



Course: Financing and economic management

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Economic system and economic management of the Army of the Czech Republic

1 Economic Management

Management of each target-oriented subject is not without economic management. The emergence of the need for economic management is dated to the late 19th century, when it began to develop in industrial manufacturing group work and in this context was also a need for its targeted coordination and management. Until then, management of the economy was based solely on the use of individual experiences. In the early 20th century began to emerge management theory at the same time in several countries in Europe and the United States of America.

Economic management is the targeted directing the organization's activities aimed at supporting compliance and achieving the main objectives of the economic entity, the effective and economical use of material, financial and human resources.¹

Philosophy of economic management can then be characterized by the following basic characteristics:²

- is oriented objectives;
- focuses on weaknesses;
- focuses on activities;
- continuously develops analytical processes result in permanent compare the plan with reality;
- is focused on the future, the past is only interested in the extent to which past developments may affect future developments;
- Management of correct planning is dead, but of the wrong (deviation forcing managers to look for and implement countermeasures).

¹ KUNC, Svatopluk. *Ekonomický management a hodnotové řízení v AČR. In: Moderní ekonomické nástroje v obraně*. Brno: Univerzita obrany, 2004, s. 80-96. ISBN 80-85960-94-X

² OLEJNÍČEK, Aleš. *Ekonomické řízení v podmínkách resortu obrany. In: Ekonomické řízení v podmínkách resortu obrany: a vztah jakosti a ekonomických kritérií při vyhodnocování zakázek*. Sborník z teoretických seminářů. Brno: Univerzita obrany, 2008, s. 9. ISBN 978-80-7231-188-0

The task of the system of economic management is therefore effectively and efficiently manages a combination of factors, the result is output. In fact, this system is dependent on internal factors (organization, people management, property and capital structure etc.) and external factors, ie. the environment (legislation, political will, geographic location, etc.). To fulfill this task are actively used in financial management.

2 Economic Management Tools

Economic management cannot be implemented without the use of effective tools. In the Czech Republic the use of financial management in the public sector combines public finance reform and the status of their implementation are significantly different at different management levels.

The importance of financial management

Economic management tools are very numerous, from accounting through calculation, plan, budgeting, statistics, reporting through economic analysis and informatics. Their essence is that it serves to investigate, identify, to organize and interpret information.

They work with numerically or verbally expressed values, which help to create the basis for management of the competent body, are suitable for the assessment, decision-making and management of the entity or its organizational parts. Economic instruments for organizations of important significance. Known or determining the values are not just simple numbers, but they are:

- by summarizing and evaluating state values at a given time or a given time or period that will follow;
- evaluation of the state of human activities or assumptions in their activities.

Selected economic management tools:

- A. managerial accounting;
- B. Financial Analysis;
- C. controlling;
- D. reporting;
- E. balanced scorecard;

F. benchmarking.

Ad A) Managerial Accounting

Accounting is the language of the transfer of economic information. Accounting system as part of its function data collecting, sorting, processing, quantifies, checks and transfers. Managerial accounting is based on financial accounting, first appeared in the USA, it stopped suffice for financial accounting management and control.

Managerial accounting can say that it is an integral management tool that links all of its articles. It is directly linked to controlling, reporting and other tools of economic management.

Compared with financial accounting managerial accounting is not regulated by the state (legislation), the concrete structure and utilization is therefore entirely the responsibility of the organization's management. Between financial and managerial accounting and there is a link these systems to each other in many ways follow. While financial accounting describes the past, managerial accounting focuses on the future, which is important for planning and price calculations.

Managerial Accounting allows management planning, strategy formulation, control, analysis of the facts, optimal resource utilization.

Simplified terms, what is managerial accounting then its main result is to provide timely accurate information and recommendations to the relevant users.

Ad B) Financial Analysis

Financial analysis consists of private sector enterprises integral part of economic management.

The main objective of financial analysis is to evaluate the current development of the company and provide information for decision making in the future, an analysis of possible options following the development and selection of the most suitable variant. The main purpose of financial analysis is to prepare high-quality data for making decisions about the operation of the organization.

Basic data source for financial analysis of financial statements represent organizations such as the balance sheet, profit and loss statement, cash flow and notes to the financial statements. The annual report also contains a number of valuable data. It is also possible to draw data directly from the reports of senior management organization, reports executives or auditors.

Ad C) Controlling

Under this concept, we imagine neither control nor revision. The name comes from the English term "to control": drive, operate. The main objective is to increase the efficiency of controlling. Person Controller is understood in this context as a navigator that helps management organization achieve its strategic objectives.

Controlling functions:³

- registration: data collection (particularly in the beginning);
- navigation: focus on the economy (the drafting of proposals for improvement);
- innovative and coordination: focus on management (controlling highest degree).

Controlling is a management system based on complex information and linking organizational planning and control process in order to improve business results.

The basic function of controlling:⁴

- Planning (coordination and counseling);
- Information (assurance, documentation, control);
- reporting.

Ad d) Reporting

This is one of the basic functions of controlling, but also at the same time independent economic management tool.

The aim is reporting:

- data processing and transferring them to other users;
- report on current and planned state, their comparison and initiation of corrective action.

³ HINDLS, Richard. HOLMAN, Robert. HRONOVÁ, Stanislava. *Ekonomický slovník*. 1. vyd. Praha: C. H. BECK, 2003, 519 s. ISBN 80-7179-819-3.

⁴ FIBÍROVÁ, Jana. *Reporting*. 2. vyd. Praha: Grada, 2003. ISBN 80-247-0482-X, s. 11.

Reporting definitions:⁵

"In a broader sense it is a projection of an information base and relevant evaluation and navigation system. The purpose of reporting is to report on current and planned state, their comparison and initiation of corrective action. Top management company managers at the appropriate hierarchical level and company employees are recipients of this report. "

The main task is to create a system of reporting indicators and information, which should provide both monitoring and evaluation of development of the company as a whole and for sub-sections, which are crucial in the management.

Main principles (content) reporting:⁶

- outputs from reporting structure must be predetermined and standardized;
- outputs are not to be neither too little nor detailed (depending on the level of management, for which preparation);
- outputs must be clear and understandable (appropriate to use graphs and tables to attract attention);
- outputs are commenting only modifiable value (in monetary and material terms).

Types of reporting by the regularity compilation:⁷

- standard reporting - assembles at regular intervals (monthly, quarterly, annually) and has a fixed structure (information about the actual values of indicators and tolerances);
- extraordinary reporting - processes the request, eg. in terms of analyzing the actual risks.

Ad E) Balanced scorecard

Unlike previous tools of economic management, this method also uses non-financial indicators is therefore suitable for use where there is not enough accounting data.

⁵ HINDLS, Richard. HOLMAN, Robert. HRONOVÁ, Stanislava. *Ekonomický slovník*. 1. vyd. Praha: C. H. BECK, 2003, 519 s. ISBN 80-7179-819-3.

⁶ FIBÍROVÁ, Jana. *Reporting*. 2. vyd. Praha: Grada, 2003. ISBN 80-247-0482-X, s. 12.

⁷ FIBÍROVÁ, Jana. *Reporting*. 2. vyd. Praha: Grada, 2003. ISBN 80-247-0482-X, s. 12.

The task of the Balanced Scorecard is to provide management not only enough basic evaluation variables (indicators) called "score", but also to provide a comprehensive overview of the results of an organization called "scorecard".⁸

For the tools BSC must be elaborated in detail the vision and strategy of the organization, with perfect individual areas.

In this area, the use of four perspectives, which are also undertaking the assessment criteria:⁹

- Financial Perspective: monitors measurable economic consequences of actions performed in the past;
- Customer Perspective: watching area customers;
- internal processes perspective: monitors, which processes are critical to the entity and where you need to achieve the best results,
- the perspective of learning and growth: For the business to be able to achieve financial and customer objectives and objectives of internal processes must have a quality base, which is composed of company employees.

Ad F) Benchmarking

Benchmarking is a tool that contributes significantly to the development of human potential towards greater independence, willingness to learn and change things we used to do, practiced many times in a repetitive manner. Basis of the concept of "benchmarking" is the English word "benchmark". The translation of this word has several meanings, but best describe the essence of benchmarking is Czech "comparative indicator".

The purpose of benchmarking is to:¹⁰

- determine how an entity's performance in comparison with other comparable organizations;

⁸ VYSUŠIL, Jiří. *Metoda Balanced Scorecard implementace a úspěšná realizace v podniku*. Praha: Profess Consulting, 2004, 120 s. ISBN 978-80-7259-005-6.

⁹ KAPLAN, Robert, NORTON, David. *Balanced Scorecard*. 3. vyd. Praha: Management Press, 2002. ISBN 80-7261-063-5. s. 33.

¹⁰ VYLEŤAL, Pavel a kolektiv. *Ekonomické nástroje a metody řízení jakosti v akvizičním procesu*. 1. vyd., Praha: AVIS, 2008, ISBN 978-80-7278-438-7.

- determine how the body works in terms of inputs, eg. human, financial and material resources, what is the level of provided services. The purpose is to outline the differences that can be used to define for improvement in the areas surveyed. The result is eg. based on the standards set or level which must be achieved in the services provided;
- find out how some things others are doing, on this basis, to shape and fix its procedures in the organization;
- ensure that any information obtained through benchmarking should be used to achieve change process improvement, outputs, etc.

3 System of economic management in the defense sector

Economic management should be seen as an integrated system elements - **resource planning, budgeting, financial management, management of current assets, control reproduction of property, cost management, cost accounting, financial analysis, controlling** - whose information is then evaluated using economic methods and provide crucial information to management organization.

Financial management subsystem is the main part of the system of economic management. Within this subsystem is implemented budgeting, decision making and organizing financial security department.

Subsystem management of current assets provides an analysis, establish and maintain an optimal level, structure and usage of material stocks corresponding to the needs, abilities and objectives of the resort.

Subsystem control reproduction property¹¹ (program funding) provides acquisition, technical evaluation, maintenance and repair of fixed assets MoD eventually other expenditures and activities designed to achieve specific objectives. The main task of this subsystem is an overall economic effectiveness of programs measured in terms of financial analysis tools in the form of net present value, profitability and return.

Subsystem management costs through cost calculations will transform accounts cost breakdown capabilities through costs will be allocated to individual departmental objectives, which will give rise to these costs. All costs must be linked to the objectives set.

Controlling subsystem will ensure in particular continuous comparison of actual and planned values of economic indicators, identifying their variations as during that

¹¹ Česká republika. Zákon č. 218/2000 Sb., o rozpočtových pravidlech a o změně některých souvisejících zákonů, ve znění pozdějších předpisů. In: Praha: PS PČR, 2000. §12 a § 13.

period, and after its completion and removing the negative impact of these deviations, or adopting measures to eliminate their future occurrence.

Controlling as a tool used to monitor the behavior of economic organization based on benchmarking of inputs and outputs. The management system is focused on the result, which coordinates the planning, control and information flows. It leads to every process in the organization made repeated at least as well or better compared with the previous period. The introduction of controlling management system allows managers objectives to increase the effectiveness of using a continuous and systematic comparison of facts and desirable (pre-planned) state in the economic process, evaluation of anomalies observed, finding their causes, proposing measures to correct them, or to update the set objectives. Making full use of the potential of the control is only possible after creating a calculation of the planned costs, which will be determined by an impassable limit costs associated purpose (causality) to established objectives (performance). A prerequisite for successful implementation is controlling **an information base based monitoring costs.**

4 Economic management, financial management and financial support to various levels of command and control by the authorities, economic services

The aim of economic management in the Ministry of Defense (Army of the Czech Republic) is clearly define the scope of authority of economic services at individual levels of command and control so that it is clear what activities are to be carried out and secured in favor of the objectives of the manager level (in relation to established budgetary competence bound to the structure of objectives), and in the realization of expenditures in favor of leading organizational unit as the principal operations by type:

- A. Support Manager objectives Level 1 - economic management;
- B. level of middle management - financial management;
- C. level lower management - financial security.

Support for economic management at the manager objectives level 1. (Type A)

Responsibility for the preparation and implementation of the objectives first level is the Ministry of Defense divided among several managers' objectives.

Supporting managers objectives Level 1 is (will be) implemented in the framework:

- factual planning objectives (documentation goals) and their implementation at a lower level in the creation of the medium term plan (MTP);

- manage the processing of documentation property reproduction program and deciding on the implementation of requirements in program funding;
- determining the needs of personnel and property resources linked to the allocation of funds, including their mutual balancing;
- approval of proposals to create or change organizational structures;
- Financial Management - documents in the medium-term budget outlook, budget, implementing the multiannual budget, change management and change management budget for the current year;
- professional management of subordinate economic structures in economic management;
- financial control of their management competence;
- management of current assets - establishing and maintaining an optimal level, structure and usage of material stock corresponding to the needs, possibilities and objectives of the relevant manager;
- cost management;
- controlling.

In view to the specifics within the Managing Authorities (Manager Level 1 objectives) at the central level, however, the MoD will need to support objectives managers Level 1 (type A) in terms of the support of the economic authority broken down by individual departments MoD and define their specific support manager level 1 objectives according to their status:

- MoD - civilian part (type A 1);
- MoD - military part (type A 2);
- military intelligence, Castle Guard, national sports teams (type A 3) - Support Manager is built and must be supplemented only by new activities.

The competence the economic authority Chief of General Staff will be divided into the following areas:

- Support Manager objectives;
- financial management and financial security section of the General Staff;

- professional management authorities economic services Army Czech Republic.

Economic Authority Chief of General Staff (Finance Department of the General Staff) will be in a position to support the manager objective to process an independent, comprehensive management documents for making economic decisions Chief of General Staff, in particular the medium-term outlook, financial plan, plan costs, processing outputs from controlling.

A. Elements of economic management at middle management level

At middle management level, it is about creating economic decision support brigade commander (bases) or other organizational units, who will be based on this conception included in the structure units (device) type B. The change consists in the fact that in the process of financial planning and budgeting will play a unique role towards the goals and manager of subordinate units (devices) will require cooperation. In terms of the budget process will be the lowest budget competent (implementation of change management budget - the current period and even multi-year period).

Their scope can be divided into the following areas:

- security operations cost center type B - support the principal operations;
- cash management and property of resources - support manager objectives;
- management authorities economic services subordinate units (devices) - Type C.

The area of **cost center type B** will include in particular activities to the financial security of persons and self-financing or cost center for cost centers, and in areas of salary requirements and other personal compensation, addressing the cultural and social needs, evidence of damages and claims.

Area management of cash and property sources will include financial planning - preparing materials to medium-term fiscal outlook and the budget for the year, change management budget, acquisition plan decentralized processing supplies for its own department and verification acquisition plans decentralized supply subordinate battalions (organizational units), control and monitoring controlling costs and implementation. These tasks will perform not only for the whole, but also for the subordinate units and facilities or units and facilities that they are intended to ensure - **Type C.**

In order to more clearly separate organizational units MoD distinguishes elements supporting economic management at middle management level in two groups:

B1 - organizational units MoD at the brigade level or base;

B2 - are other organizational units MoD, which does not have the organizational structure of the same level as the organizational units included in group B1, but due to a functional system of economic management settings will be set scope and responsibility within the group of elements supporting economic management B.

Lowest organizational element in the system of economic management is organizational units at a lower level of management - **type C**. Their main task will be to implement the financial security of its own cost center in the areas of salary requirements and other personal compensation, addressing fund for cultural and social needs, and evidence of damage claims. Will handle acquisition plan decentralized supply, which will be submitted to the superior degree of control and approval. Cost centers will be on the basis of such approved plan to take property and services needed to carry out certain tasks.

In order to more clearly separate organizational units MoD distinguishes elements supporting economic management to lower management level into three groups:

C1 - organizational units' MoD battalion level;

C2 - are other organizational units MoD, which does not have the organizational structure of the same level as the organizational units included in the group C1, but due to a functional system of economic management settings will be set scope and responsibility within the group of elements Economic Management Assistance C and at the same time they have in their organizational structures systemized positions for economic and other professional authorities to promote economic management;

C3 - organizational units of the MoD, which have in their organizational structures created systemized positions authorities economic services. Financial security and economic management of this type of cost center will provide designated, or in the organizational structure of the superior unit.

List of tasks for students:

- 1) Economic management – characterize**
- 2) The philosophy of economic management - explain.**
- 3) Try to explain economic management tools (concept, importance, managerial accounting, financial analysis, controlling).**

- 4) Try to explain economic management tools (reporting, balanced scorecard, benchmarking).
- 5) Explain the system of economic management in the defense sector.
- 6) Explain support economic management at the manager level objectives 1. (type A).
- 7) Try to characterize elements of economic management at middle management level.
- 8) The elements of economic management to lower management level - characterize.
- 9) Explain the structure of economic governance.