Rather than to stimulate growth by spending on construction, the new government is introducing budget cuts, which will affect all areas. The government is

planning on stopping highway construction and other investments to save money. Raising some taxes to increase government income is also an option.

### **3.2.5 Technological factors**

Technology and new research gives way to effectiveness and economical use of resources. Western and Central Europe are in the forefront of research and development with numerous universities and research centers. At the moment there is a search for innovation in efficient and energy saving technology mainly in the areas of building insulation. In the areas of information technology companies are upgrading to more sophisticated ERP systems and e-commerce, which is still under rapid development.

### **3.2.6 Environmental factors**

Environmental factors include aspects such as weather and climate change. Currently there have been instances of severe weather destroying many homes in Europe and all over the world. Europe has seen persistent wind storms and floods in recent years. This leads to the increase in reconstruction but also might bring about the rezoning the flooded areas. There is discussion in parliament, whether areas flooded more than once should be rezoned as flood areas and its inhabitants and their dwellings relocated.

The building industry also adheres to seasonal conditions. Some construction techniques require a specific climate, e.g. above zero temperatures, low or high humidity. Abnormal weather conditions can therefore influence demand in specific times of the year. What's more, the storage of building materials is susceptible to climate conditions, so warehouses must be heated and sometimes even dehumidified, which poses extra costs to the firms.

### **3.3 Porter's competitive forces analysis of the building industry**

#### **3.3.1 Threat of new entrants**

The level of threat of entry for new entrants into an industry depends on the entry barriers present and on the reaction from existing competitors. Economies of scale are a certain barrier to entry for construction materials manufacturing. To capture a larger slice of the market supplier companies must invest heavily into marketing in order to make a name in the industry. This takes a longer time than in other industry because building is long-term oriented and the qualities of a product become evident in a longer time frame. Thus traditional companies are at an advantage.

Building a customer base involves a lot of meetings and upfront assurances. The access to distribution channels can be hard to obtain for newcomers, since retail chains have high bargaining power and construction companies will not drop their current supplier if they are satisfied. Government policy doesn't pose any exceptional restrictions on building material wholesale. Overall the threat of entry into the industry is **moderate**.

#### **3.3.2 Bargaining power of suppliers**

Suppliers can exercise bargaining power over participants in an industry by raising prices or reducing the quality of purchased goods and services. Some raw material suppliers can be powerful because their product is unique produced in limited amounts or under restrictions. This can impact the bargaining power of suppliers of produced materials.

As with other industries, the suppliers of IT and information systems have higher bargaining power. Their products are long-term investments and have built up switching

costs in the form of licenses and staff training costs. Marketing and logistics are also important for success in the building industry. However, there is an array of similar companies with an undifferentiated product and low switching costs whereby the bargaining power of marketing and logistics suppliers is low. Overall the bargaining power of suppliers is **moderate**.

### **3.3.3 Bargaining power of buyers**

The buyers in the building industry consist of construction firms, sole-proprietorships, wholesalers, retailers and end customers. Large construction firms, wholesalers and retailers usually purchase in very high volumes. For them the suppliers of materials prepare special volume-discounts and bonuses. The suppliers try to be seen in the eyes of buyers as differentiated not by product but by product quality. This is why marketing is such an important factor in the construction industry, where there is pressure on quality as much as price. The supplier firms can then increase prices if their product offers quality with quality service and the buyer will accept this. In any way most suppliers offer similar arguments and service so the buyers have a variety of suppliers to choose from.

Acquiring a large construction firm can mean success for the supplier. Usually this would mean a term contract for the supplier so he can be sure of following turnover. The buyer also has some sort of switching costs in the form of employee training. The larger the construction firm, the harder it is to acquire because of other suppliers competing for these buyers. Similarly it is also difficult to acquire large retail outlets, who dictate prices in order to have higher margins. A supplier must sometimes buyout shelf space of a competitor. Overall the bargaining power of buyers is **high**.

### **3.3.4 Threat of substitute products**

In order to have a threat of substitute products a different industry must provide products with similar benefits to the consumer as the product produced by firms within the industry. This cannot be said of the construction industry. The main reason is that the construction industry makes use of new technologies and materials rather than letting another industry develop them. Companies try to offset this risk by having know-how and acting upon it, which gives them the competitive edge. For this reason the threat of substitutes is **low**.

### **3.3.5 Competitive rivalry within an industry**

The economic crisis is putting pressure on the economy to shrink and there is even more pressure on the shrinking building industry. Competitive rivalry is now tighter than ever before, with the possibility of some firms closing shop or consolidating with stronger ones. Firms are fighting for market share against expansion-minded firms. Although there is some differentiation of product, firms try to compete on quality of service. Due to the economic crisis and nature of the building industry, competitive rivalry is **high**.

## **3.4 SWOT analysis of the firm**

**Strengths** of the firm are by definition positive internal aspects. As was already mentioned Murexin is part of an international concern, which sells its products in most of Europe. Hence it is able to develop a good understanding of the European market, exercise economies of scale and has access to capital if in need. The subsidiary has access to know-how, quality service and sophisticated marketing materials. The Czech subsidiary is financially stable, has developed good relations with banks and thus has very low interest rate on operational borrowing. Other key strengths are: history and tradition, wide product portfolio, own sales representatives and high quality products.

**Weaknesses** are internal negative factors that steer the firm from attaining desired goals. The main activities of the Czech subsidiary are sales and marketing. The volume of sales is very low for most of the Murexin product portfolio, even though all the products are on offer in the Czech Republic. Another problem is that the Murexin brand is not well known and many people in the industry don't know much about what the company does. There is also an absence of a clear marketing strategy and the firm doesn't perform supporting marketing activities.

**Opportunities** pose positive possibilities for the future development of the firm. By improving marketing communication, Murexin could establish itself as better than competition. On-line sales and improved distribution channels are an opportunity to cover new customers. Murexin should also take advantage of its complex product portfolio and deliver complex solutions to customers. A current opportunity is to take advantage of the Murexin Energy Saving System and become involved in the government funded program "Zelená úsporám" aimed at energy saving and renewable resources for houses.

**Threats** are negative factors that could impact the achievement of the firm's goals. The current threat of the economic crisis and fewer development projects is having an impact on sales. Because the construction industry reacts with a delay to economic crises the worst is yet to come, according to industry experts. The economic crisis is further affecting payment practices and pricing pressures from customers. The competition is sharp with a large number of competitors and the crisis could lead to some materials suppliers going bankrupt or leaving the Czech market.

## **3.5 Current situation of reporting in the firm**

### **3.5.1 Controlling in the firm**

As was previously stated, MUREXIN, spol. s r.o. is the Czech subsidiary firm of MUREXIN, AG and belongs to an international group. Hence is the system of reporting in the group same for all subsidiaries, so that the management of the parent company can compare the results of single subsidiaries. This concerns external reporting only in German and English language.

In the subsidiary, as can be seen in the organizational chart shown previously, it is the financial manager, who is in charge of controlling. The responsibility of the financial manager in the area of controlling is financial planning, managing and financial controlling. The financial manager is also responsible for reporting to the parent company.

Under accounting law, the company is subject to external audit, and thus data from accounting are a valuable resource for compiling reports. Accounting in the firm is processed by the ERP software ABRA G3 made by the Czech company ABRA software.

Medium-term plans and yearly plans are created by the director of the subsidiary, based on goals of the parent company, at a meeting with the financial manager and sales manager. Planned values are set in regard to previous year's values in conjunction with the projected development of the building industry, the exchange rate, possibilities in the market, etc. These plans are submitted into the Management Information System (MIS) and must be validated by the controller in the parent firm. At the end of each period the factual results are compared with the planned values and differences are analyzed. The parent firm is also notified of any planned investments, their costs and whether the project has sources of financing.

### 3.5.2 Concern reporting MIS

The concern reporting Management Information System (MIS) is based on a multi-dimensional OLAP database. The MIS is accessed through an internet browser online from a company computer. It is secured by access from a certain IP address and by user name and password. Data are generally entered as follows:

- Profit and Loss - cumulated values
- Overtime hours - cumulated values
- Balance sheet data - values at the determining day
- Investments - cumulated values
- Sales/Turnover - cumulated values
- Employees - average values of the month

The main items of the menu are: Data input, printing single pages and printing whole reports. During data input values are entered in CZK but can be recalculated into EURO any time during input. When all required forms are filled in it is symbolized by a green light and the report can be sent to the parent firm controlling. At same time as sending, the report is recalculated into EURO and cannot be edited after sending. In the same way the budgets are created but the user must switch the MIS to “Planning”. For printing a PDF file is generated which can be saved or printed.

The online MIS is a very helpful tool for organizations with many subsidiaries. It allows them to gather data instantly online in the exact specified format. The employee (usually the financial manager) in the subsidiary in charge has to manually insert the values every month for the monthly report. This is of course inconvenient considering time; however it allows the employee to check for mistakes and discrepancies in the accounts. In the following section the content of the regular monthly report will be described.

### **3.5.3 Concern reporting (external)**

The financial manager with the assistance of accountants, completes the monthly report in the MIS every third week in the following month. The title page of the report contains the month, name of company, receivers, author and the date of creation.

**The individual parts of the monthly report are:**

- Result summary
- Result
- Balance Sheet
- Group receivables
- Group liabilities
- Sales (in volume)
- Turnover
- Investments
- Operating expenses
- Advertising, marketing expenses
- Personnel expenses

The tables (except for the balance sheet) follow the same scheme. For each line in the table there is the factual value for the reported month of the year, the budgeted value for the year and the factual value for the previous year. Then the difference to the budget and the difference to the previous year is calculated automatically. The second table displays cumulated values for period of the current year up to the current month, the budgeted value and the value for the same period of the previous year. The third table displays the budget for the current year and the previous year balance (see appendices).

The main and probably only problem with the form of the whole report from the MIS is that negative values are in red colored font with a very small minus sign. When the report is printed on a black and white printer the negative values can be hardly distinguished from positive values and the manager could make a mistake when reading these reports.

#### **3.5.3.1 Monthly comment**

The monthly comment follows the result summary and there is a possibility on the commenting of: market / turnover / sales, expenses, result, balance, investments, personnel, miscellaneous (see appendix 1). The comment page is used to describe data in tables or explain abnormalities in the reports.

#### **3.5.3.2 Result summary**

This report page contains the main values from the following report pages with some values of financial analysis (time of turnover, equity ratio). It contains the value of the exchange rate to Euro according to which the whole report is recalculated into Euro. The summary has a lot of information, but is missing important financial analysis metrics such as return on sales (see appendix 2).

#### **3.5.3.3 Result**

The result page offers detailed values on the monthly results in a profit and loss manner. It is the most important page of the report, with the stress on the final result earnings after interest and tax and the value in percent of turnover. Most values are compared as a percentage to turnover, however comparing internal production, trade revenues and miscellaneous to turnover is unnecessary because all but one subsidiary don't have

production lines. Therefore only values for trade revenues are filled in and their percentage of turnover is of course 100% (see appendix 3).

Furthermore, there seems to be a computational error in the percentage of the difference for the lines – EBIT, Result from ordinary business, EBT and Result. This value is displayed as positive with a plus sign even when the difference is negative because the system doesn't recognize a negative difference as a negative percentage. This mistake should be fixed as this part is the most important from the whole report.

#### **3.5.3.4 Balance sheet**

The balance sheet contains main values of assets and liabilities (see appendix 4). Short-term assets, equity, debt capital, stock and receivables from third parties are broken down in detail. Receivables are divided into five categories according to days beyond maturity. It would be of benefit to the controller to view the structure of receivables in graphic form and compared to the previous period.

#### **3.5.3.5 Group receivables and liabilities**

The main categories are brand divisions of the group and the sub-divisions are abbreviations for particular subsidiaries. These reports are useful for both the parent firm and subsidiaries. The tables are simple and well-arranged (see appendixes 6-7).

#### **3.5.3.6 Turnover and sales**

Turnover and sales reports are the same tables with the only distinction that turnover values are in thousands of CZK and sales values are in tons (see appendixes 8-9). The first group of values is a summary according to product groups. The following lines contain the groups of products broken down into elementary areas. This report is very

detailed and probably the most useful for upper management are only the summarized values. The same sales reports are used by management of the Czech subsidiary and evaluated when the reports are created. This is a problem because this information is delivered already two weeks late. Moreover, due to the crisis, management should be able to spot differences from the plans earlier and thus the monthly period is too long.

### **3.5.3.7 Investments**

The investments report is capital expenditure broken down into: Software and intangible assets, Land and buildings, Technical equipment, Tools and other office equipment, Vehicle fleet, Low-value assets. This report is well conceived and useful both for parent and subsidiary company (see appendix 10).

### **3.5.3.8 Operating expenses, Advertising and marketing**

This report has operating expenses broken down into detailed categories such as office material, communication, mobile phones, rent, IT-expenses, etc. Advertising and marketing is then broken down into detail (Leaflets, POS-material, mailings, gifts, etc.) because it poses one of the largest operating expenses (see appendixes 11-12).

### **3.5.3.9 Personnel expenses and personnel**

Personnel expenses report divides the employees into blue-collars and white-collars. It is a useful report for the parent company but its monthly periodicity is too frequent for the management (see appendix 13). Furthermore the personnel table on personnel count is very detailed for use for a medium-sized subsidiary and basically only gathers data for the parent company (see appendix 14).

### 3.5.4 Internal reporting

The management of the Czech subsidiary uses primarily the concern reporting for its decision making. This has some disadvantages as the reports are completed in the third week of the following month according to concern policy and therefore the subsidiary management can have out-of date information for steering the firm in the right direction.

Internal reporting of the firm consists of only one very important report on the turnover by region and sales representative. This report is divided firstly by product group and secondly by region combined with a sales representative. The total value for each product group is calculated as the total of turnover by all sales representatives selling the product group. The report shows how successful the sales representatives are, allowing for decisions on who should sell what and of course to calculate sales commissions. However the report only shows total values for product groups and neglects the fact that regions should have their totals too in order for management to **evaluate turnover by region** and use this information for strategic purposes.

5				2010	Budget	2009	change Budget	
6	in thousand CZK						fig.	%
7	Sales region - FLT/BAT	8		17 893	20 202	16 568	-2 309	-11,4%
8	South Moravia - Král	1		4 797	5 997	5 682	-1 200	-20,0%
9	South Moravia - Ježek	1		1 125	1 104	483	+21	+1,9%
10	North Moravia - Janda	1		3 261	3 157	3 381	+104	+3,3%
11	Prague - Černý	1		2 256	2 258	1 659	-2	-0,1%
12	Prague - Loviška	1		1 635	1 547	998	+88	+5,7%
13	North/West Bohemia - Fridrich	1		1 080	2 051	1 725	-971	-47,3%
14	South Bohemia - Machala	1		411	1 026	-	-614	-59,9%
15	East Bohemia - Veselý	1		3 328	3 062	2 640	+266	+8,7%
16				-	-	-	-	
17	Sales regions - PKT/Durlin	5		2 698	6 155	3 096	-3 458	-56,2%
18	Prague - Pohl	1		536	2 368	1 200	-1 832	-77,4%
19	South Moravia - Kelner	1		2 032	2 368	1 896	-336	-14,2%
20	North Moravia - Menšík	1		-	789	-	-789	-100,0%
21	East Bohemia - NN	1		-	-	-	-	
22	South Bohemia - Novotný	1		130	630	-	-501	-79,4%

**Figure 10: Internal report on sales by sales representative, region and product**

Furthermore, it shouldn't only be turnover of each representative that the firm should study but the turnover should be compared to the **costs of each representative**. Internal reporting of the firm also **lacks reporting on turnover by top customers** even though they provide for most of the firm's turnover in line with the 80/20 rule.

### 3.6 Conclusion of the analyses

Firstly we have to take into account the size and background of the firm. With 34 employees it is a medium-size firm with a strong parent company and **healthy financial figures** but threatened by the economic crisis.

The paramount problem the firm is facing is the decline in sales growth due to the **economic crisis** and the firm is missing reporting instruments to **control the sales within the subsidiary** other than the monthly external reports and one internal report. The internal report on the sales by sales representative and product group does not provide an overview of **totals for regions**. Added to this, the firm fails to report the **expenses of single sales representatives**, who, on one side, are bringing in money but also incur the most costs.

It is predicted that up to 20% of firms in the building industry will not survive the crisis and with fierce competition as it is, companies will be fighting for market share more than ever. Despite this fact the firm **doesn't compile reports of the results of its top customers**. Moreover the monthly sales reports completed in the third week of the following month do not provide **timely information to the subsidiary management**.

Overall the **external reports for the parent company have high quality** and provide the subsidiary with a substantial amount of information, most of which is unfortunately

not suited to the information needs of the subsidiary management but for use of the parent company. The analysis of these reports has also found some **minor insufficiencies** in the content and the way these reports work.

The **insufficiencies in the MIS reporting** can be summed up in the following points:

- Negative values displayed in red - hard to read when printed on black and white printer - can lead to mistakes
- Result summary would benefit from additional financial analysis indexes
- Result page compares trade revenues to gross turnover, which is in almost all subsidiaries (non-production) always 100% - therefore unnecessary
- The difference percentage (for EBIT, EBT and result) on the result page is displayed as positive when the difference is negative – should be displayed as negative
- The personnel page isn't of current use to the subsidiary management because the number of employees has been roughly constant in the past periods

## 4 Proposals and Contribution

### 4.1.1 Proposals summary

Based on previous analysis the author proposes to:

- Adjust the internal report of sales in order to view totals for regions
- Create a weekly report of turnover
- Create a monthly report of “TOP 10” customers and their turnover
- Create a monthly report on the expenses of sales representatives
- Make minor improvements to the concern reporting MIS

### 4.1.2 Internal reporting of sales by sales representatives

As it was mentioned, the report only shows total values for product groups and neglects the fact that regions should have their totals too in order for management to **evaluate turnover by region** and use this information for strategic purposes. Thus the author proposes to add the function of displaying also totals for separate regions. This could be done in the existing worksheet or another worksheet could copy the values and organize them according to regions only, such as for example:

8	in tCZK		
9	<b>South Moravia</b>	2	<b>60 000</b>
10	Král	1	45 000
11	Ježek	1	15 000
+	19 <b>North Moravia</b>	2	<b>37 000</b>
	20 Janda	1	26 000
	21 Menšík	1	11 000
+	29 <b>Prague</b>	3	<b>32 200</b>

**Figure 11: Sales totals according to regions**

### **4.1.3 The weekly reporting**

Larger organizations are even using daily reports and with respect to the current economic and competitive climate, using a monthly sales report delivered two weeks late is insufficient for a medium-sized wholesaling firm. Therefore, **the author proposes to use a weekly report instead of monthly for the subsidiary management responsible for sales** – the director and the sales manager. This report should be used to deliver information to the management about the current situation of sales according to product groups during single weeks the month, also with respect to receivables and disposable liquid assets. By being able to see the development of sales figures during the month the managers have the option of stepping in to correct any differences before the month closes. Thus management will have better control of fulfilling the planned sales figures.

#### **The report should contain:**

- the turnover in the last week compared to the budget and the same period of the previous year, the difference calculated as a percentage
- the cumulated turnover for the beginning of the month including last week compared to the budget and the same period of the previous year, the difference calculated as a percentage
- the forecast for the month and year based on the trend, again with the display of budget and previous year and difference as a percentage
- the values of receivables and disposable liquid assets at the end of last week and end of current week

The report should be completed by an assigned employee from the financial department and distributed to its recipients as soon as possible

**Table 7: Proposed weekly report - part 1**

				Week:	<b>33</b>		
				Month/Year	8 2010		
Comment turnover:							
<b>Turnover in TCZK:</b>		Last week CW 33			Cumulative 1.8. to CW 33		
		ACT 10	PY 09	Diff.PY	ACT 10	PY 09	Diff.PY
Working days:							
<b>Total turnover</b>							
Building construction							
Tiling system							
Placing system							
Paint- and coating technology							
Energy saving system							
Others							
<u>Receivables</u>							
Receivables end of week 33				Receivables end of week 34			
<u>Liquid assets disposable</u>							
Liquid assets disposable end of week 33				Liquid assets disposable end of week 34			

**Table 8: Proposed weekly report – part 2**

Author:		Receivers:							
Date:									
Forecast for month 8/2010					Forecast for year 2010				
FC 10	BU	PY 09	Diff.BU	Diff.PY	FC 10	BU 10	PY 09	Diff.BU	Diff.PY

#### 4.1.4 Reporting on top customers

The individual customers are managed by sales representatives for their region. The only emphasis is on results of sales representatives, who must meet plans, but from the author's point of view, the **highest-turnover customers should also be monitored and their turnover planned**. In the analyzed company 50% of turnover is produced by ten top customers and that is an acceptable reason to be aware of their situation.

##### **The report should contain:**

- The names of top customers from previous year
- The region of sale and the category of the customer for additional analysis and possible strategic decisions
- Analogous layout to the MIS reports (the actual and budgeted turnover for the month, the turnover of the previous year's month and the difference from the plan in values and percentage)
- Further the current year's, planned and previous year's cumulated values from January until the current month and differences from plan and previous year in values and percentage
- The planned turnover for the current year and the turnover balance of the previous year for each customer

This report should be prepared by an assigned employee from the financial department and discussed at the monthly meeting of management. At the end of each year these customers should be evaluated according to turnover and also according to the status their payables to the firm at the end of the year. This could be contained in another report called "payment practices of top customers". Of course the list of top customers can change in time, as some might lower their turnover while others can supersede them, and so the list should be refreshed every year. Long-term monitoring and planning of the results of top customers is just the start for the firm to see patterns and

development in time and should help the firm establish a strategy for the management of these key accounts.

**Table 9: Proposed report on top customers – part 1**

in thousand CZK	Region	Trader (H), User (V), Industrial clients (I)	Current Month					
			CY 2010	Budget	PY 2010	change Budget		
						fig.	%	
Top customers total								
Customer 1			-	-	-			
Customer 2			-	-	-			
Customer 3			-	-	-			
Customer 4			-	-	-			
Customer 5			-	-	-			
Customer 6			-	-	-			
Customer 7			-	-	-			
Customer 8			-	-	-			
Customer 9			-	-	-			
Customer 10			-	-	-			
<b>Gross sales</b>				-				

**Table 10: Proposed report on top customers – part 2**

January until Current Month								2010	2009
CY 2010	Budget	PY 2009	change Budget		change Previous year		Budget	Balance sheet	
			fig.	%	fig.	%			
							-		
-	-	-					-	-	
-	-	-					-	-	
-	-	-					-	-	
-	-	-					-	-	
-	-	-					-	-	
-	-	-					-	-	
-	-	-					-	-	
-	-	-					-	-	
-	-	-					-	-	
							-	-	

#### 4.1.5 Reporting on the expenses of sales representatives

The firm is well aware of that sales representatives are employees with the most expenses, but it is not evaluating these expenses. The author proposes that the firm identifies these expenses and **analyses them monthly**. The firm should also establish a sales expense budget for each salesperson so that salespeople become aware that their expenses are being monitored on a monthly basis and variances reported to their manager. The report should minimally contain the names of sales representatives in lines and expenses in columns with totals for individual sales representatives.

##### **The expenses that should be monitored are:**

- Car fuel
- Car repairs and maintenance
- Other travel expenses (parking tickets, public transport, etc.)
- Mobile phone
- Business dinner, lunch
- Marketing materials
- Office supplies
- Other expenses

It would be necessary to construct an **expense-to-sales ratio** to compare the expenses associated with each salesperson to see how they contribute to turnover. Also **norms can be established** for comparing current performance with the past or with reasonably similar territories, sales situations or other criteria. The firm should set up **an incentive program** that rewards salespeople either for keeping expenses to a minimum or achieving a higher sales contribution for the expenses they do incur. Such a program need not be elaborate, but care must be taken that it does not reduce selling

productivity. If executed correctly, salespeople will begin to **plan their expenses more efficiently**.

#### **4.1.6 Proposals for the improvement of the external reporting**

The reports of the external reporting are used by the controlling from the parent firm and also provide information for the subsidiary. For this reason the author proposes improvements that could benefit both parties and make their reporting experience more enjoyable, even though these reports are already high quality in form and content.

The problem with all the reports is the display of negative numbers, which, when printed in black and white, can be hardly distinguished from positive numbers. The author proposes changing the format of negative values to the **bracket format**, for example: from “**-1 254**” to “**(1 254)**”. This way the printed negative values will not confuse managers using the reports and making wrong decisions will be prevented.

The result summary is the predominant table with highlights from the whole monthly report and some changes would benefit the informative value of the report. Firstly, the value of working days seems to be irrelevant as a value all by itself. It should **either be abolished** or possibly used in connection with turnover in a **turnover to working days ratio**. Moreover the result summary is missing a return ratio such as **return of sales (ROS)**. The formula used to calculate return of sales should be  $ROS = EBIT / sales$ . Since this report is intended mainly for the use of the parent firm, EBIT is suitable because it disregards taxes and interest and thus allows the comparison of the performance of subsidiaries in different countries. Finally, the result summary could be **enhanced by a complex financial analysis index** such as the Kralick quicktest index. In order to be more accurate, the quicktest should be modified to have more intervals and points that constitute the final value of the overall situation. By comparing the

quickest values among firms of the group, the controllers can instantly distinguish between financially healthy and unhealthy subsidiaries.

The part of the result page dedicated to division of turnover according to internal production, trade revenues and other revenues **should omit the ratio** of these elements to turnover. Since solely 2 of the 65 group companies are producers, the only revenues disclosed are trade revenues and therefore the “% of turnover“ is unnecessary for all three elements. In addition to this, the result page contains a computational error leading to the display of a negative difference as a positive percentage difference. The values concerned are EBIT, EBT and result. The author proposes the error should be corrected to **display negative percentage when the difference is also negative.**

## 5 Conclusions

Reporting is considered an indispensable part of effective company management, especially in times of economic crisis. Managers need timely and well sorted information in order to make correct decisions. Due to the fact that reporting is a relatively new issue and an individual matter of each firm, it is hard to find inspiration in literature, because it only provides general theory.

It is critical to realize that reporting is aimed at the future, in contrast with common financial reports, which show the historic situation. In comparison to financial accounting, which only portrays values in monetary appraisal, reporting is also capable of other possible valuations.

Reporting is a system of reports evaluating the firm as a whole and further it's cross-sections like products, customers, etc. The reports' comprehensibility and determining ability are also to be emphasized. It is essential that differences uncovered by the reports are interpreted and analyzed. Without performing this analysis reporting would not help us achieve desired results.

In the theoretical part the author has introduced reporting into the theoretical framework and described the elementary steps in creating reporting. The requirements for creating reports were brought forward. The selection of a suitable method of processing of data leads us to the creation of comprehensible and well-arranged reports with high informational value.

The author has conducted the analysis of the environment and reporting of the firm MUREXIN spol. s r.o. The system of reporting in the company is set by the parent company and is mandatory for the whole group in order to provide comparisons between subsidiaries. This is the problem in general with international companies,

which prescribe the reporting to the controlled firms and consider these reports to be utilizable for the managing of the subsidiary, while the parent companies are interested only in the financial result and the rest is solely for statistical purposes.

Lately the firm has been facing a decline in sales due to the economic crisis and industry experts are predicting an even greater decline in the construction industry in the Czech Republic. This fact alone suggests that the reporting in the analyzed company had to be reviewed and proposals brought up. Following the analysis of the contemporary concern and internal reporting the author has made proposals on the improvements of concern reporting and the enhancement of internal reporting in the subsidiary – thus accomplishing the goal of the master's thesis.

It must be noted that the concern reports have their structure set by the parent company and therefore major changes to them are only possible for the use within the subsidiary. The proposals of the author on concern reports will be presented to controllers from the parent company. For the sake of internal reporting the author has made proposals on enhancing the reporting within the subsidiary in order for the management to have better control over its sales, customers and sales representatives' expenses.

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## Appendix 1: Monthly comment

### MCZ

Market / turnover / sales

Costs / expenses

Result

Balance

Investments

Personnel

Miscellaneous

Comment December



## Appendix 3: Result

### MCZ

### Result

	December				Jan. until December				2008 Budget
	2008	Budget		difference Budget Prev year	2008	Budget		difference Budget Prev year	
In kCZK									
Internal production									
in % of turnover									
Trade revenues									
in % of turnover									
Miscellaneous									
in % of turnover									
<b>Gross turnover</b>									
Cash discounts, bonuses									
in % of turnover									
Freights out									
in % of turnover									
Other discounts									
in % of turnover									
<b>Net turnover</b>									
in % of turnover									
Inventory changes									
Weiterverrechnungen Konzernfirmen									
Rental income									
Other operational income									
<b>Total output</b>									
in % of turnover									
Direct material									
in % of turnover production									
Energy costs									
in % of turnover production									
Expenses trade goods									
in % of turnover trading goods									
Freight-in trade goods									
in % of turnover trading goods									
Operating expenses									
in % of turnover									
Personnel expenses									
in % of turnover									
Depreciation									
in % of turnover									
<b>EBIT</b>	-2 137	-597	-1 177	-1 540	-2861				
in % of turnover	-24.7%	-5.7%	-10.9%	+287.7%	+81.6%				
financial result	-173	-215	-384	+42	+211				
Income from participations									
Forex differences									
Result from provisions for bad receivabl									
Provisions									
<b>Result from ordinary business</b>	-3 542	-813	546	-2 728	-4 087				
in % of turnover	-41.0%	-7.7%	5.1%	+335.7%	-749.1%				
Extraordinary income	-18	193	-506	-211	+489				
<b>EBT</b>	-3 559	-620	39	-2 940	-3 599				
in % of turnover	-41.2%	-5.9%	0.4%	+474.5%	-916.4%				
Income dependent taxes	741	-292	50	+1 032	+691				
<b>Result</b>	-2 819	-911	89	-1 907	-2 908				
in % of turnover	-32.6%	-8.7%	0.8%	+209.3%	+217.7%				

## Appendix 4: Balance sheet

### MCZ

### Balance sheet

	December			
	2008	difference Prev year	2007	difference Prev. period
<b>in kCZK</b>				
<b>Assets</b>				
<b>Long-term assets</b>				
<b>Short-term assets</b>				
Stock				
Receivables from third parties				
Shareholder's loans given				
Group receivables				
Bonds and other interests				
Liquid assets				
Other assets				
<b>Liabilities</b>				
<b>Equity</b>				
Nominal capital				
Reserves (capital/profits)				
Net profit				
Other equity				
<b>Debt capital</b>				
Accruals				
Short-term liabilities to banks				
Long-term liabilities to banks				
Payables to third parties				
Shareholder's loans received				
Group liabilities				
Other liabilities				
<b>Liquidity</b>				
credit line				
<b>Liquid assets disposable</b>				
<b>Stock</b>				
Raw materials				
Semi-finished and finished goods				
Trade goods				
Packaging material				
Auxiliary material				
<b>Receivables from third parties</b>				
Receivables not yet due				
Receivables beyond maturity				
in % of receivables from third parties				
up to 30 days beyond maturity				
31 - 60 days beyond maturity				
61 - 90 days beyond maturity				
> 90 days beyond maturity				
anticipated bad debts				

**Appendix 5: Group Receivables**

**MCZ**

in kCZK
<b>Baunit</b>
BCZ
<b>Lorencic</b>
LCZ
<b>Schmid Industrieholding</b>
in % of trade accounts receivable

December	
Total	overdue >30d

Group receivables

difference	
2007	Prev. period



## Appendix 7: Sales

### MCZ

Sale

Gesamt unit	December				Jan. until December				prices CZK				2008 Budget
	2008	Budget	2008	difference Budget Prev year	2008	Budget	2008	difference Budget Prev year	December	2008 cum	Budget	2008	
<b>Total</b>	to												
<b>Building construction</b>	to												
<b>Tiling system</b>	to												
<b>Placing systems</b>	to												
<b>Durlin</b>	to												
<b>Building construction</b>	to												
Additives for concrete, mortar, screed	to												
Filling compounds, quick mortars, building mater	to												
Release agents, concrete treatment	to												
Insulations, waterproofings, bituminous compou	to												
Impregnations, sealings and coatings	to												
Joint sealings	IEH												
Industrial floors	to												
Special products	to												
Concrete maintenance	IEH												
Cleaning, maintenance	tl												
<b>Tiling system</b>	to												
Preparation	IEH												
Placing	to												
Jointing	IEH												
Insulation and construction Panel UNI	tm²												
Tile border profiles	tfm												
Sealings with polysiloxane	ISik												
<b>Placing systems</b>	to												
Priming and bonding agents	to												
Levelling and filling compounds	to												
Adhesives	to												
Parquet laquers and maintenance	tl												
Border profiles													
Tools													
<b>Durlin</b>	to												
Farben, Lacke, Klebstoffe (A)	to												
Durlin													
<b>Others</b>													
Others													
<b>Total</b>	to												
<b>Inland</b>													
thereof group companies													
<b>Export</b>													
thereof group companies													
<b>Third parties total</b>													

## Appendix 8: Turnover – part 1

### MCZ

in KCZK	Gesamt	December				Jan. until December				Turnover	
		2008	Budget	2007	difference Budget Prev year	2008	Budget	2007	difference Budget Prev year	2008 Budget	2007 Balance
<b>Total</b>											
<b>Building construction</b>											
<b>Tiling system</b>											
<b>Placing systems</b>											
<b>Durlin</b>											
<b>Others</b>											
<b>Building construction</b>											
Additives for concrete, mortar, screed											
Filling compounds, quick mortars, building materials											
Release agents, concrete treatment											
Insulations, waterproofings, bituminous compounds											
Impregnations, sealings and coatings											
Joint sealings											
Industrial floors											
Special products											
Concrete maintenance											
<b>Tiling system</b>											
Preparation											
Placing											
Jointing											
Insulation and construction Panel UNI											
Tile border profiles											
Sealings with polysiloxane											
<b>Placing systems</b>											
Priming and bonding agents											
Levelling and filling compounds											
Adhesives											
Parquet laquers and maintenance											
Border profiles											
Tools											

## Appendix 9: Turnover – part 2

### MCZ

in KCZK	Gesamt	December				Jan. until December				Turnover	
		2008	Budget	2007	difference Budget Prev year	2008	Budget	2007	difference Budget Prev year	2008 Budget	2007 Balance
Durlin											
Farben, Lacke, Klebstoffe (A)											
Durlin											
Others											
Others											
Total											
Inland											
thereof group companies											
Export											
thereof group companies											
Third parties total											

**Appendix 10: Investments**

**MCZ**

**Investments**

	Total	December			Jan. until December			Investments	
		2008	Budget	difference	2008	Budget	difference	2008	2007
in kCZK							Budget	Budget	
<b>Software, intangible assets</b>									
Software	Purchase								
<b>Land and buildings</b>									
Land	Purchase								
Administration building	Purchase								
Land equipment	Purchase								
<b>Technical equipment and machinery</b>									
Production equipment	Purchase								
Machinery	Purchase								
<b>Tools, office and other equipment</b>									
Hardware	Purchase								
Small machinery	Purchase								
<b>Vehicle fleet</b>									
Cars	Purchase								
	Leasing								
<b>Low-value assets</b>									
Low-value assets II	Purchase								
Other low-value assets	Purchase								
<b>Capital expenditure</b>									
	Purchase								
	Leasing								

## Appendix 11: Operating expenses

### MCZ

### Operating expenses

in kCZK	December				Jan. until December				Operating expenses	
	2008	Budget	2007	difference Budget Prev year	2008	Budget	2007	difference Budget Prev year	2008 Budget	2007 Balance
Office material										
Communication										
Mobile phones										
Tax, legal and accounting advise										
Technical advise										
Group management fee										
HR development										
IT-expenses										
Rent										
Leasing expenses										
Operating costs										
Fees and taxes										
Cost of money transfer										
Insurances										
Car fleet										
Moveable machinery										
Travel expenses										
Entertainment										
Advertising, marketing										
Maintenance										
Sundry material										
Waste disposal										
Waste disposal fees										
Personnel recruitment										
<b>Operating expenses</b>										



## Appendix 13: Personnel expenses

MCZ

Personnel expenses

	December				Jan. until December				Personnel expenses	
	2008	Budget	2007	difference Budget Prev year	2008	Budget	2007	difference Budget Prev year	2008 Budget	2007 Actuals
<b>in KCZK</b>										
Wages										
Overtime blue-collars										
Salaries										
Overtime white-collars										
Bonuses blue-collars										
Bonuses white-collars										
Mandatory social contributions										
<b>Sub total on wages and salaries</b>										
Fringe benefits										
Dismissal pay										
Agents										
Temporary workers										
<b>Personnel expenses</b>										
<b>Overtime hours</b>										
Blue-collars										
White-collars										
<b>Overtime hours</b>										
<b>Employees</b>										
Blue-collars										
White-collars										
<b>Employees</b>										
<b>Personnel expenses per head and month/year in CZK</b>										
Social welfare costs										
Wages per capita incl. social welfare										
Salaries per capita incl. social welfare										
<b>Personnel expenses incl. social security per head</b>										

## Appendix 14: Personnel

MCZ

Personnel

Gesamt	December			Jan. until December			Budget 2008			Balance 2007		
	2008	Budget	difference Budget Prev year	2008	Budget	difference Budget Prev year	Employees	Blue-collar	White-collar			
<u>Average Full time equivalent</u>												
<b>Administration</b>												
Management												
Office management												
Financial department												
<b>Sales department</b>												
Sales Manager												
Sales representatives												
Marketing												
Product management, Application technology												
Back office												
<b>Production</b>												
Warehouse												
<b>Total</b>												
Trainees, apprentices not included												