

CHARACTERISTICS OF THE INDICATORS OF FINANCIAL PERFORMANCE USED IN THE CONTROLLING

LOREDANA CIURLĂU,
LECTURER PH.D, „CONSTANTIN BRÂNCUȘI” UNIVERSITY OF TÂRGU JIU,
FACULTY OF ECONOMICS
e-mail: lciurlau@yahoo.com

Abstract

Financial Performance a center of responsibility shall be measured on the basis of specific indicators nature of the center. In the conditions of a powerful descentralizari, most datacenters become centers of investments. Decision-making power of the managers of the costs, sales, profit or investment is greater than or reduced, as the case may be, according to the nature of the center and therefore the performance that the aim is to achieve. It is the very reason for such centers are also called centers and decision. Which is why the centers are also called centers and decision.

The size of which the period the performance of the action it has taken by its use in all fields of economy has led to devising a new concept, namely, at the performance management, which involves performance approach as being the central concern for the management of the economic entity. All the entities claim to economic performance, so that the performance management has become an instrument not only useful but also essential to the extent that speak of performance without a suitable management and in this context the assessment of the performance is a key element for the management of it.

Driving through the centers of responsibility expressed in fact a decentralization that makes decisions faster, taking into account the fact that the manager of the center of responsibility closely knows all issues, knows the customers, conditions, near to the place where the activity is carried out direct, all these show an important argument.

This article is trying to treat and to analyze the themes of the performance of the economic entities and its management, because the performance should not only be measured, but must and managed.

Key words: Performance, decision, centers of responsibility, costs, organization

JEL Classification: M11, M41.

1.Introduction

Measurement of the performance is an attribute of the control the management which cannot be dealt with outside of the specific objectives of the prefigured each organization.

Measurement of the performance must be fixed according to the type of structure of an organization which should be assessed. Such structures may occur in the form of cost, income, profits, investments. The period of performance shall be defined as an association of the effectiveness of the efficiently. The effectiveness of the consists in obtaining the results in the framework of well defined. The efficiency of the correspond to the best sound of the means and capacities in the relationship with the result.

Organizations can be regarded as machines of the economic growth which can be measured by different: income, profitability, return of investments, market segment, number of personnel, number of products, treasury. A system performance measurement will show the extent to which the objectives have been achieved the feature. Performance benchmarking is linked to[5]:

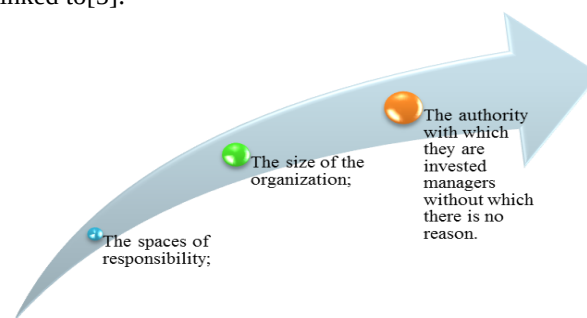


Figure no. 1 „Measurement of the performances”

Source: Caraiani C., Dumitrana M., „Contabilitate de gestiune & Control de gestiune”

One of the ways to cut the undertakings is that in centers of responsibility.

As a general rule, a center of responsibility can be assimilated to a managerial entities having organizational features precise. It is defined as the 'an assembly placed under the authority of a natural persons established in the service was officialised or fact, and equipped with its own means allowing them to carry out their functions and objectives"[6].

For the measurement of financial performance may be used several: Indicators: compliance with the budget, indicators of the profit rates, profitability, return on investment, the value added economica. These indicators reveal the current performance and opportunities for improvement.

Financial indicators of performance are the most objective, since most of the firms granted important resources for control activities and audit.

The most used indicators in the measurement of financial performance are[1]:

- return on investment,
- residual income
- economic value added.

2. Types of the centers of responsibility

Each center of liability is invested with a mission and targets the certificates touched. These objectives are, in general, financial and will depend on the nature of the center.

The center of responsibility is an organizational segment of the undertaking as defined by: tasks to be carried out, a responsible for the implementation of the tasks as well as procedures for management clearly identified. The establishment plan of the undertaking which includes the various centers of activity, not to overlap and did not create impediments, cut the undertaking on the centers of responsibility[4].

The criteria that have led to the division of the centers of responsibility and affects the elements of the controllable by responsible and comensurarea financial performance (financial flows, profitability, costs, profit). According to such criteria are distinguished the following types of centers of responsibility (figure no. 2):



Figure no. 2 „Type of the responsibility centers”

Source: Cîndea M., „Contabilitate de gestiune și control de gestiune”

The cost center: the objective of this center is to provide the other centers benefits at the lowest cost, within a specified period of time and for a certain level of the quality assurance system. Those responsible for the Center should theoretically, must be in a position to act on all the factors of the costs, both in the organization of production and in the choice of suppliers.

The revenue center: has as main objective maximize sales. The comensurarea of performantei has in view the level of turnover. The persons responsible for such centers must be able to act on all the elements of the business negotiations: price, secret discounts, terms of payment.

The profit center: it is a center of responsibility which has as main objective the attainment of the target of the results or the margins, he cumulant characteristics of each of these two previous centers. Person in charge of the center of the profit is competent to take any decision which would permit them to reach the result set. As a result it may take decisions related to the size of the voilului sales for products which have negative margin or very small.

If the reduction of costs is insufficient for the responsibility of atnbu On the other hand, theoretically, the person responsible for the may decide to increase costun by increasing the quality of products, whether by this measure would era sales volume. In practice, numerous profit centers do not have this margin of the measure, lacking than the power to increase sales reduce costs. In fact, the real profit centers there is only very rare.

Center of investment: shall mean the form the most advanced of the decentralization process. The person responsible for the center administers a miniintreprindere, performance has been assessed in the light of the criteria for the benefit type/investment or benefit/cost of investment (residual profit).

The cut on the centers of responsibility is linked to the technical organization of a business on the basis of which they think about and identify the „accounting sections” which shaped the scope of the accounting and management are objects of calculation.

Dividing the center of costs must meet the requirements of technical and the interests of the economic in nature. In this out is irreplaceable in partnership between the specialists in the field of production and those in the economic field. The combination of these two specialties lead to cut center, depending on the technical features of production in conjunction with the criteria for the identification and measurement of the input locales and that the ultimate objective, the appreciation of the economic performance by drawing the directions for them. It is understood that the splitting of the enterprise, on the centers of responsibility makes it easier to drive, responsabilizand managers at all levels. The responsibility is made on the two sides (figure no. 3).

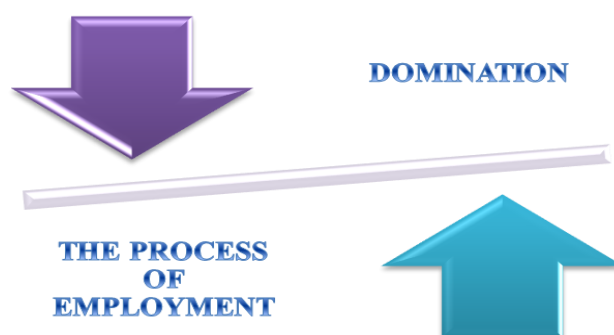


Figure no. 3 „The sides of the responsibility”

A manager, irrespective of the level at which it is located, shall be responsible to an objective, but it is responsible for its actions in front of from the top level [5].

3. Measurement of financial performance by return on investment, the residual profits and economic value added

When a company is organized for the first time, it obtain funds of the capital stock and imprmuturi. A part of these amounts are used for investments in fixed assets, another part for the financing of stocks and for the financing of the claims of customers. The profitability of the company in a given period depends on the number of complete cycles conducted in a period.

$$ROI = \text{commercial profitability} \times \text{the rotation rate of the asset} \quad (1)$$

or

$$ROI = \frac{\text{profit}}{\text{sales}} \times \frac{\text{sales}}{\text{invested capital}} \quad (2)$$

- ➡ profit or the result of the used in calculating the return on investment is a result of exploitation;
- ➡ invested capital is simply the investment for the operation being excluded tangible which are used for other purposes.

Through the control by the return on investment, managers can to improve his performance as follows: by increased sales by reducing expenditure or by reducing the assets. Each of these dimensions can have positive effects, but and negative effects on medium and long term.

A change in the measurement of financial performance is a residual profit which is in practice the operating result on which can to obtain a department after provided a minimum rate of investment. The main advantage is given

by focusing on the size of the remaining profit and not on the formula return on investment. In the first place, managers are encouraged to make investments profitable. That principal disadvantage identifies the impossibility of the use of this indicator as a basis of comparison for the various departments (because it is expressed in absolute margin, not relative).

Economic value added, as a modern measure to measure the performance, represents the net profit decreased by the cost of capital.

$$EVA = \text{net result} - \text{permanent capital} \times \text{average cost of capital}$$

(3)

In other words, the value added economic measures the value created for shareholders, comparing the return on the capital invested by the average cost of capital.

4. Conclusions

At present, the economical environment requires many changes in the way the management and structuring of activity of enterprises. This is due to the fact that the organizations acting in an environment is unstable, characterized by developments in space and time and fast, numerous dispersed, unpredictable, which are that the information is uncertain. For managers is a real challenge to identify from the avalanche of indicators, what today can be used on the most important to stay on the float line. In these conditions, the management control must intervene in order to allow the pursuit of the activity and decisions so that firms to attain its objectives.

In the framework of an enterprise performance measurement shall be carried out in a different way, depending on the level of responsibility. For example, the performance of a charge of an entity of production (workshop, department) can be measured by the degree in which it has managed to reduce overhead costs of production if this action has been defined as one of the objectives of the center of responsibility.

The consistency of the indicators of management held in each profit center and in each center functional and their consistency with the indicators defined at the level of the enterprise are essential. The indicators you want the maintainer of a functional center are not always those who must be held for the completion of the analysis of its management. There are many cases where indicators should be changed in order to optimize the management of the assembly. Optimization of each subset of the enterprise did not necessarily lead to the improvement of the company, nor to optimize the strategy implementation. The choice of the appropriate indicators is one of the fundamental responsibilities of the management.

5. Bibliography

- [1] Albu N., Albu C., „*Instrumente de management a performanței*”, Editura Economică, București, 2003;
- [2] Albu C., Albu N., Feleagă L., *Contabilitate, control și guvernare*, Editura Economică, București, 2012;
- [3] Aslău T., *Controlul de gestiune dincolo de aparențe*, Editura Economică, București, 2001;
- [4] Cîndea M., „*Contabilitate de gestiune și control de gestiune*”, Editura Tehnopress, Iași, 2011;
- [5] Caraiani C., Dumitrana M., „*Contabilitate de gestiune&Control de gestiune*”, Editura Universitară, București, 2008;
- [6] Guinea F.A., „*Măsurarea performanței întreprinderilor și riscul denaturării informației în controlul de gestiune*”, Editura ASE, București, 2016;
- [7] Guyon C., *Contrôle de gestion*, vol. 2, MASSON, Paris, 1989, p. 47
- [8] Nicolescu, O., Verboncu, I., *Managementul pe baza centrelor de profit*, Editura Tribuna Economică, București, 2004;
- [9] Sgârdea F.M., *Control de gestiune*, Editura ASE, București, 2009.
- [10] Sgârdea F.M., *Control financiar și expertiză contabilă*, Editura ASE, București, 2014;
- [11] Tabără, N., *Modernizarea contabilității și controlului de gestiune*, Editura Tipo Moldova, Iași, 2006.