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Financial segment reporting in the function of building a motivation and rewarding system

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One of the main factors of a company's business performance is complete mobility and orientation of the employees towards realizing common interests and goals of the company as a whole. Activities aimed at that goal are also related to building a motivation system in the company. One of the means of motivation policy is the system of incentive rewards, where the information input is the calculation of costs and business results of a company, relying on complete tracking of business processes, according to functions, fields and centres of responsibility for achieved success or failure. Profit, as the final financial product of the company's activities, is basically the main activating force for all the employees. Their motivation helps successful achievement of a company's business policy and strategic development, through a functional system of measuring and evaluating results and adequate rewards.

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Introduction

The survival of an enterprise, its growth and development requires the individuals, from the management structure down to individual task performers, to be motivated, i.e. guided by certain motives towards the achievement of individual goals and interests by way of achieving the goals and interests of the company's segments, and thereby the aims and interests of the company as a whole. In the company's complex business environment, this is where the skill of the company's management structure in mobilising the entire staff is manifested, i.e. their ability to use a system of actions and tools of motivation policy and harmonise the goals of the company's segments and its entirety in achieving optimum business results. One of the instruments in the implementation of motivation policy is the incentive remuneration system, whose efficient motivational functioning relies on the calculation of costs and business results of a company, by way of comprehensive tracking of business processes, according to functions, fields and centres of responsibility for achieved success or failure.

The complex and dynamic business environment directs enterprises to the need of flexible behaviour in terms of changing business environment. Flexibility of operation inevitably requires the company's managerial structures to be permanently ready to act on time, i.e. take appropriate measures and actions in order to maintain the company, its growth and development. A prerequisite for such readiness is the interest, motivation and stimulation of all employees, starting from the management structure through all organisational levels of the company, down to every employee in charge of individual tasks. It is in the best interest of the company as a whole to have a reward system that will include both the managers and other staff members of the company's organisational segments and the whole company.

Functioning of the company's motivation policy through a system of incentive remuneration is backed up, among other factors, by accounting data, especially the data from cost accounting. Without underestimating the relevance of the need for external reporting and the need to report to external users, it is still beyond doubt that the information from the internal sphere of the company's operation are extremely significant,

in view of the need for a successful operation management and all the activities aimed at achieving optimum results, i.e. profit. Profit, as the ultimate financial product of the enterprise's activities, is, in essence, the basic driving force of all employees. Their motivation, through a functional system of measuring and assessing achievement, contributes to successful operation of the company's segments and the entire company.

Definition of segment as basis for financial segment reporting

Segmented organization is characterized by relatively individual, different in business and programme segments. Segments, depending on the degree of their independence in the decision making and rights and responsibilities which are based on their independence, are mostly formed as profit and investment centers. From the accounting point of view, profit centers are areas of profit responsibilities; they are responsible for income and costs control and they give report about the profitability of the division. The investment centers are responsible not only for the division profitability, but also for the assets engaged in the division (property investments), and the performance of investment centers is measured with the rate of profit on the capital engaged.

The formation of segments as accounting areas of responsibilities depends on:

- the management style of the top managers and the company surrounding and the formulated company strategy;
- the size, organizational structure and the business activities of the company;
- the accountants' and managers' ability to correctly identify appropriate areas of responsibility in the observed organizational structure.

Organizational structure of the company has the biggest influence on the formation of accounting areas of responsibilities, and is also, besides the formation of responsibility areas, conditioned by the strategy of the company. As a general rule, the company's strategy influences the organizational structure and its change, but the organizational structure has a feedback effect on the strategy (Malinic, 1999) through the positive influence on the company's development and the need for forming new strategies directed towards further growth and development of the company. Concerning the relations between the organizational structure and the strategy, the following situations of strategic company positioning are possible:

- a. The strategy of product differentiation, which mostly influences the formation of the divisional (segmented) organization structure;
- b. The strategy of cost leadership, which mostly influences the formation of functional organization structure;
- c. The strategy of market focus, which influences the formation of a kind of hybrid organization structure.

The formation of segments, therefore, directly depends on strategic company positioning, more precisely on the determination for the product differentiation or eventually on the specific market focus, determining the production and market specificity of each segment in the company. Authorizations and responsibilities of segments to operate relatively independently, in the degree of achieved results or possible investments in segments, influences the specific degree of decentralization of business decisions from the highest to the lowest company management levels. Even though decentralization doesn't necessary mean divisionalization, the formation of segments (divisions) in the company encourages decentralization of management.

The significance of financial segment reporting, i.e. reporting about the performance of segments, especially profit and investment centers, is reflected in the clear definition of responsibility for conducted actions, achieved results measured through the relation of costs and benefits, development of techniques for the performance measurement of the

whole company or its parts, establishment of organizational management control, motivation of managers to achieve the company goals through the achievement of its parts' goals (which implies the congruence of the goals of the whole company and its parts) etc.

Cost accounting and financial segment reporting as information basis of motivation and reward system

Cost accounting should satisfy various information needs. Viewed from different aspects, these are, basically, the needs of balancing, planning and control, managing the pricing policy, alternative business decision-making, and the needs of the company's motivation policy. In terms of content, cost accounting implies:

- calculating costs by types;
- calculating costs by the location of costs;
- calculating costs by cost bearers;
- short-term analytic income statement across organisation units, product group, markets etc.

Management-oriented cost account must be reliable, flexible, economical and future-oriented. In accordance with functions and information needs it should satisfy, cost account has to be placed organisationally so that it provides for data collection and making up-to-date and high-quality information for the management structure of all organisation levels, for the purpose of guiding individual company segments and the whole company towards optimum financial effects.

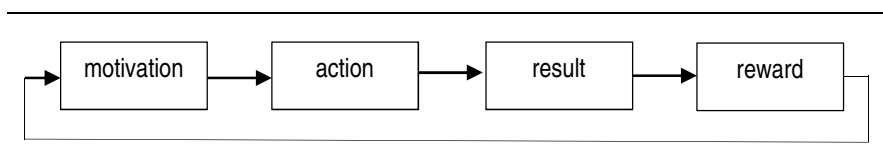
Organisational structuring of the company, adapted to internal, especially technical and technological characteristics of the company, within the complex and dynamic business environment, determines the organisation and function of the company's narrower organisation segments. Tracking the performance of organisational units and the success of operation of their managers is essential, in view of the fact that their success determines the success of other organisation segments in the company, and the company as a whole. For this reason it is necessary to plan, track and control the achievement over organisational units, by establishing business results over organisational units, and the contribution of the results of individual organisational units to the overall performance, i.e. the business results of the company as a whole. Each organisational unit (segments) represents the field of responsibility of the unit manager, and this is why they are often referred to as centres of responsibility. The manager must be motivated to achieve the goals and interests of the organisational segments, through creating joint tasks, aims and interests of the company as a whole. Moreover, by constituting organisational units within the company, i.e. divisional organisational structuring of the company with accompanying management decentralisation, management freedom is increased and "the local management is given an opportunity for self-confirmation, which is certain to increase their motivation and contribute to enhancing business performances of the company's segments and the entire company. The more so, if it is supported by a functional system of measuring and assessing performance, and rewarding the management and employees in the company's divisional units" (Stevanovic et al., 2009).

The above mentioned points to the need for permanent control and assessment of internal business economy of the company's segments and the company as a whole. Cost accounting, with the data and information it provides, i.e. with an adequate system of reporting on business performance across relevant organisational levels, including the needs that have to be fulfilled, should provide an information basis for inclusion into the efficient functioning of the company's motivation policy, through the incentive rewarding system. Economically and technically, introducing the system of accounting over the company's organisational units represents the decentralisation of the company into an appropriate number of organisational units (segments). The work of organisational units

can be constantly tracked and controlled depending on the nature of the technological process and the possibility of applying accounting methodology for planning, tracking, calculating and expressing the economic effects of business of these organisational units. The purpose of this decentralisation of company is, among other things, reviving and developing the operability and initiative of these organisational segments, which can serve as a convenient basis for developing various incentive methods in terms of enhancing performance by more productive and economical work.

The incentive rewarding system is a method of remunerating managers and all employees, which comprises encouraging good and discouraging bad work. It implies planning activities (performances), controlling and reporting on achievements and rewarding accordingly. It appears that planning represents one of the prerequisites of introducing accounting over the company's organisational units and other aspects of tracking business performance, in order to provide adequate accounting reports based on performance control. Between performance (business success) and motivation policy, through the system of incentive rewarding, it is necessary to build an objective system of interdependence and conditioning. Results achieved by an individual, a group, a organisational unit or a company segment, must reflect on the incentive part of the salaries of managers and other performers of tasks, so that at the same time the incentive part of the salary can have a return incentive effect on future work, new performance, in an endless circle of conditioning and interdependence. Consequently, through appropriate actions, the reward as satisfaction for efforts invested should have a continuous and repeated incentive effect on the achievement of personal interests through achieving joint interests of company segments and the company as whole, as illustrated by the following chart:

FIGURE 1. MOTIVATION: INCENTIVE REWARDING IN CONTINUOUS CONDITIONING AND INTER DEPENDENCE



Source: Authors' review.

Generally speaking, the efficient functioning of a company's motivation system is conditioned by the capability of the company's managerial structure to use management as a creative process and direct the activities to achieving the company's goals. This implies coordinating the activities of organisational segments, i.e. areas of responsibility, and controlling each one's contribution to the company's overall results. The company's motivation system should set up so that none of the goals is favoured at the expense of the others, which can sometimes have more far-reaching long-term effects on the survival, growth and development of both segments and the company as a whole. For instance, viewed from the aspect of cost saving, possible wrong motivation effect could reflect on reduced activities in terms of quality control, which would incur long-term undesirable effects.

The information input of the accounting function to the company's motivation system is realised through financial and managerial accounting. Within financial accounting, the sources of information input to the company's motivation system are, particularly, analytic personal income (salaries and financial incentives) accounts. The basic source of informational input to the company's motivation system in managerial accounting is in responsibility accounting, or cost accounting over locations and bearers, in income statements and performance account viewed from diverse aspects, in accordance with the particular company's organisation.

To enable the analytic personal income accounts to satisfy the information needs of the company's needs, with due regard to the significance of others elements of financial accounting, it is necessary to set it up adequately in terms of organisation, with due regard to the compulsory accounting legislation and the company's specific circumstances. Analytic personal income accounts, with the prerequisite of identical planning and accounting methodology, should, basically, fulfil the information requirements of the company's motivation systems in terms of the need for itemised recording of the elements of managers' and task performers' earnings. If required, reporting can be shaped and structured in a variety of ways in terms of time and scope.

When creating organisational solutions of cost accounting, and starting from the information needs of the company's motivation system, it is necessary to bear in mind the specific features of personal incomes as motivational factors, especially viewed from the aspect of planning, recording and control, and necessary coordination of motivation and information needs on the one hand and the information capacities of accounting. From the methodological and informational aspects, numerous solutions and organisational instruments are available, bearing in mind, among other things, the opportunities and informational capacities of modern cost and performance accounting systems. It is up to the company's management to specify overall information needs of management and business decision-making, including the information needs of the company's motivation system, aimed at achieving the company's goals.

Management information needs aimed at identifying areas of responsibility affirm responsibility accounting, which deserves special attention from the aspect of motivation and rewarding. Namely, rational management of current business in complex and dynamic conditions of market economy require adequate, management-oriented accounting information system. In accordance with the specific circumstances and real needs of managers at all levels, it is necessary to model, i.e. create adequately structured and flexibly set up accounting reports, which implies decentralising performance accounts. We must therefore point to the importance of forms, contents, frequency and manner of representing the elements and areas of accounting reports. The observation focus of responsibility accounting is the performance of the company's organisational segments, i.e. areas of responsibility.

From accounting aspect, efficient management control requires defining centres, i.e. areas of responsibility, where the starting point is the company's organisational structure, and their relationship to responsibility accounting. Responsibility account is not a new institutional segment of accounting, but a special approach to the process of gathering and submitting planned, and real accounting information on inputs and outputs of the areas of responsibility, „for the purpose of measuring their achievements, and motivating managers and task performers, which imposes the need to bear in mind human behaviour when conceiving it.” (Stevanovic et al., 2009). Forming areas, i.e. centres of responsibility should be in the function of planning, controlling the performance of managers and centres/areas of responsibility (efficiency of the areas of responsibility), and motivation. Practically, responsibility accounting functions through:

- a. planning (budgeting) for each area of responsibility, which is used as a basis for determining real performance of each individual responsibility area;
- b. determining (measuring) business performances of each responsibility area;
- c. compiling reports on the performances of the areas of responsibility, by comparing real performance to the planned ones, through accounting and budgetary control.

The essence of responsibility accounting is, therefore, drafting a budget (account planning), determining achieved results and accounting control (budgetary control), and subsequent preparation of reports on the performances of responsibility centres, and presentation thereof to users. Starting from the direct task performers towards higher organisational levels, we can identify work contributions of individuals and groups to goal achievement at the next higher organisational levels, as well as how much each individual

organisational level (responsibility centre) contributes to the achievement of the goals of the company as a whole. In these terms, reporting represents a basis for the functioning of the company's motivation policy through the incentive rewarding system.

Budgetary control in divisionally organised companies is conducted based on a budget (plan), i.e. based on budgeted costs, incomes and achieved results. Possible responsibility areas or centres from aspect of need for external reporting, but also for internal reporting are: areas of standard costs, areas of budgeted costs, areas of responsibility for income, areas of responsibility for profit, and areas for responsibility for the profitability of invested capital. "The users of the centers efficiency' reports are the managers of responsibility centers, from the lowest organizational level all the way to the top manager. Reporting about the efficiency of a business center - area of responsibility, serves to:

- help the manager of the responsibility center evaluate the efficiency of the center as its own goal, and
- to help top management evaluate the level of efficiency in centers (areas) of responsibility." (Gajic, 2005).

"The demand for segment reporting through areas of responsibility results from the insufficiency of both global and historical result statements in the official financial statements relative to the demand of the management for data. Furthermore, official statements offer results for too long a period of time which makes it difficult for the management to act timely, i.e. to encourage positive acting and in case of crisis, keep the situation under control by means of certain measures and acts, that is, within the planned framework" (Gajic et al., 2009). For that reason users of data need accounting reports by organizational parts of the company, which are analyzed as results and property from balance sheets and income statements. In this way, managers of organizational parts and the management of the company both provide an insight into problems, their analysis, validation of causes, and the choice of the most acceptable solutions, and in general, better understanding of past results, risk evaluation, and business results for the company, and the respective parts, in terms of future managing steps.

In the context of realistic reporting on business performances by responsibility area, among other things, it is important to distinguish between the costs that are under the control of the manager of the relevant area, and those that are not, because the costs which are not under the control of responsibility areas cannot be considered in the assessment of its performances. In general, this also applies to the incomes, expenditures and performances which are not and cannot be under the control of the relevant responsibility area.

Financial segment reporting is, because of its importance, normatively regulated. International Financial Reporting Standards (IFRS) 8 - Operating Segments regulates the reporting primarily for the purposes of external reporting. The segment must meet certain conditions in accordance with IFRS 8¹, to be externally reported. Not all the segments need to be externally reported, but in the case of external reporting, segmentation for the purposes of internal and external reporting should be identical. IFRS 8 - Operating Segments, defines the criteria for segment identification, segment reporting, segment grouping, what information about them will be disclosed, how to report profit or loss, assets and liabilities, how to measure, adjust and revise previously published information and how to disclose information about products and services, geographic areas and major customers for the whole entity. With IFRS 8, management (control) approach is fully adopted. This means that the company management determines its segments due to the needs of the company's organizational structure and the needs of providing appropriate and timely information for decision making and performance measurement.

The above mentioned leads to the conclusion that segment reporting is reporting by the company's organisational segments, viewed from various aspects (product; product group;

¹ According to IFRS 8, paragraphs 5 - 10, www.iasb.org

service; location of production and market, etc.), all in accordance with the company's organisational structure and the requirements of account reporting. Generally speaking, the basic reportable information by segment includes revenue, expenditure, consequent results and operating assets. Viewed from the accounting organisation aspect, there are basically no major obstacles for the disclosure of this data. Problems may arise, for instance, when it comes to operating assets, in cases when there are several profit centres within an investment centre, and assets used jointly. Reporting by profit centres, according to the above mentioned requirements, and allocating operating assets by those (profit centres) requires the application of appropriate key, which may be a disadvantage.

In conclusion, account reporting in general, and reporting by segment of disclosure is extremely important. The importance of accounting information input to management structure of all organisational levels is reflected in the fact that cost accounting, by up-to-date, adequate, meaningful and high-quality reporting, primarily in the area of the internal sphere of business, should enable efficient management of companies and maximising business performances. Among other things, through a well-positioned motivation system of incentive rewarding.

Concluding remarks

One of the significant factors determining a company's business performances is providing full mobility and focus of the entire staff on achieving joint interests of the company as a whole. Activities aimed at this goal are mainly related to building an adequate motivation system. Efficient functioning of the company's motivation system is conditioned by the capability of the company's managerial structure to use management as a creative process and direct the activities to achieving the company's goals. This implies coordinating the activities of organisational segments, i.e. fields of responsibility, and controlling each one's contribution to the company's overall results.

Why motivate? Because a motivated employee has better performances. A group of motivated employees - the organisational segment of the company, has better performances. More motivated organisational segments of the company have higher performances, which is also reflected on higher performance of the company as a whole. The aim, therefore, is to motivate task performers of organisational segments and their managers for better performance, i.e. more efficient work, because the efficiency of a company as a whole depends on the efficiency of work within the company's organisational segments. This implies the implementation of up-to-date, adequate and efficient measures and actions, aimed at successful guidance of an enterprise or a company, based on relevant information.

Accounting is the basic, if not sole source of information for management and business decision-making. The place and importance of accounting function is also manifest in terms of information input in motivating the management and all employees, by means of full tracking of economic processes, observed by functions and areas, centres of responsibility for achieved success or failure, and reporting on the basis of these. And the company's managerial structure should use management as a creative process and direct the activities to achieving the company's goals, as well as the means of their achievement. This implies the existence of coordination between the goals of the company's segments and the company as a whole, and the interest of entire staff in achieving those goals.

Successful functioning and coordination, i.e. ever-present harmonisation of the goals of segments and the entire company require building an adequate motivation system in the company, particularly viewed through the system of functioning of one of the instruments of motivation policy, i.e. incentive rewarding system. In view of this, there is a marked need for and importance of accounting information input to managerial structure of all organisational levels, in facilitating efficient management and guiding the enterprise towards optimum financial effects by up-to date, adequate and high-quality reporting, primarily in the internal sphere of business activities.

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