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MANAGEMENT REPORTING OF THE ENTERPRISE: CONTENT CHARACTERISTICS AND SPECIFIC NATURE OF ITS FORMATION

Abstract. The necessity of management reporting formation by the enterprise with the purpose of providing efficient administrative decisions to increase its competitiveness and achieve strategic goals is examined and substantiated. The basic problems of management reporting formation by the enterprise, which are connected: with the complexity of gathering, substantiation, storage and processing of data are singled out; incomprehensibility of the formation procedure and purpose of the reports, as well as the contradiction and lack of data integrity; insufficient analytical processing of information to support the strategic and operational management decision-making; lack of qualified specialists in the interpretation of management reporting, its analysis and responsibility for management decision-making. The influence of resource provision (financial, informational, methodological, organizational and technical) on the qualitative characteristics of the management reporting system is researched. The possible advantages and disadvantages of management system formation of the enterprise are identified and summarized. The expediency of management reporting formation in accordance with the level of enterprise governance in the context of three generalized types is substantiated: strategic – is provided to top managers during the reporting period or on request; tactical – is provided to linear managers with the appropriate periodicity of the output, operational – is provided to specialists daily or in the current time. It is determined that the combination of reporting under IFRS and management reporting in a single information system will increase the efficiency of the management decisions made on its basis. The conclusions emphasize the need to develop relevant sectoral methodological recommendations, the definition of a targeted methodology for management reporting formation and the establishment of its indicative indicators.

Key words: management accounting, management reporting, types of management reporting, management reporting system, format of management reporting.

Articulation of the issue and its relation with important scientific or practical tasks

In the recessionary conditions of the domestic economic system functioning, the important task of the overwhelming majority of enterprises is to preserve existing positions in one or another segment of the market and to provide sufficient conditions for the continuation of their own existence. For accomplishing these tasks, the management of the enterprise needs adequate information and analytical support for system functioning, which would enable in the current time to decide on its further activities. In stable economic conditions, an important part in the formation of appropriate management decisions has been assigned to the analysis and evaluation of public financial reporting indicators. However, the integral dynamism and difficult predictability of the development of economic processes at both the micro-and macro-levels has necessitated the revision of the traditional sources of information and analytical support used by economic entities.

The search for alternative sources of information that, with a high degree of reliability, allows determining the existing prospects and possible risks in the enterprise activity due to the fact that the information formed in the financial reporting system does not correspond to real information requests of the user's internal to the

enterprise. Many Ukrainian and foreign scholars adhere to this position, in particular, the article [1] by a group of authors I. Yo. Yaremko, L. M. Pylypenko, O. I. Tyvonchuk pointed out that “the modern format of financial reporting, provided by international and national systems of standardization and other imperative documents, does not enable to objectively and fully represent the economic potential of corporations” [1]. This is due to the fact that the format used by the public financial reporting of the enterprise reflects the results of its historical (past) activity, because it uses past (belated) indicators, and not leading development indicators. In such conditions, an important part in the formation of information support for the management decision-making is assigned to internal reporting, which operates both belated and leading indicators, that is an effective means of formal display of internal user information needs.

Analysis of recent research and publications

In the scientific economic literature, there are a number of theoretic and practical publications devoted to the study of management reporting of the enterprise. In particular, M. V. Koriahin, P. O. Kutzyk [2] showed the role and place of internal management reporting in the information system of the enterprise, highlighted the problems of its development, investigated the principles and made the classification of internal management reporting. In the final statements, scientists analyzed the directions of internal management reporting development at the enterprises. In his article, Yu. P. Zyma [3, p. 152] defined the structure of management reporting according to user types (production director, sales director, finance director, chief executive officer). I. B. Sadovska, K. Ye. Nahirska [4, p. 901] disclosed in detail the qualitative characteristics of management reporting, indicating their level of importance when making management decisions. M. I. Skrypnyk, O. O. Hryhorevska in their study [5] summarized the stages of preparing the reporting and defined positive aspects of their observance. I. A. Slobodniak [6] paid attention to the study of the methodology of management reporting, highlighting the main stages of creating information support for accounting management reporting. L. V. Ivanchenkova, H.O. Tkachuk [7] provide a

detailed characteristics of the enterprise internal reporting and define its structure for the industrial enterprise.

In addition to the theoretical developments relating to the identification of indicators and the creation of management reporting forms, there are also practical developments. In particular, the developers of 1C “Accounting” (Russian program) offer an appropriate software platform for management accounting and management reporting, including, the management report on profits and losses, management balance of income and expenditure budgeting. The construction of management accounting on the basis of technology SAP ERP (German model) of the module “Management accounting and reporting” (CO) is also effective, which gives an opportunity to provide information support for the adoption of optimal solutions at all levels of management, both at the current time and in the long run, in terms of enterprise management levels. Developers of Altus-Vario (Czech program) offer to form management reporting in the following areas, with their further specification: finance, human resources, business, production-resources, assets, dupont (pyramidal analysis), liquidity, expenses, profitability. STORMWARE product business intelligence implementation program Pohoda Business Intelligence has separate modules that can be used for both financial and management reporting. When selecting software for the formation of management reporting, the cost of acquiring and servicing one or another program, which is usually impracticable for small businesses, is critical for most business entities.

Specifically, in order to bring the software closer to the user, the 1C and Altus-Vario developers, fixed differential prices for their customers, taking into account the size of their business, the number of users and system modules, etc. But still, the software for management accounting and management reporting is expensive. In particular, Altus-Vario website [8] provides the following prices for full (accounting and management accounting) software suite: for entrepreneurs in the range of 5000–10000 crowns (\$ 225–450), for small and medium-sized enterprises with a number of users up to 10 people – 15 000–250 000 crowns (\$ 675–11 200), for big

enterprises – 200,000 to 2 000000 crowns (\$ 8970–89 700). Taking into account the considerable cost of software offered in the market of software products for the formation of management reporting, the domestic business entities are using their own resource support, independently developing a system of management accounting and reporting.

While studying management reporting, the scientists use different terminology apparatus in their works: “management reporting” [3, 4, 9], “internal accounting” [7], “internal reporting”, “accounting management reporting” [6], “internal management reporting” [2, p. 205], “reporting for managers”, “immediate reporting”. Despite the differences in the use of terms that characterize management reporting, scientists believe that it is a kind of reporting aimed at supporting the management decision-making and therefore affects the quality and efficiency of management decisions. In the study, the term “management reporting” is used as it most reveals the specifics and purpose of the category under study.

The aim of the article is to substantiate the feasibility of management reporting formation by domestic enterprises and to determine the specifics of its preparation.

Presentation of the main material

The rapid development of information technology, the changing market conditions and increased competition led to the emergence of tasks for the enterprises to improve the efficiency of management, which is based on improving the quality, efficiency and reasonability of management decision-making. In particular, in the process of management decision-making that is related to the ongoing enterprise activity and planning of the strategic activity of the enterprise, managers use different types of information. Among the types of information and analytical support in the formation and preparation of management decisions, the reporting formed in the system of management accounting is of great importance.

The absence of legislative regulations on the formation of management reporting enables the enterprise to determine, in its sole discretion, the

format of internal management reporting. Despite certain segmental theoretical and practical developments concerning the formation of management reporting, this problem remains practical for domestic enterprises. Some effective developments concerning the formation of a management accounting system are at large domestic enterprises, but they are mainly reduced to sectoral developments in the formation of management reporting. In particular, some industrial enterprises have developed and apply in practice separate fragmentary data of management reporting on customer base analysis – by the marketing department, in relation to the analysis of cash flows – economic planning and financial departments, cost of production – production department, accounting department, etc. However, there are almost no systemic developments concerning the creation of a holistic mechanism for the formation of management reporting, with the specification of the relevant indicative indicators. Despite the lack of legislative requirements for the formation of management reporting, most of the strategically important economic entities form their own management services, the purpose of which is mainly to form high-quality information and analytical support to maintain management decision-making.

A significant number of enterprises, irrespective of their scale of activity (big, medium, small), have encountered a number of problems in preparing management reporting stipulated by: the complexity of collection, justification, storage and processing of data; lack of clarity in the order of formation and designed purpose of the reports, as well as the contradiction and lack of data integrity; insufficient analytical processing of information to support the strategic and immediate management decision-making; lack of specialists in the interpretation of management reporting, its analysis and responsibility for management decision-making. An important factor in influencing the formation of a management reporting system is the inadequacy or loss of productivity of software systems and the high cost of their acquisition, maintenance and operation, as well as a number of other factors that reduce the quality of data analysis and end-user satisfaction.

At the same time, integrated practical achievements are effective in relation to the formation of management reporting in multinational companies, which involves a large number of highly trained staff in the preparation of internal management reporting. However, the own systems of management accounting for multinational companies are not made public, as they reflect the specifics of their activities and are commercially sensitive.

As for representatives of medium and small businesses, because of the absence of sufficient resources (human and financial), most of them lack integral management accounting systems; therefore, for such enterprises, in order to ensure their adaptation to difficult predicted environment conditions, it is necessary to develop a common methodology of management reporting formation.

The absence of clear regulation of management reporting, on the one hand, opens up a lot of prospects for enterprises, which make it possible, at their own discretion, to form a system of management accounting and reporting, taking into account their sectoral and individual characteristics. On the other hand, the absence of relevant sectoral recommendations does not allow for the identification of indicative indicators of management reporting.

Forming a system of management accounting and reporting at the enterprise, along with financial aspects, which are usually crucial for enterprises, in relation to the choice of how to create management reports (the purchase of special software from external suppliers, the development of a system of management reporting by the enterprise), or the delay in the formation of management reporting for an indefinite period. In addition to the financial component of the resource support of the management reporting formation by the enterprises, other types of support (Fig. 1) are taken into account, considering the possible efficiency of management decisions made on the basis of management reporting.

Figure 1 illustrates the main types of resource support: information, financial, organizational and technical, methodical, which are interrelated and affect the formation of management accounting and reporting. Usually, the better the resource support, the greater the probability of a high-quality management

accounting and reporting system. All types of resource support for the formation of management accounting and reporting are important since by combining in one or another relationship, they create the initial conditions for the formation and further operation of the management reporting system at a particular enterprise. Therefore, it is necessary to take into account the impact of each type of resource support, because its sufficiency is individual for a particular enterprise and influences the quality of the management reporting system, formed with the help of resource support, of the same enterprise. The value of the components of resource support is unique, and not always its direct transfer in the formation of the management accounting and reporting system to another enterprise will lead to the desired results.

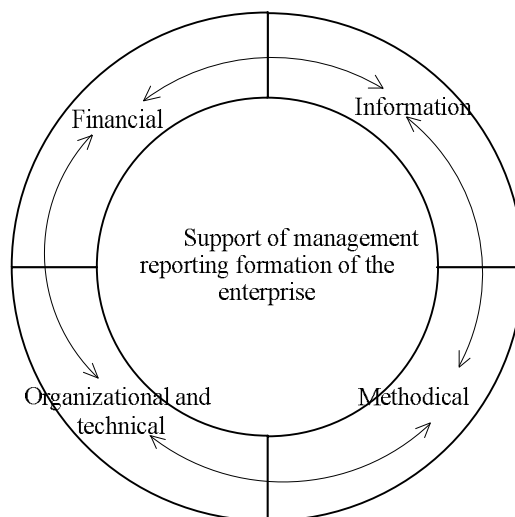


Fig. 1. The main types of resource support for the formation of management accounting and reporting, their interrelation

Taking into account the fact that in most thematic articles, researchers consider management reporting as a system of appropriately grouped indicators, therefore the basic platform of the production system of internal reporting is presented in Fig. 2.

Fig. 2 illustrates the information on the input of the system, which is the basis for the formation of management reporting and in a certain way is transformed, based on the use of appropriate tools in the management reporting system. When forming a system of management reporting at an enterprise, it is reasonable to take into account the

following main components that will decisively influence the quality of management reports:

- basic principles of the management reporting formation (the flexibility of reports, the clarity of the content, accessibility for a certain circle of users, etc.);
- users, taking into account the hierarchical subordination (managers of senior, middle and lower levels of management);
- types and forms of management reports, taking into account the needs and requests of users;

- structure of the reports and their visualization (presentation in a clear and convenient form for the user);
- information sources for the management reporting formation (internal (current accountancy data), external (specialized analytical studies), etc.);
- relevant tools (methods of collection, processing and presentation of information) for the preparation and formation of management reporting;
- regularity of formation (decade, month, quarter), case studies (one-time nature).

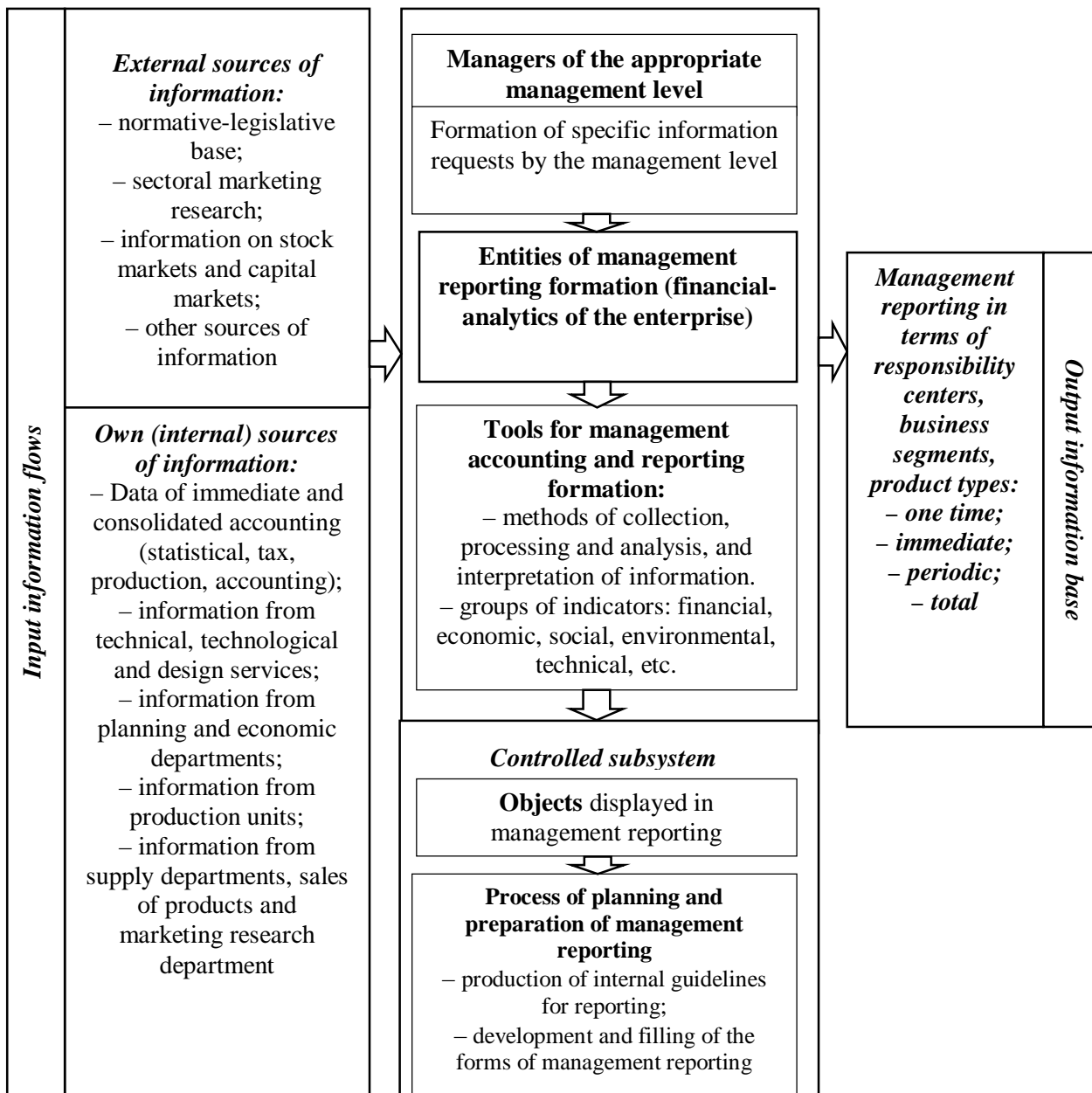


Fig. 2. Information system for the production of management reporting of the enterprise

Along with the existing advantages, there are disadvantages in the formation of a management reporting system at the enterprise, which not only does not help in making management decisions but also can negatively influence the management of the entity. The main disadvantages of the management reporting system are clearly marked by I. B. Sadovsky, K. Ye. Nahirska "Excessive saturation of management reporting with accounting and analytical information, the use of too complicated calculation methods, the pressure of non-financial data does not always lead to the efficient management decision-making" [4, p. 899].

The procedure mistake of most enterprises is that they initially create a management accounting system, and then form management reporting. When forming management reporting, managers of the enterprise need to rely on the expected strategic objectives and indicative indicators, which determine the efficiency of the enterprise. Based on this procedure, to determine the list of forms and structure of management reports, adjusting the existing system of management accounting for the management needs of management decision-making. Therefore, it is reasonable to group the strategic objectives by the perspective of their implementation, to establish causal relationships between the objectives, to form indicative indicators that will determine their implementation in accordance with the objectives. Each indicative indicator should have a scope of implementation and assigned purpose, besides, when constructing a management accounting system, it should be taken into account that the enterprise uses not only quantitative but also qualitative indicators for the management reporting formation.

Implementing the strategy, the enterprises face the urgent need to formulate indicative indicators and determine the model of information support to be implemented at the enterprise, taking into account the type of its activity, sectoral specificity, and to be used to achieve the relevant objectives: financial management, budgeting, business process management, personnel management, project management, etc. The applicable information model of the enterprise management should be comprehensive, using indicative indicators of management reporting as an integral and structured characteristics of the

enterprise efficiency. As an immediate and reliable evaluation of the enterprise efficiency is performed considering the achievement of the established strategic objectives, the main instrument for the formation of management reports is the use of a system of indicative indicators established for monitoring and control of objective achievement.

Considering the fact that management accounting includes three interrelated levels of management, depending on the level of enterprise management, the management reporting information presented to the managers can be of the following three generalized types:

- strategic – is provided to senior management during the reporting period (week, decade, month, quarter), daily (immediate information) or on request (if there is a certain need for solving the problem);
- tactical – is provided to linear managers with the periodicity of output,
- immediate- provided to specialists/managers daily or at the current time.

The number of management reporting information and its orientation should take into account the addressee, his requests and the need for such data. In order to avoid saturation with unnecessary information, it is necessary to consolidate the data in the planning process related to the requests of the recipients. In general, the level of transmitted data unification increases with each hierarchical management level and the level of responsibility. In the context of information support for managers of different levels of management, the transfer of information to senior managers focuses only on the necessary, monitored information. Detailed information is reserved for the middle and lower levels of enterprise management. According to the levels of enterprise management, it is reasonable to form management reporting in their context according to the following indicative indicators:

- general indicative indicators characterizing the business efficiency as a whole (chairman of the board – chief executive officer – financial director) – strategic reporting;
- indicative indicators characterizing the efficiency of individual business processes of the enterprise (vice president-deputy chief executive officer-unit managers) – tactical reporting;

– indicative indicators characterizing the effectiveness of individual departments (department managers, groups, etc.) – immediate reporting. (Fig. 3).

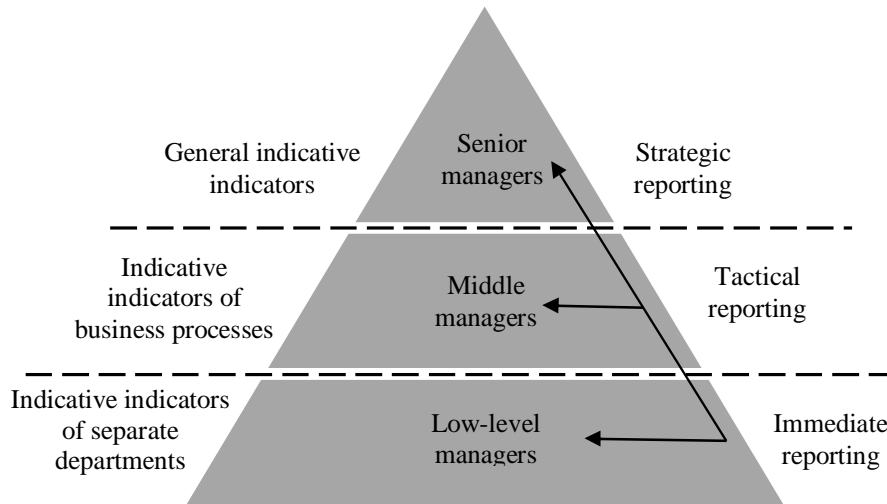


Fig. 3. Pyramid of the formation and use hierarchy of enterprise management reporting

The management reporting system is based on the hierarchy of management levels (Figure 3) and provides a high-quality, reliable exchange of information among the functional units and support for the process of management decision-making. Based on the existing management, financial reports and primary documents, managers of the enterprises should monitor both operational (local, tactical), as well as strategic indicators of the enterprise, as well as to promptly inform responsible employees about deviation from the planned (target) indicators.

The introduction of indicative indicators in the system of management reporting enables to ensure high efficiency of the responsibility centers, setting the minimum, boundary, normative values of the accepted indicative indicators. The value of indicative indicators is determined taking into account the strategic goals of managers, the development of individual business areas. The system of indicative indicators can assume the hierarchical structure, both for the enterprise as a whole and with the specification to each responsibility center. Depending on the size of the enterprise, the clarity of the organizational structure, the development of document flow, the establishment of accounting work and the automation degree, the work at the enterprise can be coordinated by one employee or a separate department.

In this case, the use of effective software, based on indicative indicators, allows for parametric, multidimensional analysis, as well as the ability to interactively update the indicators by

any analytical breakdown, constructing analytical reports and the possibility of implementing various filters according to the tasks, predictive modeling, horizontal, vertical, retrospective, and other types of data analysis, etc.

As a methodological basis for the formation of its own management reporting system, a significant number of multi-branch enterprises has begun to actively use the standards of IFRS (at least some of them). In particular, this is mainly due to the fact that the declared principles and tasks of IFRS most correspond to the principles and objectives of management accounting. At the same time, the requirements of IFRS for the accounting procedure and reporting format used are more flexible than the requirements of S(S)AP. Therefore, as the basis for the preparation of management reporting, enterprises can use indicative indicators formed in accordance with IFRS, which will improve its quality due to the “uniform” approach to reflecting all economic events, regardless of their nature.

As practice shows, in conditions of the uncertainty of the external environment of operation, enterprises have several types of accounting (management, business, tax, accounting according to international standards), with both tangential and distinctive components. In particular, there are some differences in the use of indicators (their numbers and calculation method) when forming management reports and reports prepared under IFRS; therefore, the question now

arises of the appropriateness of management reporting formation. Some enterprises in such cases combine IFRS reporting and management reporting into a single information system. However, it should be noted that management accounting can be the source of primary accounting only when all the original documents of management accounting are formed according to accounting standards. We believe that in this case, it is necessary to increase the specification and substantiation of the information for the purposes of management accounting by developing new forms of primary documents, the information use of which will simplify the process of management reporting formation, and to reduce the number of operations in preparing reports according to the international standards. As a result, the accuracy of the information provided will increase, which will avoid divergence of the provided information in time; an increase of control over the results of each responsibility center; simplify the formation of different types of reporting; reduce potential conflicts between managers at different levels of management, etc. Only the application of common standards, principles for the consolidation and formation of international and management reporting will allow enterprises to substantially minimize costs, and management – to more effectively organize the accounting process.

Conclusions and perspectives for further research

Consequently, in the conditions of the imbalance of the domestic economic system, in order to provide favourable conditions for the enterprise operation, its management has a strong interest in the management reporting formation, the information use of which will enable to make more balanced (supported by appropriate analytical data and calculations) management decisions. Therefore, at the legislative level, it would be reasonable to develop appropriate sectoral methodological recommendations, outline the indicative methodology for the management reporting formation, and define its main indicative indicators. At the same time, it should be noted that at each enterprise, the methodology for the management reporting formation will have individual characteristics, predominantly determined by the used technology and features of production and economic activity. Also, management reporting of the enterprise should have a definite structure and an

appropriate level of specification in the reports, then it will be an effective tool for implementing the strategy of the enterprise, contributing to the increase of its competitiveness.

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