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Institutional and Managerial Principles of Financial Planning at the Enterprise

Abstract. *Introduction.* Solution of the financial capacity issue, financial losses minimizing and economic growth strategy implementation starts with the entity's budgeting and budgetary control processes and ends at the stage of financial control in order to ensure enterprise's financial management effective dynamics. Enterprise's budget planning guidelines development is an urgent issue nowadays. Budget planning process analysis shows that some companies, such as PJSC «Kharkiv Machinery Plant «Svitlo Shakhtaria», State Research and Production Enterprise «Kommunar», State Enterprise «Kharkiv machine-building plant «FED», successfully use budgeting. *Purpose* of the article is to develop organizational and management support for enterprise's financial planning aimed at preserving and strengthening its financial capacity. *Methods.* Usage of systemic and comprehensive approach reveals the place and importance of planning in the enterprise's financial management system, as well as comprehensive planning system and risks neutralization representation. *Results.* Organizational and management services for the enterprise's financial planning aimed at preserving and strengthening its financial capacity, can be improved by developing the enterprise's budget planning regulations which define a mechanism for effective interaction of units, set budgeting timeline for necessary documentation and procedure for the budget amending, divide responsibilities for the regulated procedures performance. Methodical approach to budgeting allows enterprise planning its future activities properly. *Conclusion.* Solution of the budgeting organizational task will help apply effectively the methodology and algorithm of budget planning which leads to higher accuracy and ability to promptly new options finding for the future operation of the enterprise in order to choose the most optimal one.

Keywords: Budget; Budgeting; Business Objective; Business Projection; Financial Planning; Financial Capacity

JEL Classification: G32; O20; P12

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Організаційно-управлінські засади фінансового планування на підприємстві

Анотація. У статті розглянуто організаційно-управлінський процес розробки та складання бюджетів на підприємстві, який забезпечує внесення відповідних змін до посадових інструкцій співробітників, що закріплюють за ними перелік конкретних завдань бюджетування. Доведено, що аналіз специфіки діяльності організації за певними напрямками та розробка структури бюджету впливає на формалізацію процедури бюджетування, де складається набір інструкцій, що відображає політику, організаційну структуру підприємства, розподіл прав, обов'язків і відповідальності виконавців, основним елементом якого є регламент бюджетного планування. Запропоновано алгоритм бюджетування, що дає можливість виявити взаємозв'язок етапів та процедур бюджетного планування на підприємстві.

Ключові слова: бюджет; бюджетування; бізнес-прогноз; бізнес-завдання; фінансове планування; фінансовий потенціал.

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Организационно-управленческие основы финансового планирования на предприятии

Аннотация. В статье рассмотрен организационно-управленческий процесс разработки и составления бюджетов на предприятии, который обеспечивает внесение соответствующих изменений в должностные инструкции сотрудников, закрепляющие за ними перечень конкретных задач бюджетирования. Доказано, что анализ специфики деятельности организации по определенным направлениям и разработка структуры бюджета влияют на формализацию процедуры бюджетирования, что предполагает составление инструкций, отражающих политику, организационную структуру предприятия, разделение прав, обязанностей и ответственности исполнителей, основным элементом которого является регламент бюджетного планирования. Предложен алгоритм бюджетирования, позволяющий выявить взаимосвязь этапов и процедур процесса бюджетного планирования на предприятии.

Ключевые слова: бюджет; бюджетирование; бизнес-прогноз; бизнес-задание; финансовое планирование; финансовый потенциал.

1. Introduction

Analysis of financial and economic results of the enterprises in modern conditions shows that the deterioration in the financial management effectiveness is associated with the country's crisis situation. Financial management of the enterprise is impossible without effective production and other activities planning. The limited material and financial resources strengthen the role of the right choice of business activities priorities. In this regard, enterprise's budgeting achieves importance. It is intended to provide a competitive products production process with optimal usage of resources that provide flexible development of the enterprise. It is notable that some enterprises, such as PJSC «Kharkiv Machinery Plant «Svitlo Shakhtaria», State Research and Production Enterprise «Kommunar», State Enter-

prise «Kharkiv machine-building plant «FED», have successfully implemented budgeting.

Sustainable economic growth of the enterprise requires financial management system to identify a financial component in every field in order to minimize financial losses, get a positive financial result of the enterprise's financial capacity continuous growth. This necessitates the importance of the enterprise's budget planning guidelines development.

2. Brief Literature Review

Financial planning as a basis for mechanism of enterprise financial management, is subject to a number of domestic scientists' research in the field of finances, financial analysis and financial management, including: G. Azarenkova[1], M. Alekseeva [2], M. Bilyk [3], V. Bykova [4], V. Kovalev [5], G. Semenov

[6] and others. The issue of financial management principles is not left out of consideration of foreign scholars such as I. Blank (1996) [7], H. Donaldson (1984) [8], A. Downy (2009/2010) [9], A. Eisen (2009) [10], K. E. Newcomer (2009/2010) [9] and others. But despite the availability of research in this area and very reasonable approach to the enterprise's financial management, the problem of processing the organizational and managerial aspects of the enterprise budgeting is still open.

3. Purpose

To develop organizational and management support for enterprise financial planning aimed at preserving and strengthening its financial capacity.

4. Result

Economic scholars suggest a variety of definitions of «budget» and «budgeting» terms. According to the definition of the British Institute of Financial Managers, «budget is a plan submitted in monetary terms, prepared and approved for a period of time, which usually shows future revenues or expenses of the period, and the capital to be used to achieve these goals».

«The main budget is a financial, quantified expression of marketing and production plans necessary to achieve their goals», – this is the definition of American experts [8].

According to V. Kovalev [5], there is a very clear distinction between the concepts of «plan» and «budget». The first term is understood in a broader sense and includes all systematized range of activities aimed at achieving certain goals. «Budget» is a narrower concept that involves quantitative representation plan of action in terms of value. Thus, budgeting is a financial plan that covers all aspects of the enterprise activities, allowing to compare income and expenses for the coming period as a whole and for individual stages. Financial planning is part of the enterprise management activities associated with the process of drawing up financial plans, forecasts and budgets, monitoring their performance, identifying the causes of deviations from the planned parameters. In general, it is a list of actions and sequences of financial capacity creation, along with the relevant material, labor and financial resources to achieve the enterprise's financial goals and tasks [11].

Given the above, the budget should be seen as the result of a system which elements are Planning Centres (PC), the Financial Responsibility Centres (FRC) and Cost Centres (CC). They are based on the organizational form of interaction and create reasonable business forecasts by functional areas of the enterprise's activities and developed on their basis business tasks using financial and economic modeling.

Research of the budgeting practice gave reason to suggest that for detailed calculation of the budget, it is necessary to provide business projections. Based on the business projections the calculation of business objectives is carried out, defining areas of the enterprise in the planning period. To ensure an effective mechanism for the financial potential of the enterprise, its operation should be characterized by a set of business objectives [12]. The organizational aspects of budgeting should be worked out in the enterprise. For this purpose, it is necessary to provide the following organizational and management process to develop budgets which provide the appropriate changes to job descriptions of employees which fix specific budgeting tasks (Figure).

Let us consider more specifically each block of the above process.

Budgeting management should begin with the appointment of the Budget Director responsible for the preparatory process, standardization of project forms, collection and collation of data, verification of information and reporting. Budget Director may be a CFO, acting as internal expert and coordinating the activities of departments.

To control the budget process the enterprise creates the budget committee which is a permanent body whose main mission is thorough check of strategic and financial plans, recommendations, resolving disagreements and correct the enterprise activities. From the organizational point of view, the Budget Committee is an advisory group, which includes senior managers and external consultants. Members of the Budget Committee should be directors of all sectors. Collegiality is an

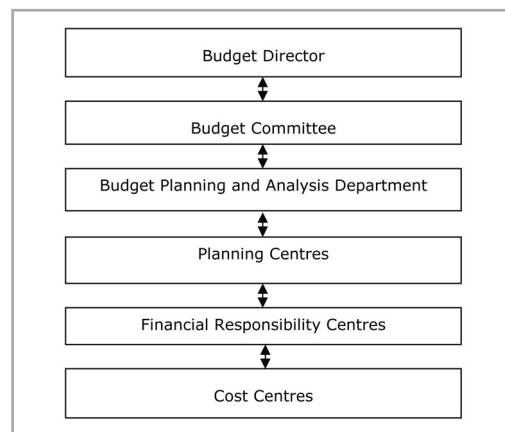


Figure: Organizational and management development process and budgeting at the enterprise

Source: Author's own elaboration on the basis of resources [2-9]

important feature of this structure. The Budget Committee is the main unit of the system of budgeting and ensures its integrity, because it has the authority to reallocate funds between budget items, develop measures to eliminate the budget deficit, punish those responsible and to encourage others.

To improve the efficiency of work in the budgeting process the enterprise must create a Budget Planning and Analysis Department (BPAD). Its main objectives are management and organization of work on: the implementation of the budget planning; methods of organization and development of perspective and short-term forecasts of the entity's economic development to meet the needs of the market; systematic analysis of all areas of the enterprise's activities and its individual units; control over budget plans' implementation by structural divisions; collection of statistical data that characterizes enterprise's production, technical and economic performance.

BPAD is an executive body that particularly implements the decisions of the Budget Committee and organizes activities for their implementation, working with specific performers which are functionally divided into PC, FRC, CC.

Planning Centres are structural divisions and officials with the exclusive right to determine the main trends of the enterprise by means of business projections.

Business forecasts are differentiated by the areas of forecasting, demand, normalized costs, taxation, inflation. If necessary, possible deeper detailing business projections is possible.

Budgeting efficiency is defined in detailing business projections. If possible, all projections should be structured, so that each employee that triggers any data set would be responsible for a business forecast. Fixing PC for specific budget items is made at the stage of the enterprise's budget drawing up.

Processing business projections is carried out to obtain realistic business tasks and bring them to FRC. This process is controlled by BPAD, which acts as internal expert and coordinating body of planning centres. Each planning centre has to interact with specific financial responsibility centres.

Financial responsibility centres are organizational units of the enterprise or officials who exercise control over the drafting of the enterprise's plan, representing a range of business tasks, as well as the movement of material and financial resources within the actual implementation of planned measures for their assigned articles. FRC precise determination allows better implementation of continuous system of the enterprise's financial planning. Fixing FRC on specific budget items is carried out at the stage of the enterprise's budget structure creating.

Cost centres are separate structural units of the enterprise which can arrange regulation, planning and accounting costs of production for the surveillance, control and cost management of productive resources and assessment of their usage.

At the industrial enterprises cost centres are separate analytical accounting objects. The procedure of generalizations repeats cost mutual dependence in organizational management structure.

Within the organizational preparation of the budget process, it is necessary to develop the structure and regulations of the enterprise's budget. For the budget structure of a particular enterprise development it is necessary to analyze the specific activities of the following areas:

- analysis of the products sales of the enterprise. At this stage should be determined the structure and form of income planning from operations: domestic market and export; national and foreign currency; at the enterprise as a whole or in the basic assortment groups, etc.;
- assessment of income from other activities. It is necessary to calculate the share of income from other activities in the total income of the enterprise in order to determine the feasibility of other operations development planning;
- determining the specifics of the enterprise's production process. This stage is carried out to identify the need of a separate planning for primary and secondary products; normalized stocks; creating forms for production units;
- analysis of the organizational structure to develop estimations of the structural units;
- determining the cost structure of the enterprise and the most important articles for deeper details in planning.

The budget structure allows setting the desired budget articles' hierarchy and grouping them in budget items. The budget structure is used to:

- share responsibility among structural units for specific elements. For this purpose articles should be detailed so that each unit had clearly selected items (for example, if two or more units are responsible for the same item in the same article, it is necessary to introduce this element to the article several times with different FRC);
- create comprehensive income and expenditures – therefore it is necessary to provide hierarchy of articles for convenient analysis to get satisfactory answers about various calculated values (e.g. divide article «Supporting materials» on «Metal», «Tools», «Materials» and so on to find the reason for the result during the analysis);
- enterprise cash budgeting – for correct creation of the form it is necessary to provide in the budget structure articles with exclusive relation to the movement of cash, such as «credit resources», «collection of receivables of past years», «VAT refund», «repayment arrears of previous years», etc.

The structure of the budget should also be provided for items such as semi-finished products of own production, turning waste. It is necessary for the normalized costs forecast and calculation of production costs. In summary form, these articles should be zero, as distributed by components: raw materials, energy, salary etc.

Following the budget structure and its main forms development, it is necessary to formalize the budgeting process. To do this, the enterprise, in our view, must establish «Budget Guidelines». It is a set of instructions that reflects policies, organization, and division of rights, duties and responsibilities of performers. These instructions act as a set of rules and guidelines for the budget programs preparation. Instructions must show what, when, how and in what form should be done.

The main element of the «Budget Guidelines» is budgeting regulations which:

- define a mechanism for effective interaction of the enterprise's structural divisions on production and financial planning;
- set deadlines for submission of necessary documents to create operating and financial budgets of the enterprise;
- establish the procedure for the developed budget amending by the enterprise;
- allocate responsibility for consistent and timely implementation of regulated procedures.

The process of scheduling should include monitoring of the assigned tasks performance by using a comparison of the enterprise's employees actual actions with the budget process regulations.

From technological point of view, the budget planning process at the enterprise can be represented as a sequence of steps and procedures with direct and inverse relations. Thus, budgeting algorithm includes the range of interrelated phases (Table). Thus, if the enterprise uses a competent financial management and financial potential policy, its chances on success

Table: The stages of budget planning at the enterprise and their relations

Number	Budgeting stage	The nature and characteristics of the stage
1	Preparation and analysis of relevant information	At this stage, it is necessary to evaluate activity of the current period and predict the results of its completion by answering the following question: are the plans for the current period fulfilled? Are deviations and their causes encountered? It is also necessary to analyze the external and internal environment and assess the changes that have occurred.
2	Formulation the goals and objectives of the enterprise	This stage provides the basis for an action plan for the next reporting period. It is necessary to define the goals and objectives of the enterprise in the coming period in accordance with the strategic development plan. Goals should have specific formulations and quantitative characteristics which will be judged on the degree of achievement. This is the end result of work on the second stage.
3	Targets and constraints setting	Targets are defined in terms of value and quantity of goals which shareholders put for the enterprise's executive management for the coming year. Revenues and cost structure of the enterprise is planned, necessary management decisions are made. Targets are formulated in writing and followed to the heads of departments and services in order to develop a budget for the next year. After defining targets, possible constraints which can hinder performance tasks must be also defined.
4	Full range of alternatives identifying	At this stage, it is necessary to identify and analyze all possible options of the enterprise's activities to ensure implementation of the tasks.
5	Acceptable budget alternative selection	The alternatives, identified in the previous step, must pass through the filter of various constraints (resources, legal, social, etc.). The end result of work at this stage is compilation of budgets option that meets the constraints.
6	Pre-selection of better alternative	A detailed analysis of budget options in meeting the goals, costs, resources, according to the specific conditions of implementation alternatives. The end result of the sixth stage is conclusion on the superiority of a particular option.
7	Assessment of the alternative by a managing body	At this stage, the draft budget is presented to the budget (financial) committee of the Board of Directors. This step helps prevent conflicts on the Board level, get support of new initiatives to identify weaknesses that require further discussion, strengthening relations between the Board and staff. Budgeting requires public policy and operational decisions, so active involvement of staff in the process is necessary.
8	Budget adjustments	If the previous stage revealed the need for adjustments, further information should be included to the budget, and then it should be submitted to the Board discussion.
9	The choice of a single alternative	After discussing the budget in the committee, it is possible to present it to the Council with recommendations of the budget (financial) committee. This will dispel doubts and reassure members of the Board, because the project has been approved by a group of their peers. Approval of Board of Directors is required. The budget expresses the policy of the organization, and is an area of the Board responsibility which it cannot pass on to others.
10	Maintenance work on budget execution	In order to make the budget an effective and useful tool, it should be also clear at the functional level. The budget should be presented by the management of the enterprise along with parameters and expectations for its usage and indicating those responsible for expenses or fund raising. No budget will work until the preparation and management of individual budget articles will be assigned to the individuals.
11	Budget execution	After approval of tasks for enterprise's units, tasks performance stage starts.

Source: Author's own elaboration on the basis of resources [2, 3, 5, 10]

increase significantly. Every enterprise has a certain capital, through which it receives the bulk of profits. Errors associated with the investment capital will inevitably lead to the loss of financial stability and even bankruptcy. The desire to develop a planning system that meets requirements of market economy is realized at the enterprises in form of a staged introduction of the enterprise's budgeting. The company may incur financial risks provided these requirements are not fulfilled. Financial risks need to be considered from the several stands: firstly, it is a risk of potentially possible, probable loss of financial resources; secondly, it is a risk of a shortfall in expected income compared to alternative financial potential of the company, which is designed for efficient usage of all resources in this field; thirdly, it is a probable extra risk associated profit. A risk management plan should reflect the costs that must be taken into account in the financial planning parameters of the company's risk business activity. First of all, these are the organizational and administrative costs of security measures, insurance compensation costs etc. Secondly, these costs include self-insurance reserve funds that should emerge from the company's own funds and which form compensation payments budget for self-insurance in the financial planning structure.

5. Conclusions

Organizational and managerial services for the enterprise's financial planning aimed at the enterprise's financial capacity preserving and strengthening can be improved by developing enterprise's budget planning regulations. Importance of budgeting methods at enterprises development is concerned with solution the problems of financial capacity concentration, financial losses minimizing and economic growth strategy implementing. All these are built into the budgeting process of planning and budgetary control and end at the stage of financial control to ensure effective dynamics of the enterprise's financial management.

Solution of the budgeting organizational task will help effectively apply the methodology and algorithm of budget planning, allowing more accurately and promptly get several options for the future operation of the enterprise in order to choose the most optimal one.

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