

EVALUATION OF EFFECTIVENESS OF RESPONSIBILITY CENTERS IN THE MANAGEMENT ACCOUNTING SYSTEM

Svetlana Drobyazko, Open University of Human Development
Alla Shapovalova, Kiev national university of trade and economics
Olena Bielova, «KROK» University, Kiev
Oleksandr Nazarenko, Sumy National Agrarian University
Marian Yunatskyi, Donetsk National University of Economics and Trade
named after Mykhailo Tugan-Baranovsky

ABSTRACT

Evaluation of effectiveness of responsibility centers was studied on basis of reporting for different levels of management, in terms of their overall performance, which should be based on previous key indicators, which should be understood as a set (a system) of indicators both financial and non-financial, enabling managing personnel to determine the extent to which they have reached strategic and operational goals. At the same time, segregation of the appropriate types of centers of responsibility, depending on the chosen approach to implementation of management accounting at enterprises was justified. To achieve target performance indicators of responsibility centers an employee motivation system with financial and social incentives was developed aiming not only to identify contribution of certain responsibility centers in the process of accomplishing management goals, but personal contribution of each individual employee. To evaluate sufficiency of information in management reporting, a diagnostic map developed based on analysis of key indicators is proposed.

Keywords: Responsibility Centers, Key Performance Indicators, Management Accounting, Management Reporting, Diagnostic Map.

JEL Classifications: M21, O16

INTRODUCTION

Under the conditions of aggravating competition and raising demands for production quality, a necessity for more detailed and proficient information support of the management system is emerging. The required level of analyticity and sufficiency of information is ensured by proper organization of management accounting, which is aimed at its timely formation for the managers to make informed decisions in terms of resource conservation; fulfillment of contractual obligations, diagnostics of expediency of production expansion of certain types of products or its re-profiling, evaluation of profitability factors, etc.

Collection, registration and grouping of necessary information by means of regular methods of management accounting is carried out within segregated centers of responsibility, which ensures its analyticity, efficiency and consistency to strengthen current control over the efficiency of using resources of the enterprise. Successful functioning of the enterprise as a whole depends on the performance of the structural units, which are centers of responsibility.

REVIEW OF PREVIOUS STUDIES

Since ensuring sustainable development of enterprises depends on effective management system, which is carried out in accordance with current market conditions of resource conservation, so among main approaches to building such a system is the necessity to organize management accounting for centers of responsibility.

This is confirmed by the opinion of Aluchna & Idowu (2017) that main features of management accounting should be feasibility and practicability of meeting the information needs of internal users - managers of enterprise at different levels of management. In today's context, the purpose and objectives of the accounting system is much broader than traditional accounting Drobyazko et al. (2019a: 2019b). Whereas preparation of alternative solutions gains significant importance, taking into account external factors (threats) and internal advantages and capabilities, as well as accounting and information support of management decisions, focused on formation of reliable information about the work of responsibility centers for the rational use of resources (Grayson, D., & Jane, N. (2017)).

In particular, Hilorme et al. (2019) identify the following main points that managers need to pay attention to when building an accounting system at an enterprise with responsibility centers. Namely, aiming at the key factors of success: Cost and quality, finding alternative ways to reduce production costs. The quality factor should include not only quality of products but also quality of the management process, which entails implementation of process management.

According to the analysis of specialized literature, there is no single approach to the interpretation of the term "*center of responsibility*" among scientists. It was found that the definition can be divided into two parts: the first indicates whether it is a center of responsibility, and the second - what it carries out.

Study of dedicated literature made it possible to establish that there are also different approaches to segregation of responsibility centers and characteristics of their main types.

Thus, the most common among scientists is the classification of responsibility centers, which is based on the scope of authority and the nature of responsibility of managers of the respective structural units of the enterprise. On this basis, researchers identify several types of responsibility centers, namely: cost centers, profit centers, investments (Khera & Krumholz, 2017); cost centers, revenue, profit, investment (Lu et al., 2017); cost centers, revenue, profit, investment, cost effectiveness (Samuel, 2018; Nesterenko et al., 2019).

At the same time, according to the analysis of the specialized scientific literature, the existing points of view of scientists to the classification of centers of responsibility do not take into account the peculiarities of the distribution (delegation) of responsibilities and segregation of management goals at different levels, which would contribute to the successful implementation of the enterprise development strategy.

METHODOLOGY

The research was carried out using a systematic approach to study of economic processes, which ensured consideration of problematic issues in terms of integrity, structuredness, and interconnection. The abstract-logical method was used to substantiate proposals for improving organization of management accounting at enterprises, taking into account organizational and technological features of their activity; induction and deduction, observation - in revealing problems of development of management accounting organization; synthesis and analysis - in the process of researching the current state of methodological support for organization of management accounting; grouping, comparison, concretization - in setting budgets of the responsibility centers and monitoring their performance.

RESULTS AND DISCUSSIONS

In order to create high-quality and reliable accounting and analytical information on the effectiveness of the responsibility centers at enterprises, it is necessary to develop a system of management reporting that will facilitate timely identification of opportunities for successful implementation of the management goals of the enterprise.

In order to achieve the planned performance of the centers of responsibility, it is necessary to develop a system of staff motivation, since the employees of such centers should be interested in achieving target indicators.

Such motivation should include development of both material and social incentives for employees who meet the targets, in order to identify not only contribution of the centers of responsibility in the process of achieving management goals, but also personal contribution of each employee.

The author proposed a developed system of employee motivation of separate centers of responsibility, depending on the size of cost savings and the revealed results of their work (Table 1).

Responsibility center cost savings	Material incentives	Social incentives	Inner satisfaction
Up to 5 %	5% bonus from the amount of savings	Extra paid leave	Honors from enterprise management, certificates, awards.
Up to 10 %	10% bonus from the amount of savings	Covering health fees	Advanced training, sharing experience with other specialists, participation in conferences, symposia, seminars, round tables.
Up to 15 %	15% bonus from the amount of savings	Compensation of entertainment or fitness center expenses	Increased employee influence due to increased responsibility
Up to 20 % and higher	20% bonus from the amount of savings		

Information obtained on the results of operation of each center of responsibility allows making prompt decisions on eliminating detected deviations from the planned key indicators of operational and strategic goals of the enterprises.

An effective enterprise management system is impossible without complete and high-quality information support, which is necessary for managers of different levels of management to implement their decisions taken. The main form of information presentation to the management, the receipt of which is guaranteed by information support, is reporting.

Reports serve as a feedback tool between the various levels of management, which allows to form both the results of the enterprise activity as a whole, as well as the results of work of the responsibility centers and to determine the degree of fulfillment of the set management goals. In modern conditions questions of formation of management reporting become particularly important because of information support of decision-making with effective limiting of certain factors (time, money, labor).

It has been suggested that the structure of management reporting at enterprises should be carried out within the following distinct areas: reporting of responsibility centers, which is compiled on the basis of separate business processes; responsibility centers reporting based on key performance indicators; reporting of the responsibility centers, which is based on reports on implementation of budgets of the responsibility centers and the enterprise as a whole; reporting on operating activities.

However, the importance of substantiating the methodological support for organization of the process of formation of management reporting at enterprises is due to the

dynamic changes in the economic conditions of the subjects of the national economy, which should contribute to ensuring its energy independence and energy conservation, and impose new requirements on the management system, effectiveness of which depends on availability of complete and high-quality information support.

In order to achieve the most effective result of the study, we believe that the organization of the process of formation of management reporting should address the following issues: determining the nature of management reporting and its types; determination of elements (structuring) of management accounting (management accounting basic facilities) that will determine its content; defining principles of management reporting and requirements for its content; development of forms of management reporting; defining reporting deadlines and development stages; establishing sharing of duties and authority, i.e. responsible persons for reporting and persons having the right to access different types of information, which will contribute to ensuring information security of the enterprise; evaluation of the quality of management reporting.

We believe that in order to assess the informative nature of management reporting, it is advisable to use the proposed diagnostic map, which will help to generate sufficient information to assess the quality of management reporting produced at the enterprise. The diagnostic map developed by the authors is presented in Table 2.

Sl. no.	Evaluation criteria	Value	
1	Availability of relevant information	yes	no
2	Compliance with reporting deadlines	yes	no
3	Reporting to the addressee	yes	no
4	Sufficiency of information for decision making	yes	no
5	Excessive information	yes	no
6	Analyticity of information	yes	no
7	Comprehensibility of the given indicators	yes	no
8	Accuracy of the displayed indicators	yes	no
9	Comparability of indicators	yes	no
10	Full coverage of the object of study	yes	no
11	Different frequency of reporting	yes	no
12	Existence of various events influencing decision making	yes	no
13	Reporting errors	yes	no

We believe that taking into account the identified criteria of management reporting information value will improve quality of information content of management reporting, which will improve effectiveness of management decisions.

However, for producing quality management reporting, it is also important to identify main parameters that affect the criteria of its assessment and are similar for all businesses.

RECOMMENDATIONS

In order to fully apply the recommended types of reporting to meet the needs of management, it is important to justify the timeframe for its preparation, determine the order of access and the retention time. We consider it necessary to recommend that it is expedient to set the term of preparation of strategic reports for the duration of the enterprise strategy. This period usually lasts 5 years. While operational reporting should be prepared to meet the needs of management on a daily, weekly, monthly basis. Since management reporting is

formed on basis of insider and confidential information, access to it should be protected by password by instruments available in the software used at the enterprises.

However, in cases when the set strategic goals are successfully implemented and contribute to improvement of business reputation of the company, by decision of the management reporting with a certain list of indicators may also be prepared for certain groups of outside users.

We believe that financial statements should be maintained by the accounting service for the duration of implementation of the enterprise strategy, within which operational goals for its preparation were set, i.e. it is recommended for 5 years. This is necessary in order to be able to evaluate the level of implementation of both the individual planned indicators and the strategic goals of the enterprise as a whole by accrued method.

After preparing strategic reporting, the operative part should be archived and the strategic part should be kept for the duration of the next strategy, i.e. for 5 years. This is necessary in order to compare dynamics of indicators to evaluate the strategy.

CONCLUSIONS

Thus, as a result of the conducted research, it can be concluded that on the basis of budget observance, provided that the planned key indicators are fulfilled, work results of the responsibility centers of enterprises, organization of management accounting of which is conducted taking into account their technological and organizational peculiarities for forming a more complete information management system on the performance of such centers are estimated.

It is found that management reporting is an important source of providing accounting and analytical information to the needs of managers at different levels of management as a result of proper organization of management accounting in order to make decisions to improve the competitiveness of enterprises. The process of forming management reports is a complex issue, solution of which lies within the competence of the head of the enterprise and employees of the accounting service considering the organizational and technological peculiarities of enterprises.

REFERENCES

- Aluchna, M., & Idowu, S. O. (2017). *The Dynamics of Corporate Social Responsibility*. Springer.
- Drobnyazko S., Barwińska-Małałowicz A., Ślusarczyk B., Zavidna L., & Danylovyh-Kropyvnytska M. (2019). Innovative entrepreneurship models in the management system of enterprise competitiveness. *Journal of Entrepreneurship Education*, 22(4).
- Drobnyazko S., Okulich-Kazarin V., Rogovyi A., Goltvenko O., & Marova S. (2019b). Factors of influence on the sustainable development in the strategy management of corporations. *Academy of Strategic Management Journal*, 18(1).
- Grayson, D., & Jane, N. (2017). *Corporate responsibility coalitions: The past, present, and future of alliances for sustainable capitalism*. Routledge.
- Hilorme, T., Shurpenkova, R., Kundrya-Vysotska, O., Sarakhman, O., & Lyzunova, O. (2019). Model of energy saving forecasting in entrepreneurship. *Journal of Entrepreneurship Education*, 22(1S).
- Hilorme, T., Zamazii, O., Judina, O., Korolenko, R. & Melnikova, Yu. (2019). Formation of risk mitigating strategies for the implementation of projects of energy saving technologies. *Academy of Strategic Management Journal*, 18(3).
- Khera, R., & Krumholz, H.M. (2017). With great power comes great responsibility: big data research from the national inpatient sample. *Circulation: Cardiovascular Quality and Outcomes*, 10(7).
- Lu, L.Y., Shailer, G., & Yu, Y. (2017). Corporate social responsibility disclosure and the value of cash holdings. *European Accounting Review*, 26(4), 729-753.
- Nesterenko S., Drobnyazko S., Abramova O., & Siketina N. (2019). Optimization of factorial portfolio of trade enterprises in the conditions of the non-payment crisis. *IBIMA Business Review*.

Samuel, S. (2018). A conceptual framework for teaching management accounting. *Journal of Accounting Education, 44*, 25-34.