



## International Journal of Applied Business and Economic Research

ISSN : 0972-7302

available at <http://www.serialsjournals.com>

© Serials Publications Pvt. Ltd.

Volume 15 • Number 23 • 2017

### Economic Analysis in the Financial Management System

Tatiana V. Morozova<sup>1</sup>, Tatiana Polyanskaya<sup>2\*</sup>, Vilena E. Zasenکو<sup>3</sup>, Vladimir I. Zarubin<sup>4</sup>,  
Yuliya K. Verchenko<sup>5</sup>

<sup>1</sup> Institute of Management in Economic, Environmental and Social Systems of the Southern Federal University, Taganrog, Russia

<sup>2</sup> Plekhanov Russian University of Economics, Moscow, Russian Federation

<sup>3</sup> Peter the Great St. Petersburg Polytechnic University, Saint Petersburg, Russian Federation

<sup>4</sup> Maikop State Technological University, Maikop, Russian Federation

<sup>5</sup> Don State Technical University, Rostov-on-Don, Russian Federation

\* E-mail: [tatyanapolyanskaya1986@gmail.com](mailto:tatyanapolyanskaya1986@gmail.com)

**Abstract:** In the development of the modern economy for the effective operation of the enterprise, in the conditions of constantly increasing competition, it is necessary to timely react to various kinds of changes of all factors that affect the enterprise, to quickly see the changes in its position between economic representatives and the market. It is required every day to carry out an assessment of all positive and negative changes in the commercial activities of one's enterprise and competitors, in other words, to analyze the work. Economic analysis of economic activity and its results is defined as a broad consideration of the main development trends. In order to properly manage difficult economic processes in the current economic and market conditions, a comprehensive analysis is needed. Conducting the analysis ensures an increase in production efficiency. This paper concerns the concept of economic analysis for its detailed theoretical understanding of science, meaning and use, role and influence in the modern economy for both individuals and legal entities. The relevance of this topic lies in the fact that the importance of economic analysis in financial management is very large since the untimely conduct of this process can entail intra-firm problems and decision-making problems.

**Keywords:** analysis, economic analysis, financial management, enterprise, economy, indicator

**JEL Classification:** G32, G30, C58

### INTRODUCTION

At present, the role of the financial component in the management of the organization has grown significantly. The main indicators of financial analysis and the state of the enterprise are increasingly important and essential when comparing the characteristics of different enterprises, and a clear management of this state is very often the key to the advantage among competitors in the market.

On the basis of this, the place and role of financial and economic analysis in the organization management system have changed much, which determines the need for the formation of appropriate methodological and instrumental support, clear understanding, and perception of the enterprise management, tasks and directions for improving the management system.

The main tasks and methods of economic analysis are reflected in the works of the following authors: S.B. Barnholtz, N.N. Vorobyov, L.T. Gilyarovskaya, O.V. Grishchenko, O.V. Efimova, A.A. Kanke, I.P. Koshevaya, A.M. Litovskikh, A.A. Muzychenko, E.V. Negashev, A.M. Podderegin, E.V. Rogatenyuk, I.M. Pozharitskaya, G.V. Savitskaya, R.S. Sayfulina, N.N. Selezneva, S.K. Khorin, A.D. Sheremet and others.

The central purpose of this paper is to substantiate the main ways to improve the management system of the organization in connection with improving the place and role of economic analysis in the current market conditions, the economy and political interactions. An enterprise that contains a plurality of individuals in order to achieve a goal must properly organize their joint activities, which is achieved through the formation of a specific management system. The enterprise management system is a union of technical and organizational methods and measures designed to address the tasks and objectives of managing various areas of the enterprise's activities (Balabanov, 2014).

The correct organization of the enterprise management system is usually divided into a number of functional subsystems. The structure of these subsystems is characterized by sectoral features of the organization's activities, the form of ownership, the scale, the nature of the work. In a degree of dependence on these factors, functional subsystems can be constructed according to various principles.

Every manager in the conditions of competition and economic crisis must make management decisions for the activities of his company (Galy & Saucedo, 2014). Any decision related to economic activity at any level of an economic entity should rely upon knowledge of economic laws, on the actual state of internal and external factors and the trends of change.

When carrying out analysis of the financial state of the organization, it should be remembered which economic patterns are inherent in one or another type of activity, and do not forget about the regulatory framework of legislation.

When carrying out economic analysis, all economic processes and phenomena are studied and learned in diversity, dynamics, interrelations, in order to reveal the main trends for the further effective development of production.

Economic analysis in its essence is dependent on many problematic moments that are associated with the application of this analysis in the enterprise. These problems are classified as follows: in the place of origin (external and internal), in the importance of the result (basic and secondary), in structure (simple and complex), in action time (permanent and temporary).

The meaning of the essence of economic analysis in decision-making and in the structure of financial management has its own characteristics of action, which we will try to characterize and reveal the result of the impact in the enterprise.

## **DISCUSSION**

Economic analysis is one of the important tools in obtaining information that will be needed to make management decisions. The qualitative provision of this information and economic analysis conducted

largely determine correctness and appropriateness of management decisions as well as the efficiency of the organization.

The subject of economic analysis is the financial and economic activities of the enterprise, namely, consideration of the main purpose of evaluating its performance and identifying the reserves of improving the company's operations (Bernardo, 2014).

The main objectives of economic analysis are the following:

- preparation of materials for choosing the most appropriate management solution;
- forecast of upcoming results of the enterprise;
- disclosure of potentials and reserves of growth in the efficiency of the economic activity of the enterprise;
- evaluation of the results of performance of quantitative and qualitative tasks;
- an estimation of a financial condition of the organizations;
- measurement of the characteristics of various factors that affect the performance of the enterprise.

The method of economic analysis is a complex study of various aspects of the enterprise based on the current report on the work. The economic analysis is made concrete in the form of the following methods: application of the system of absolute and relative indicators, comparative analysis, grouping method, balance method, index calculations (Silnov, 2016; Alekseeva *et al.*, 2011).

This analysis studies and reviews the economic and financial activities of the organization, taking into account various information. The main sources of this information are legislative and regulatory documents, design and technological documentation, accounting information, statistical accounting, etc.

In financial management, this type of analysis implies the implementation of a certain system of rules and actions. This work is based on the main stages that concern the preparation of the program for analysis, preparation, and verification of documentation, systematization, preliminary assessment of the functioning of the enterprise, summarizing the analysis results, the final evaluation of activities, design and justification of the results in any acceptable form.

In connection with the diverse nature of the activities of enterprises, various types of economic analysis are used (Doronina *et al.*, 2016). Classification of these species occurs according to various characteristics of activity. The main criteria are as follows: the purpose of the analysis, its object of study, the time period of the conduct, direction, etc.

In today's economy, the most appropriate classification is the one according to the type of reporting, the categories of analysts and customers of performance. According to these categories, economic analysis is divided into managerial (internal) and financial (external).

The first type of analysis – managerial, or internal type – is implemented on the basis of management accounting information, namely secret reporting, which contains indications of the cost of goods, as well as a product that has not found its application. This kind of analysis is carried out by internal services and the enterprise management apparatus.

The financial or external analysis is applied on the basis of accessible and open financial reporting, displayed in special handbooks in order to familiarize a wide range of the public with the results of the

organization's activities, with its financial position and the result of the work for a certain time period. This type of analysis is carried out by legal entities or individuals who have an interest in obtaining information on the results of the operation of this company (firm).

A common characteristic of both types of analysis is that the tasks assigned to this procedure are identical.

Proceeding from these analyses, you can assess the financial condition of the enterprise. In the understanding of financial management and the main sources of literature, economic analysis acts as an analysis of the financial state of the enterprise which is considered the final stage of the accounting process. The analysis of the financial condition of the enterprise shows an assessment of the implemented decisions and an analysis of the resulting results of activities on the basis of which a financial strategy is formed and a set of measures is implemented to implement this strategy.

Analysis of the financial condition of the organization is of particular importance in the conditions of the modern economy and the market, as economic entities meet with the need to assess the financial situation of property and multilateral consideration of the financial situation of its allies.

The financial position of an organization is a cumulative concept that is understood by a whole set of production factors and is described by a system of indicators that reflect the presence, location, and application of the organization's financial resources. In the process of this analysis, absolute and relative indicators are used to describe the financial state. Relative indicators include financial ratios.

The main document and the source of the financial analysis are the financial (annual accounting) statements of the organization. For analytical information, one should refer to the balance sheet of the enterprise. To carry out a full-fledged analysis, it is necessary to apply a net balance, which contains the real price of the property and other sources of funds (Arzhakov & Silnov, 2016; Meskon, Albert & Hedouri, 2009).

Also, in the process of analyzing the financial state of an enterprise, it is required to make a transition from a net balance to an aggregate net balance. The aggregated balance sheet contains data on the sections and their final values, as well as the most important groups of analytical balance items.

Analysis of the financial state of the organization should be implemented in the following stages:

- verification of the main indicators of the balance sheet on formal and qualitative grounds;
- preliminary analysis of the financial state on the basis of analytical balance-net indicators;
- dynamics of changes in the property status of the organization;
- analysis of financial sustainability;
- analysis of financial results;
- the dynamics of changes in the financial state (analysis of financial ratios).

## **RESULTS**

In accordance with the structure of economic analysis in financial management, its main purpose, and characteristics, it can be said that economic analysis has its definite signs in its implementation.

At the initial stage, economic analysis is required in order to prepare and process the information base for making expedient and correct decisions in the activities of the enterprise. This procedure for processing information passes through methods, techniques, and methods of analysis. The definition of the problem and the failure of the enterprise will be unlikely without the use of an economic analysis of its main performance indicators. In order to solve these problems, numerous methods of economic analysis should be applied, one of which is factor analysis.

This type of analysis contributes to an understanding of which of the factors had a direct impact on the final result and its change (Shumakov, Troitskiy & Silnov, 2017; Epstein, Buhovac & Yuthas, 2015).

In practice, it is customary to use methods of elimination. Such methods are used when it is necessary to eliminate the influence on the generalizing indicator of all factors except one, whose impact on the object under consideration is determined.

After the information in its entirety and in a reliable version about the work of the enterprise in the past period and about the emerging trends in its development at the moment has been received and processed, it is necessary to start developing management solutions.

Management decisions, in this case, will be motivated and justified, and they will also have the effectiveness of their further application.

Economic analysis is inherently an integral part of management activities and this is reflected not only in its potential to accurately identify problem areas using its methods, but also to use analysis in the process of the company's core business planning. To form a rational and effective plan for production activities or a plan for the expenditure part of all items and types of resources, you should first assess the situations of past periods, and then, based on the results obtained, use them in the planning process of the future period.

Economic analysis is inherently an assistant in the implementation of a control function, one more function of management activity. After all the activities for the implementation of the plan are fulfilled, its gradual implementation should be monitored. In this case, economic analysis is the core which contains and includes methods that provide for control over the implementation of the plan and all activities of the enterprise.

In this case, one of the effective methods is the method of comparison. In this process of analysis, the comparison method allows one to compare the actual results of the enterprise's work with the same period with identical indicators for different areas of functioning.

Also, this method is the main engine for implementation of other methods during economic analysis. If we do not compare the indicators that were received in the current year and planned or previous periods without considering the real picture of the deviations of both positive and negative points, then it is impossible to decide which approach - marginal, trend, factorial should be applied in the future, or it is better to limit oneself to the express analysis of the main indicators of the enterprise.

Comparative analysis is not so simple as it may seem. Its complexity is in the choice of the basis for further comparison of the results. Such comparison bases can be the results of the plan, the final data of previous years, high or medium indicators in the industry in question compared with the achievements of competing organizations (Fullerton, Kennedy & Widener, 2014).

Also, attention should be paid to the deviation of actual and planned indicators. Sometimes deviations in positive or negative dynamics, on the contrary, reflect improvements in the implementation of the planned tasks of the managers.

So, for example, let us suppose that a certain number of units was allocated for the purchase of raw materials for production. Raw materials and materials were purchased, but for fewer conventional units, that is, the remainder of the total amount was formed. In this case, the balance is an additional means of the enterprise, but it will not always be considered a profit or an effective means for the organization.

After all, from the very beginning, the required number of units was calculated, which will be necessary to purchase the material, but it is possible that the supplier reduced the price of the goods, or other factors influenced. But there may also occur the situation when low-quality raw materials were bought, unsuitable for production, as the produce will be lower in quality than that of competitors.

And since the production process and the enterprise as a whole are oriented to the market, there is a probability of loss of consumers (demand), which consequently will negatively affect the proceeds in a large amount, possibly in the equivalent to the saved units when purchasing raw materials.

On the other hand, there may be a situation when the purchase of raw materials expenditure exceeded the amount that was declared by the enterprise. In this case, there are also positive and negative sides. It is possible that the competing parties buy the same raw materials of the same quality, but at a low purchase price, and then the costs of the product at the analyzed enterprise will be higher than those of the competitors.

Most enterprises in such a situation raise the cost of the goods in order to compensate for the loss, but not always this procedure works in favor of the organization. If the substitute goods that have almost equal purchasing power are priced higher, then this will entail an outflow of consumers from the enterprise, which raised the price level (Filatotchev & Nakajima, 2014). This moment may also reflect a deviation from the plan of the enterprise declared initially, which will lead to negative consequences.

Proceeding from this, at many enterprises the question arises: if more funds than planned were spent, then where additional funds are to be found to compensate for those losses that were incurred by an unscheduled expense.

In order to solve this problem, it is necessary to attract the reserves of the organization. The company's reserves are unused and constantly emerging opportunities to increase production rates, improve product sales, increase output, reduce its cost, and so on.

The process of forming reserves basically has a relationship with scientific and technological progress, which makes it possible to improve the organization of labor and management. Reserves in their essence are one of the main objectives in order to assess the achieved level of efficiency and to find possible directions for mobilizing the reserves of production of the enterprise.

Thus, economic analysis helps to find reserves for the operation of the enterprise. These reserves have many classifications of the following character:

- explicit reserves - reserves of shortage and production throw-out; this type of reserve can be identified from the accounting records;



- hidden reserves are reserves associated with the implementation of the technological advance, the innovation process, modernization and re-equipment, which in turn are not provided for in the activity plan (Klingebliel & Rammer, 2014; Speransky, 2016).

In order to identify reserves, one should use methods of economic analysis: the method of direct counting, comparisons, factor analysis, mathematical programming, and so on.

Summarizing the foregoing, we can say that the essence and significance of economic analysis in financial management, in the main activity of enterprises is quite large. The analysis is used in assessing the results of activities, identifying positive and negative aspects of the organization's work, planning and monitoring the degree of implementation of plans and targets.

But one of the most important roles of analysis is still allocated to the detection and application of reserves of growth in production efficiency. Economic analysis is the stage of managerial activity that promotes the formation of innovative activity, the use of scientific and technological achievements in practical reality, the growth of intellectual potential, in order to obtain new economic benefits.

## CONCLUSION

In the modern world, it is necessary to pay more attention to all the components in the analysis, to go back to the analysis of the implementation of the production program of the enterprise, work in progress and a more thorough analysis of all costs and their components.

All these problems are not final in the analysis. Every knowledgeable analyst can add to this list all the potential problems of economic analysis in the financial management of enterprises.

The Economic analysis reflects the activities aimed at managing the enterprise, during the ongoing economic research.

Economic analysis in our state as a scientific approach has found its development in the last century but became a separate branch of knowledge in the financial management policy relatively recently. Within a few stages, theoretical foundations were provided, basic methods of domestic economic analysis were studied, and qualitative sectoral developments were carried out.

At one stage, economic analysis underwent active formation and development in science on the basis of foreign and state experience of the application.

In the conditions of the market system and globalization, economic analysis acts as a complex system for the consideration of economic phenomena that are in constant improvement, interrelations with complex external and internal conditions of entrepreneurial activity, which are often unpredictable as to the direction and extent of their impact on the outcome.

Prospects of formation of economic analysis in financial management are determined by the processes that take place in the real sector of the Russian economy and in the world and are directly related to the development of high professional competencies in carrying out analysis on the enterprise.

## REFERENCES

Alekseeva, A.I. *et al.* (2011). *Comprehensive economic analysis of economic activity: Textbook*. Manual. Moscow, 96-120.

- Balabanov, I.T. (2014). *Fundamentals of Financial Management. How to manage the capital?* Moscow: Finances and Statistics, 150-178.
- Meskon, M., Albert, M. & Hedouri, F. (2009). *Fundamentals of management: a textbook*. Moscow, 234-250.
- Shumakov, I. U., Troitskiy, S. S., & Silnov, D. S. (2017). Increasing the attractiveness of false objects of attack on the web-servers. Paper presented at the International Conference of Young Specialists on Micro/Nanotechnologies and Electron Devices, EDM, 195-198. doi:10.1109/EDM.2017.7981738
- Speransky, A.A. (2016). *Economic Analysis. Short course*. Moscow: Okey-kniga, 87-90.
- Bernardo, M. (2014). Integration of management systems as an innovation: A proposal for a new model. *Journal of Cleaner Production*, 82, 132-142. doi:10.1016/j.jclepro.2014.06.089
- Epstein, M. J., Buhovac, A. R., & Yuthas, K. (2015). Managing social, environmental and financial performance simultaneously. *Long Range Planning*, 48(1), 35-45. doi:10.1016/j.lrp.2012.11.001
- Silnov, D. S. (2016). Enhancing the accuracy of mobile geo targeting. *International Journal of Electrical and Computer Engineering*, 6(6), 2887-2890. doi:10.11591/ijece.v6i6.10563
- Filatotchev, I., & Nakajima, C. (2014). Corporate governance, responsible managerial behavior, and corporate social responsibility: Organizational efficiency versus organizational legitimacy? *Academy of Management Perspectives*, 28(3), 289-306. doi:10.5465/amp.2014.0014
- Fullerton, R. R., Kennedy, F. A., & Widener, S. K. (2014). Lean manufacturing and firm performance: The incremental contribution of lean management accounting practices. *Journal of Operations Management*, 32(7-8), 414-428. doi:10.1016/j.jom.2014.09.002
- Arzhakov, A. V., & Silnov, D. S. (2016). Analysis of brute force attacks with ylmf-pc signature. *International Journal of Electrical and Computer Engineering*, 6(4), 1681-1684. doi:10.11591/ijece.v6i4.10320
- Galy, E., & Saucedo, M. J. (2014). Post-implementation practices of ERP systems and their relationship to financial performance. *Information and Management*, 51(3), 310-319. doi:10.1016/j.im.2014.02.002
- Doronina, I. I., Kulikova, N. N., Razzhivin, O. A., Kostyukhin, Y. Y., Silnov, D. S., & Sadovnikova, N. A. (2016). Human resource management features of an innovative cluster. *International Review of Management and Marketing*, 6(6), 57-62.
- Klingebiel, R., & Rammer, C. (2014). Resource allocation strategy for innovation portfolio management. *Strategic Management Journal*, 35(2), 246-268. doi:10.1002/smj.2107.