

FINANCIAL REPORTING AND THE DASHBOARD

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Abstract

The domain of accounting and management control at the level of multinational corporations operating in a global economic environment is an interesting blend of two disciplines: the international component of management and, on the other hand, the more technically challenging side of recording and handling financial-accounting information, which is seen as an "optimal information package". The need for accounting and management control derives from the company's strategy, serving as a source of information for the management and as an instrument for validating the convergence of the company's interests and those of its employees.

Keywords: *dashboard, financial performance, financial reporting system.*

1. Introduction

Strategic management seeks to develop dashboards that allow validating the long term direction of a company in the interest of its shareholders, its employees, its clients and other partners. Traditional dashboards are focused primarily on financial performance, concentrating on the definition of performance and monitoring indicators.

Management in Anglo-Saxon countries, given their financial scandals, imposed the growth of communication in the financial sector, based on value creation. Different networks and department groups, which see themselves as interdisciplinary, offer companies services that go beyond the sphere of accounting and auditing: legal, fiscal, informational and organizational counselling. Conflicts often arise between economists and professionals in other fields.

The listed failures stem from insufficient control over the process of management in high risk conditions. Such an approach generates long term value, because it focuses on controlling risks that may threaten the continuity of a company's activity.

The prospective dashboard extends the traditional dimensions of financial reporting by means of two new complementary dimensions (the process and the training/learning axes) in a strategic risk control approach. The new generation of dashboards is considering sources of value creation through dynamic and multidimensional analysis

2. The dashboard: A monitoring or reporting system?

The dashboard is a tool that encodes and structures communication. It is the factor which allows achieving parameters which are essential for a company. The suggested system distinguishes itself from other management information systems, in the sense that, ultimately, it is a financial report of the operational system where one can find global operations affecting the past, including large amounts of data which favour detailed analysis. There are two kinds of limitations to these systems. The first concerns the level of detailed in the available data: the juxtaposition of significant information and information that highlights details does not

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lend itself to a fast appreciation. The second limitation comes from the focus on past data. Precedence is given to budgetary and accounting systems over historical information. The focus is on controlling past actions. However, the interest for this type of information decreases with the passing of time.. The dashboard is thus used to track and anticipate action, allowing for flexible adaptation. Its focus on monitoring is what distinguishes it from a reporting system.

Another difference can be found at the level of the observation position. In the case of the dashboard, an observation takes place at the same time for difference services as well as for the company's hierarchy. In the case of a reporting system, such observations are only made for the hierarchy.

The dashboard can use data from the budgetary system and the general accounting, without being confused with these ones, but sharing some common points. It can be constructed, the same as the budgets, based on the existing responsibilities structure in the enterprise, and applying the same principles of analysis of the differences, being anyway, much more sleek, much more synthetic, sometimes with approximate data. While accounting favors the accuracy and the completeness of data, the dashboard is designed to provide faster partial and approximate data. We can conclude that the high frequency dashboards will prevail extra-data, while in the annual panels most indicators are calculated based on accounting information. This ensures the coherence of different sources supplying the dashboard by cross game information that enhances their mutual relevance.

As synthesis instrument, the dashboard uses multiple data sources based on several tools: budgets, quality management, commercial management, social management, technical management, financial accounting, cost calculation system, etc.

There is a special relationship between the dashboard and the reporting system. The reporting system is present in groups, and it consists of hierarchical information on the results obtained, it represents the tribute of the branch because it bears its name. This tool implements the Anglo-Saxon meaning of the term "report", with information role, hierarchical communication in case of decentralization. The dashboard is however a tool of enterprise management, aiming at the action. Starting from this general distinction, there can be identified several differences between the two instruments:

- The reporting is essentially based on financial indicators while in order to facilitate the knowledge of the business the dashboard contains non-financial indicators;
- The reporting is based on the structure of sharing of responsibilities appealing to the controllability principle; the dashboard can correspond to other decompositions of the enterprise;
- The reporting is an instrument that provides centralization, data standardization, its purpose being "the information ascent", while the dashboard must primarily ensure the management of decentralized units;
- The reporting is done in a required format, the dashboard has a more flexible structure in space and time.

Thus, reporting is present within groups of companies, while the dashboard can be used in all types of businesses. The confusion or the relationship, dashboard – reporting, appears only in groups. Although we have noticed clear differences between the two instruments, they can overlap in groups' management, the main reason being the higher cost of their separation.

Some construction principles, outlined in specialized literature, have the role to ensure the fulfillment of the purpose of the dashboard:

The coherence - the dashboards shall be drawn up in each responsibility center or at the level of any other cutting units of the company and they are subsequently centralized to be useful to several hierarchical levels. In this respect, they must be coherent with the enterprise

cropping and the compilation must comply with the chain of command. The same coherence is also necessary at transversal level. So, in order to allow the aggregation at a higher level, the dashboards, for the same functions and at the same hierarchical level, must contain the same performance indicators, the same definition of indicators and a common source.

The relevance - in order to fulfill its purpose, the dashboard should contain few indicators, but essential to the respective mission.

The urgency - the scoreboard frequency is determined according to the nature of the activity and the need of information in order to follow the fulfillment of the objective. We should note that the rapidity in preparing and delivering the dashboard is more important than the accuracy of the calculations.

The efficiency - this is the result of taking attitude in front of the figures on the dashboard. The purpose of the instrument is alerting officials, generating an action and organizing the action. The natural consequence of the dashboard is represented by the plans of action. This is an instrument that translates the desire to implement corrective actions and that allows sharing of analysis. Applying a dashboard that does not result in action involves a waste of time and money.

In order to interpret correctly the indicators and to make good decisions, in addition to the actual values of the period there must be provided one or more references:

- the historical basis - the level reached in the past. In this selection there will be taken into account the characteristics of the indicator: if it is the sales' level, the comparison will be made against the same period of last year. Instead, for the collection level of debts, the comparison basis is represented by the previous period of study. The historical references are useful, because they show the evolution of the activity, but at the same time they are closed, disregarding the environment's development and not encouraging progress;
- a provisional basis - represents the budgeted level, expected, of the indicators. The use of this base shows the degree of compliance of the commitments, but focusing on it exclusively, leads to losing sight of the ultimate goal – the customer satisfaction;
- a technical basis - the level of optimal performance from a technical point of view;
- a basis of customer expectations - very useful especially in quality-oriented approaches;
- a basis of performance of another unit - consists in using the benchmarking to determine the database. This reference is favorable to progress, internal dialogue, creativity and self-improvement;

The dashboard stands as a relatively autonomous instrument of management control, having its own presentation procedure and use of data in decision-making activities. The place of the dashboard in the management control system can be determined only in conjunction with the company's structure and the persons authorized to take corrective actions in their area of responsibility.

As the person in charge, he is entitled to receive information on the action to be taken. And as the degree of delegation of the authority, according to the structure and the organizational chart of the enterprise, determines the organization of those lower echelons known as responsibility centers, it would be inappropriate to talk about a single dashboard. Every person in charge will have to use its own instrument, which will be part of a network dashboard, constructed and arranged in a suitable organizational structure.

If a reporting system shows the results without looking at the way they were obtained, a dashboard includes indicators that describe the ongoing process. It allows going beyond the mere observation of the mismatches between objectives and results. The tool's originality lies in the broader approach which results in a new provision for the management: knowledge of the system they they are administering.

The nature of the data provided by the two systems reveals yet another distinction. The dashboard contains data gathered before the accounting step, which occurs after and not

before or during an action. The reporting system calls on accounting and financial elements determined after the action.

One can appreciate that the dashboard offers both an interface and an intermediary structure for accessing, filtering, reorganizing and presenting relevant information for management. It does not focus on detailed and regular reports by means of the management system.

The dashboard is an auxiliary tool used for decision making and monitoring, to the extent that it consists of process indicators that permit rapid adaptation in case of a drift from the agreed target. Even so, it must not contain only financial indicators taken after the fact. The dashboard offers a global image on the activities and state of a company, a crystallization of research in the field of innovation and expansion, maintaining secure conditions. In this sense, management accounting brings important information which the IT expert can use to organize information systems and subsystems.

The dashboard can be seen as a response to the insufficiencies of general accounting in justifying the decisions taken by management. In this regard, management accounting provides a quantified information, processed and transmitted especially for internal use by management. The dashboard in question is composed from a set of indicators, less numerous, that give management significant information that concerns monitoring the effects of their own activity.

The information system is organised by level, function and autonomous unit. One can imagine a multitude of information, considering:

- ✓ the initial situation - information regarding the organisational environment and resources;
- ✓ the real situation - predictions and objectives regarding the environment, resources and value created at the end of the control period;
- ✓ simulation - a model of the organisation allows for the testing of the alternatives in order to define the real situation and to describe the methods used to get there;
- ✓ surveillance - information regarding the implementing methods.

The strategic dashboard has the role of reuniting a number of information micro-systems, which exist within the organisation, build in order to crystallize the strategic decisions:

- the information system regarding risk management;
- the reporting system regarding management based on creating value;
- reporting system regarding activity-based management;
- financial reporting system;
- prospective dashboard system.

Risk management information system – this system needs to correlate the Value Based Management reporting by simulating the impact of a major risk in the system of value creation, both at the level of the balance and at the level of the economical result account. We can consider natural calamities, apparition of conflagrations etc. It refers to the evaluation of the controlling of risks which might affect the strategic objectives of the group. The system integrates the balance, the result account, risk management, risk management dashboard, risk control dashboard. The main performance indicators regarding risk management are based upon the identification of risk indicators, of generating facts, found at the origin of various types of losses.

The reporting system regarding management based on value creation – the prospective dashboard expresses the dimension of the financial vision of the Activity Based Management reporting system and of the risk management informing system. The estimation of material, exploitation and human loss, according to risk centres, allows for the evaluation of the diminishing in group wealth. The system focuses on creating value on business unit,

geographical area and profit centre. Value indicators are often times similar to activity indicators used in accounting systems based on activities.

The reporting system regarding activity management – it allows for the performance monitoring of various processes in the organisation. By means of this reporting system one can determine costs, as well as cost objects pertaining to the various strategies of the enterprise. The system also verifies indicators referring to strategic operations involved by means of the Activity Based Management method, as well as the restructuring of the commercial and marketing systems, including the optimization of resource usage.

The financial reporting system - is connected to the Value Based Management reporting system by means of components of the result account and of the balance. It is correlated with the prospective dashboard according to the financial orientation which measures financial performance for the shareholder, by decomposing the growth and diversification perspectives for the turnover as well as that of cost reduction and productivity improvement. The above mentioned system helps communicating regarding the process of long-term value creation

The system of the prospective dashboard – this is a control instrument that is widely used for reaching the objectives of various levels of an organisation. The premise of its invention consists in the observation that the organisations that are developing strategies which are later implemented in a coherent and controlled environment have a strong competitive advantage.

The above mentioned dashboard has the following characteristics:

- it re-establishes the cause-effect relationships from the four viewpoints: clients, finances, processes, organisational experience;
- constitute a strategy communicating vector;
- uses linear causality and retro-action.

The concept does not take into account the dimension of the said environment risk, placing it under strict control, which generates a potential financial loss for the entity. The prospective dashboard system has as common denominator with the Activity Based Management reporting system the process axis, with the marketing information system the client axis, and with the financial reporting and Value Based Management system– the financial axis.

Applying the executive dashboard implies a rational organisation accomplished by means of correlating the activity of a monitoring committee with a significant number of projects which strive to implement the system. This is how to guarantee the interface with the old monitoring system, as well as the choice of an adequate informational configuration.

The finality of the executive dashboard is not that of completely substituting the old management control system architecture. It is meant mainly for the organisational leaders, for those in charge of operations, who continue to use traditional management control systems. The executive dashboard's objective is to provide the leaders with a modelling tool as well as with a tool for effectively monitoring the general policy of the organisation.

The Financial Accounting and Management Committee within IFAC made recommendations referring to:

- defining the concept of management accounting;
- investing decision;
- project control;
- quality improvement management;
- strategic planning of the information system management.

The automation of the executive dashboard development requires the existence of a prior acquisition in terms of reporting system architecture. The executive dashboard situates itself at the third level of the decisional information system architecture.

Implementing this type of dashboard requires preventive verification of the key failure factors, such as:

- lack of formalisation for a medium-term plan;
- lack of the financial report system;
- lack of the traditional dashboard indicators, according to performance, monitoring and clarifying indicators;
- lack of formalization for the value system and for organisational culture;
- insufficient structure for the activity based costing system and for the activity based budgeting system;
- lack of quality assessment tools on a marketing, human resource and management control level;
- lack of a formalized risk management strategy and lack of a employee assessment culture within the organisation.

3. Conclusions

The decisional strategy of any company is essentially founded on financial reporting. In this context, the main role is that of annual financial situations. The dashboard is a modern tool for achieving performing management, which includes risk management. The new generation of dashboards may be seen as feedback to insufficient financial accounting in founding decisions made by managers. In such a context, management accounting provides adequate information to the activities which use up resources and produce results.

Such a dashboard is an ensemble of indicators and essential data which allow for a panoramic view of the organisation, for an analysis of the disturbances and for making decisions regarding the direction that the management needs to follow in order to achieve the objectives set within the strategy. Moreover, it provides a common language to the various partners of the organisation.

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