

MEASURING FINANCIAL PERFORMANCE TYPES OF RESPONSIBILITY CENTERS

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Astract:

The financial performance of a responsibility center is measured on the basis of specific indicators of the nature center. To obtain a relevant and consistent images relating to the performance of an entity is required to use a system of indicators. Performance indicators of the structure it needs to capture at the same time, at least the following aspects: the objectives of the entity, its strategy, efficacy and effectiveness of activities carried out, the entity's ability to adapt to the requirements of the market in which they operate. Financial indicators of performance are the most objective, because most businesses give important resources for the activities of audit and control.

Key words: *financial profitability indicators, value added, management control, cost centers*

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Management control can be exercised at all organizational levels, is present everywhere where an activity. It becomes an essential factor of the functioning and evolution of enterprises. So is the fulcrum of management control process of organizational control, assumes the role of a bridge, ensuring consideration of the key success factors, of the current management and strategic giving managers the means of adapting to the realities and trends objectives.

Segmentation of responsibility centers to facilitate management, responsabilizând managers at all levels is possible via management control, measuring their contribution to overall performance.

Setting up responsibility centers is not always easy to achieve in practice because:

- segmentation should be consistent with the organizational structure of the enterprise activity centers;
- requires a good knowledge of the functions of the enterprise;
- in anticipation of the introduction of management control in enterprises should be paid special attention to determine the optimal number of hierarchical levels to be able to achieve the decentralization of activities and delegation of responsibilities.

One of the ways of cutting is the responsibility centers. Depending on the type, there are several ways to track financial performance:

✱ **a cost center** may not act than on costs; Therefore, its purpose will be subject to the budgeted costs. Measurement and analysis of the deviations is the main way of assessing its financial performance;

✱ **a profit center** can act on spending and on revenue; In addition to compliance with budget revenue and expenditure, and shall ensure that a certain evolution of the margin (the result). There are several used in the calculation of optical losses, as, for example, controllable;

✱ **an investment center** can act on expenditure, revenue and investment. Therefore, the assessment of performance indicators must show three management issues.

According to the main points of support are distinguished by *partial and global responsibility*. In the first category are the centers of costs and revenue, and in the second and profit centers. This subset of the responsibility centers you can group into three categories with relatively homogeneous characteristics: cost, revenue and profit centers.

Types of centers being part of a group is its own delegated financial flows in relation to specific. The delegation in a cost center can be given on the expenditure for a product or service and a global budget of the current activity. Cost centers, in turn, may be subject to other types of business processes that transforms inputs into outputs.

From a possible formalization of operational processes can be distinguished three categories of cost centers (Aslău, 2001):

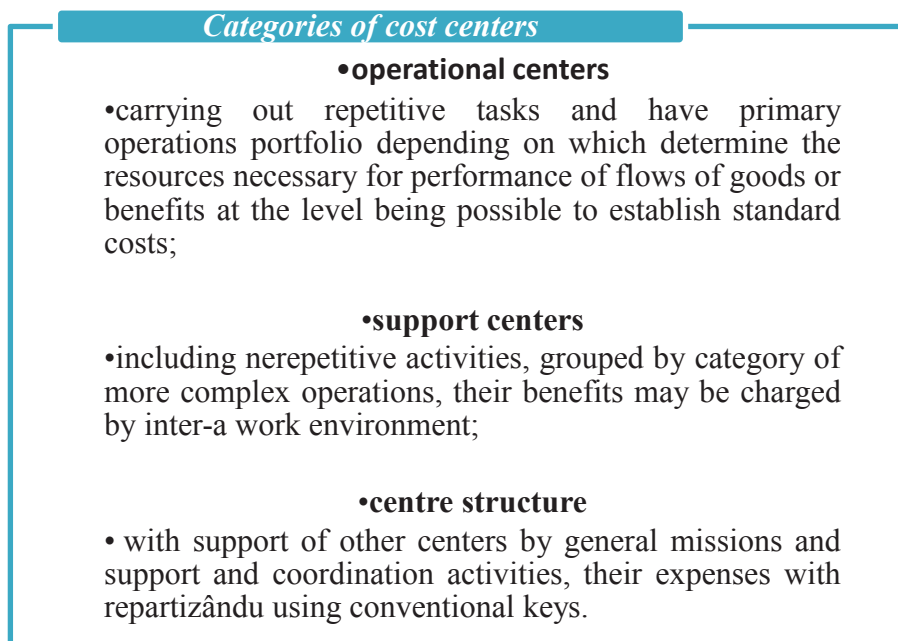


Figure no. 1 „The projection of the author concerning the categories of cost centers”

The income is related to the delegation feature commitments regarding the volume of business and management of the budget.

For an investment center, financial performance can be measured using three indicators:

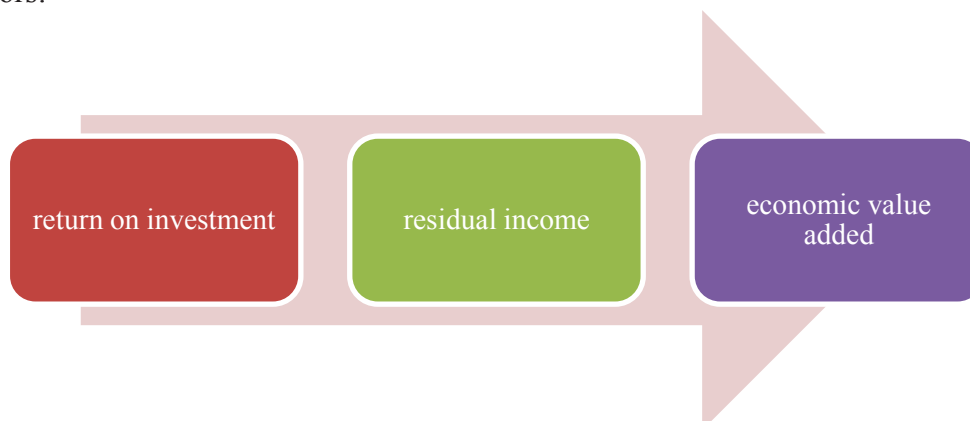


Figure no. 2 „Indicators that measure the performance”

Financial indicators have yet many borders, they can be handled and does not encourage the creation of overall performance. It is necessary a multidimensional and

flexible system for measuring performance, which combines financial indicators and nonfinancial, to generate the incitement and creating value.

When an enterprise is organized, get the funds of capital and often in loans. A share of these funds are used for investment, for financing of various types. When you collect cash from customers, in addition to the initial investment it receives and the profitability of the trader (profitability).

The formula for calculating the rate of return on investment is calculated as follows:

$$ROI = \frac{\text{profit}}{\text{sales}} \times \frac{\text{sales}}{\text{invested capital}}$$

By controlling the ROI, managers can improve their performance by:

- increase your sales;
- reduction of costs;
- reducing assets.

An evolution in financial performance measurement is the residual profit, which is basically the result of exploitation that may get a department once assured a minimum rate of return on investment. The main advantage is given by the focus on the size of the profit.

The main disadvantage is impossibility of using this indicator identifies as a basis of comparison for different departments, because it is expressed as an absolute measure.

The „economic value added" indicator means the net profit decreased by the cost of capital. It measures the value created for shareholders by comparing capital entabitate with the average cost of capital.

Economic value added can help managers to make the best investment decisions, to identify opportunities for improvement and to take into account both short-term benefits and long-term. The concept of this indicator is defined as a measure of the quality of management decisions as well as an indicator of future growth of the company. Value added tax is one of the most important indicators of economic and financial performance of the company and an initial margin of profitability of the enterprise; express the newly created value in productive and commercial activity of a company within a certain period of time.

Under the terms of the global economic crisis, the economic environment requires numerous changes in the way management and structuring of business enterprises. This is due to the fact that organizations operating in unstable environments, characterized by developments in time and space, numerous, dispersed, unpredictable, as the information is uncertain. For managers is a real challenge to identify the dinavalanşa indicators, which today can be used on most important to stay afloat. In these circumstances, management control should intervene to allow the activity and decision-making so that enterprises to reach their goals.

Depending on the structure and organizational peculiarities of the company can be defined several types of responsibility centers, control management, addressing the first analysis, costing, without taking account of the fact that the methods are used for the calculation of the total costs, variable and fixed.

Cost centers represent another type of cost centers, but certain activities related to each other, such as maintenance, release authorization. They have cost management theory, for which a volume can be more or less established for other services centre (outputs).

Revenue centres or turnover have more control over sales (output) than on input. These are, in general, business services used to achieve sales targets. Are known

as profit centers because the control inputs and outputs. Their targets are therefore set in terms of the contribution margin (for part of the cost) or result (when the system is organized on total costs). More than cost centers or income, they transfer the obligation of funds to the result, which in this case is perceived as fiscal period: revenue minus expenses.

Profit centre organisation is carried out more efficiently, because the company can determine segmented markets (depending on the types of customers or geographical areas) or product markets (the integration in production or marketing). So, is the predominant form of organization and control of the activities of services (consulting, advertising) or those that are organized in the form of project (buildings, public works); Instead, it's less adaptable in the sectors that produce goods on a large scale. In some cases, empowering them profit centers can transform into new companies.

Profit center signifies a organizational entity with action, which is responsible for making a profit and cost causality. Managers need to know to make the difference clear between profit centers, cost and investment center.

Cost centers have a direct link with employment costs. Profit centres have a responsibility on profit and investment link to minimize costs and maximize profits.

Organizational structure of a company divided into profit centers has usually form the Divisional organization. This is characterized by the fact that the first hierarchical levels are not modeled after the same task, but according to business areas. These are just profit centers and cost centers.

Advantages of divisional organizational form are:

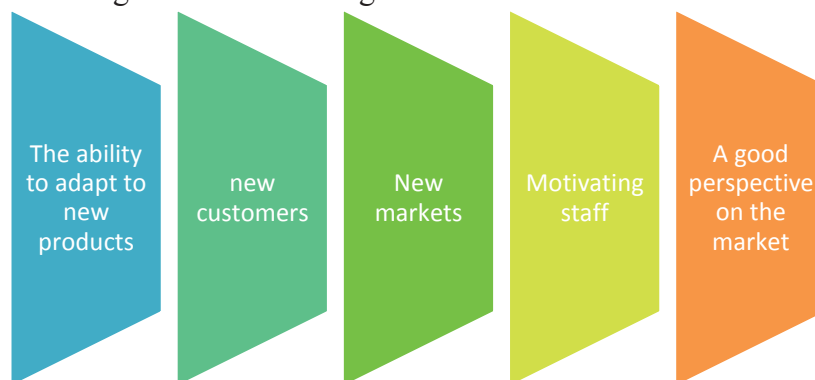


Figure no. 3 „The benefits of the company's divisional profit centers"

Investment centers is characterized by a full delegation of authority. The objective is not a product or a margin, but a gain or a percentage to express the relationship between products and capital employed. It is assumed that the person holding the power. This form is quite rare (many branches are not cost centers), the right of control and decision on capital employed which the Directorate-General. In fact, the risk materialized and touched in this case limited the general delegation that applies more short-term management (whose performance can be assessed according to a product) than a descentralizări. Thus, the majority of general managers have a minimum capital and equipment related to financial management, the Treasury of the group, but do not have the right to seek outside capital from banks or markets.

The division of responsibility centres is a key benefit of measuring the company's performance and contribute to a more efficient accounting and motivating staff and is a key factor of success in its efforts to build the reporting tools.

Conclusions:

All economic entities claim performance so that performance management has become a tool not only useful, but indispensable, cannot speak of performance without proper management, and performance evaluation in this context is a key element for its management.

Reassessment of the concept of performance requires finding indicators that reflect how closely the functioning of economic entities. Identifying and using indicators to assess the performance of economic entities is their correlation with long-term objectives, and strategy.

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