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Increase in managerial efficiency of subsidiaries by transformation of accounting system

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Abstract

In the article are considered possible ways of the organization of accounting system in holdings in order to increase managerial efficiency of any holding company. The research problem is to measure the managerial efficiency of a holding company and the aim of the research is to increase it by optimization of accounting system. There is a successful experience of reorganization of accounting system in the holding company Russian Railways JSC and its subsidiaries. This paper provides a description of the current state of the JSC Russian Railways, the tendencies of its development in terms of restructuring, the problems, which have been identified, and the indicators for assessment of efficiency of subsidiaries have been suggested. After that the conclusion about the most rational accounting form in holding companies is formulated in order to increase of managerial efficiency

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1. Introduction

The holding company has a compound organizational structure and as a rule the process of managerial decisions acceptance takes a long time that in many cases bring to a negative impact on economic efficiency. According to the Russian federal law “About the consolidated financial reporting” (2010) besides individual financial reporting the

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associated companies have to prepare the consolidated financial reporting. The problem is that the associated companies often use different accounting methods. It takes additional efforts to reclassification information and to bring companies' financial reporting to one base. Hence the managerial efficiency goes down. The efficiency of a different holding company is not certain. The research problem is to find the indicators for assessment of efficiency of subsidiaries and to measure the managerial efficiency of a holding company.

Managerial decisions are based on the information that is mostly formed in accounting or managerial system. The aim of the research is to substantiate the accounting system on principles of organizational and functional centralization in a holding company and to define how it will influence on the indicators of managerial efficiency.

The most often used criteria of economic and managerial efficiency in the large Russian companies are presented in the table 1 (190 large companies with an annual turnover more than \$100 million were participated in the research).

Table 1. Criteria of Management Efficiency in Russian Companies

№	Criteria of Management Efficiency	Percentage of companies
1	The budget on personnel training is formed	79
2	The HR service carries out functions not only registration of personnel, but also performance appraisal, training and motivation	76
3	There is a formalized description of organizational and functional structure of the company	76
4	In the company there are document flow regulations	75
5	The division of the company which is engaged in development and realization of marketing strategy is allocated	72
6	The marketing division traces and provides to the management necessary information on the market	71
7	The organizational units responsible for formation of the development plan of the company are allocated	69
8	The accounts department is separated from financial service	68

The information-analytical base for acceptance of managerial decisions is formed mostly in the accounting. Accordingly, the organization of the uniform centralized accounting system for every subsidiary in the holding company allows to provide timely prepared information and to reduce terms of acceptance of managerial decisions and, as a result, to raise managerial efficiency in a holding company (Reznichenko & Ripol-Saragosi, 2008).

In 2001, the Russian government approved a program of structural reforms in railway transport. One of the outcomes of Phase I (2001-2003) was the creation in 2003 of JSC Russian Railways, which received all managing functions and the assets of the former Railway Ministry. The aim of reforms was to increase the economic efficiency of Russian Railways by developing competition in the fields of operation where it is possible (Strategy for the development of rail transport in the Russian Federation until 2030, 2007).

During reforming of railway transport (2001-2010) instead of previous departments the affiliated and dependent companies were organized. Today the JSC Russian Railways owns shares in more than 160 subsidiaries including foreign companies, such as the Karelian Train Ltd (50%, Helsinki), JSC The Dreakers Investments B.V. (25%, Amsterdam), JSC Trans-Evraziya Logistics GmbH (30%, Berlin). Annually the JSC Russian Railways sales a part of shares of its nonstrategic subsidiaries and invests in developing its strategic and most profitable businesses.

The structure of accounting system in the company before the structural reform corresponded to existing organizational structure of the company and included department of accounting and taxation, service of accounting and taxation of the railways (there were 17 railways in Russian Federation), the accounting departments in structural divisions of branches (Krasov & Vovk, 2008). Such form of accounting system differed labour-intensive and long process of preparing the financial reporting on the basis of summation of balance sheets of the numerous structural divisions, insufficient level of automation, irrational system of documents circulation and a lack of qualified personnel.

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