

## MANAGEMENT SURVEY IN TERMS OF RESPONSABILITY CENTERS

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*Abstract:*

*The purpose of the paper consists of evaluating the current cost management system, researching the modern means of approaching cost management and creating a methodology and instruments of implementing them in manufacturing enterprises in Romania. By analysing the background, we can state that by moving from expenses records to cost management was a first progres noted in the concept. The new approach has led to the distinct use of information on cost directly in the daily activity of management. Passing from cost management to the managment of costs represents the current stage of development of the concept. This will serve as a base for other future changes.*

Key words: management, centre, cost, efficiency

### 1. Main functions and objectives in the centers of responsibility

The functions of the responsibility centre are:

- foreseeing instrument – because it makes the centre's leaders to look into the future, to make an income and expenses budget, to foresee the financial consequences of the decisions they make and plan correctly the operational activities;
- decision basing instrument – because the budget of the centre holds information regarding costs and deadlines for future decisions;
- human resources training instrument – because it tracks their envolvement to fulfilling the goals and objectives that it proposes during a certain timeframe;
- instrument coordination and control of how certain activities are carried on;
- instrument for stimulating and motivating the employees and managers by executing and accomplishing the goals set;
- instrument for performances evaluation – because the budget indicates the evolution of performances criteria and evaluates the performances of the centres' leaders;
- instrument for communication between different levels of management and execution;
- instrument for comparison – because it allows the comparison of the realised budget with the planned budget and proposes operational measures for correction if needed.

The responsability centre can not be reduced to a simple organisational unit, having as sole objective the reduction of production expenses. This is a complex organisational structure that can set multiple goals, based on the strategy of the organisation it is part of.

In order for the goal to be fulfilled, the responsability centre takes on technical, organisational and functional measures for satisfying the following objectives:

Prioritary objectives:

- accomplishing its own activity programmes (satisfying the needs of the customers, holding to delivery deadlines, promoting creativity);
- optimising the use of resources for the growth of global performances of the organisation and thus, of the responsability centre;
- establishing the evaluation and control systems of the performances (financial, operational, personnel, management, marketing);
- establishing viable procedures for elaborating expense budgets for the responsability centres with possibilities to integrate and underline in the organisational budget, breakdown and granting expenses on fixe and variable costs;
- simplifying the evidence system for communication procedures, reports and cooperation, amplifying the operating speed by installing IT procedures;
- introducing and perfectioning accounting financial reporting procedures;
- growing the capacity to adapt the production to the demands of the customers, in quality conditions;
- changing the mentality of the employees, in raising awareness to be active, participative, efficient.

## 2. Technical concepts related to the management in terms of responsibility centers

The activity of organisations can be structured in bugetary independent units that are called responsibility centres. The responsibility centres represent a gathering of mutually dependant elements, that form an organised structure, with a high level of autonomy in using and optimising the resources they hold.

➤ **The income centre-** Represents the organisational link in which the activity is appreciated based on the income it attracts. Income is planned based on the previous year achievements and on predictions on the current year. The management of the company periodically analyses the income budget and intervenes in case there are any derails. The employees of these centres receive bonuses according to the income they produce.

➤ **The cost centre-** Represents the organisational link in which products/services that generate expenses (costs) which help measure the efficiency and effectiveness of the centre's activities. The cost centre can be an enterprise, a department, a workshop, a functional service that collects indirect expenses. It can be organized in the workplace if we can elaborate expenses budgets. The bonusing system is based on the savings each worker can achieve on production expenses.

➤ **The profit centre-** Represents the organisational link in which a profit can be calculated. Within the profit centres we can build parts, whole products or provide services that are sold on the outside and for which a sale price is calculated. Inside the department, expense budgets are made and profit is calculated, as difference between income and expenses. The bonusing system is based on whether or not the the planned profit is fulfilled. If deviations appear, mainly as non-fulfillment of the planned profit, the causes that lead to this are identified and measures are taken to remedy the situation.

➤ **The investment centre-** Represents the organisational link in which it is underlined the report/difference between the income obtained by selling the products and the investments made for all the resources necessary for them to be manufactured. The usage of responsibility centres has two major advantages:

- it facilitates the control of some financial indicators by budget specialists that are not obligated to know all the technological aspects;
- it allows the identification of each responsibility centre's contribution to accomplishing the organisation's profit.

The responsibility centre can be regarded upon as a system because it consists of a unitary whole, has connections with the environment, has a complexe structure, functioning rules and goals to accomplish. Any responsibility centre, no matter the size, domain or organisational structure also implies:

- using economical values from the environment;
- transforming those values in larger ones;
- rendering (supplying) the transformed values to the economical environment;

The "Responsability centre" system underlines three independent factors, which are:

- Incomes (economical values that are taken and represented by vector I).
- Exits (economical values supplied) are represented by vector E.
- Incomes represent material, human and financial.

The transformations represented in the figure by P. This means a fully organised and static responsibility centre, meaning perfectly capable of functioning when I and E conditions are provided.

The exits (economical values supplied) are represented by vector E.

Together, the structures I, P, E represent the responsibility centre capable of functioning, under a dynamic aspect.

Main characteristics of the "responsability centre":

- AUTOSTABILISATION – the characteristic of the centre to maintain a certain state, by adapting to the changes that influence it;
- AUTOORGANISATION – the characteristic of the centre to create stable structures in new situations.

There are often situations when the incomes of a centre are the exits from another responsibility centre. The responsability centre can be regarded as a system, but also a subsystem of the organisational system that it is part of. As a subsystem it has a behaviour determined on one side by the goals of the organisation that it is part of, and on the other side by it's own goals.

Each centre has both its own incomes I 1, I 2,....., its own exits E 1, E 2,....., E n proprii as well as own balancing mechanisms R 1, R 2, .....R n.

The first level of knowledge of the organisational system is the general one in which both I incomes and E exits are taken into account.

As a first phase, top management is not interested by the internal transformation processes within the responsibility centres, but is more interested in the connections between I incomes and E exits in such a manner that the proposed goals to be fulfilled.

Top management also has to follow the activity of responsibility centres that have specific objectives derived from the organisation's main objectives. In relation to these objectives, upper management has to intervene in each responsibility centre to differentially level them.

### 3. Theoretical notions about management based on responsibility centers

The main activity of a responsibility centre is established in its status or constituting contract, after making the necessary analysis, studies and taking the decisions in order to reconfigure the organisational structure.

Based on the diagnosis analysis, the responsibility centres can be made:

- based on a production activity (manufacturing a product, a line of products or some guide rules);
- based on technological processes (for example: dyeing, polishing);
- based on a certain activity (drawing, IT services);
- based on auxiliary activities (repairs, utilities, checks).

The responsibility centres are constituted as base, auxiliary, service sections and within the functional compartments.

Based on the line of activity established by status or constituting contract, the activity of each responsibility centre can be defined, it can be the originally established one, it can be developed by integrating other activities, or it can be replaced, by orienting towards the market and the future. All these operations are made having in mind the mission and strategic goals of the company.

No matter the activity, in a responsibility centre the following are made:

- own expenses budget;
- tracking for deviations from the planned budget;
- corrective measures.

Within each responsibility centre a connection between the resources used and the results obtained is underlined, the newly created value which allows the identification of the contribution of each responsibility centre in accomplishing a new product/service.

The responsibility centre represents a gathering of elements inter-dependent, which form a unitary compound with high autonomy in using and optimising the resources it holds.

These centres classify as:

- income centre;
- cost centre;
- profit centre;
- investment centre.

The characteristic features that are necessary to be fulfilled by a responsibility centre are:

- it has a well-defined activity domain, established by the status or constituting contract, with competences to keep, develop, replace, diminish assets;
- it has control over a patrimony;
- it has an organisational structure, functional and with own production, in which it has definitive competences;
- it designs and modifies its own organising and functioning regulations book;
- it has its own production capacity;
- makes its own expenses budget;
- evaluates and organises own budgetary resources;
- underlines its own financial results;
- makes monthly accounting balances or balance sheets;
- underlines own economies and/or profit;
- holds responsibility for the results obtained;
- does not answer for non-profitable activities of other centres within the organisation;
- cooperates with other centres for elaborating papers, thus signing cooperating deals;
- has control at full capacity of the resources it holds;
- can attract partners but does not hold competences in signing economical contracts;
- has a manager that is accountable for the responsibility centres' performances.

Organising the activity through responsibility centres must be conceived in such a manner that it satisfies their operational needs.

### Conclusions

The responsibility centres represent ensembles of inter-dependent elements that form an organised mechanism, with a high degree of autonomy in using and optimising the resources they hold. This mechanism grants the forming of internal ties and inter-dependencies that spread throughout the organisation,

allowing the results evaluation of each subdivision and determining their role in the final result of the company.

The costs centres are specific to the production workshops or departments. The goal of the departments or workshop leader is to produce a large quantity of products with a minimum usage of material or human resources.

In practice, the consumption guidelines are established by engineering services as usage guidelines. The goal of the department leader is to minimise the discrepancies between the real and the standard costs. In such a responsibility centre its efficiency and effectiveness are expressed in measurable indicators.

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