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Ion, Verboncu

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The Profit Centers Based Management

by Verboncu Ion
Bucharest Academy of Economic Studies

Abstract: One of the most complex and sophisticated managerial tools is the profit centers based management. Promoting and using the profit centers based management in the Romanian companies represents a condition for the economic and commercial success. By its content, the profit centers based management ensures order, discipline, and stringency in running the work processes, efficiency and effectiveness generating characteristic.

Key words: Management by objectives, management by budgets, profit centers, budgets, managerial and economic decentralization

JEL Classification: M11

We commence our plea for a genuinely scientific and competitive management by presenting the theoretical, methodological and pragmatic aspects of Profit Center Management.

Profit Centers Based Management represents a complex and sophisticated management system, which leads to the achievement of the individual, administration centre and company objectives by means of various tools.

1. Main features

The Profit Centers Based Management main features are:

- **special complexity**, given by the fact that its application regards all the process and structural components of the organization and that it facilitates the use of many other managerial methods and techniques, depending on the problems raised by the consolidation of the components and the achievement of objectives

- **managerial dimension**, more specifically managerial decentralization inside the company, against the background of the appearance of new „actors", named administration centers, characterized by responsibilities and competencies superior to those of simple organizational subdivisions (activities or compartments)
- **economic dimension**, ensured by the use of budgeting as an important managerial tool. This is elaborated, executed and followed both at company level and at administration center level. For this, other economic levers, with special motivational impact (profit, salaries, prices etc.), are employed as well.
- **participative dimension**, referring to the fact that administration centers leaders and other managers and executants from the administration centers are actively and responsibly involved in the elaboration of the objectives and the other budgetary components
- **motivational dimension**, underlined by the correlation between rewards/sanctions and the degree of achievement of the individual, administration centre and company objectives, as well as between

rewards/sanctions and the degree of involvement or participation of each employee in achieving them.

2. Components

Components of Profit Centers Based Management are:

- **system of objectives**, which comprises the fundamental, derived-I, derived-II, specific and individual objectives
- **support-components**, needed for achieving the objectives: action programs - emphasizing the decisions that are to be adopted, the actions initiated for their application and the allocated resources, quarterly calendars, instructions, the managerial tools and budgets employed – consolidated, elaborated, launched, executed and implemented at company and administration center level.

The following Figure attests to the special complexity of Profit Centers Based Management, by highlighting the managerial tools that it incorporates in a constructive manner:

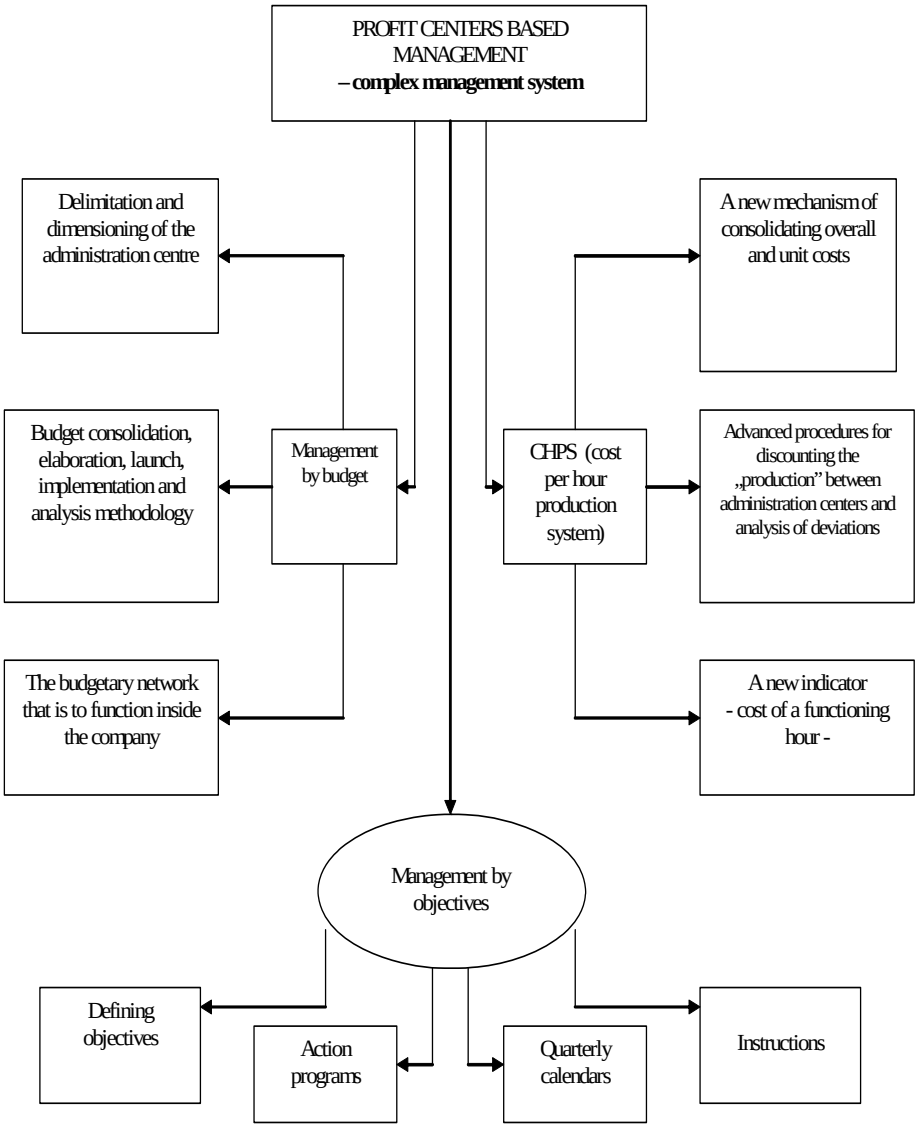

Figure 1 Correlation between Management by objectives –Management by budgets– Cost per hour production system

3. Methodology for promotion and implementation

The methodological scenario of promoting and implementing Profit Center Management consists in several steps, whose follow up is compulsory for ensuring the success of this managerial tool:

a. defining fundamental objectives

The first step represents the delimitation of the company's fundamental objectives, whose achievement influences both its present and especially its future. For example, we mention: increasing profit by a specific ratio, performing investments amounting to ....., improving product competitiveness by ....., modernizing the management system until ....., market penetration ..... etc.

b. defining other categories of objectives

How fundamental objectives are defined influences the following aspects of profit center management:

- profit center management „focused on teams", characterized by delineating the objectives system up to the level of specific objectives
- profit center management „focused on individuals", in which the objectives are defined at two levels: that of the job, and that of individuals.

c. consolidation of compartments – support for the achievement of objectives

Consolidation is essential as regards action programs, quarterly calendars, instructions and, especially **budgets**. Budget management - conceived and implemented in an advanced version - is responsible for the latter's elaboration, launch, execution and follow-up.

d. consolidation and elaboration of the company's general budget

The budget is, undoubtedly, the most important managerial tool in the economy of the profit center management. There are two levels at which budgets are consolidated, elaborated, launched, executed, followed-up and analysed:

- at company level
- at administration center level (cost or profit centers– factory, department, workshop, working team, compartment).

The company's general budget consists in the chapters dedicated to: (fundamental and derived) objectives, expenses, income and financial results.

e. delimitation and dimensioning of administrative centers (cost and profit centers)

An administration center represents a process or structural component of the company, with high decisional and operational autonomy, which has its own budget. The delimitation and dimensioning of administrative centers can be achieved by means of one of the following criteria:

- process
- structural-organizational
- economic
- nature of labour processes
- combination of these criteria

f. consolidation and elaboration of budgets at administration center level

g. launching the budgets

h. budgetary execution; coordination and follow-up of the achievement of objectives

i. evaluation and analysis of results

j. motivating the personnel depending on the degree of achievement of individual, administration center and company objectives.

4. Novelties in promoting and using Profit Centers Based Management

The experience accumulated in the past years in using this managerial tool in some Romanian companies, as well as the research in this field, allows us to underline several novel aspects presented below:

- amplification of the „areas" of promoting and implementing Profit Centers Based Management, from

medium, large and very large sized companies to public institutions with professional bureaucracy (higher education institutions, hospitals etc.);

- optimization of the rapport between centralization and decentralization inside the organization, depending on: the company's economic power, market position, opportunities and threats of the national and international environment, organizational structure type, predominant management styles, organizational culture;
- increase of the degree of individual and group responsibility, given by: amplification of the decisional and operational autonomy of the administration centers; setting up realistic and mobilizing objectives for all the „actors" of the labour processes; transformation of the cost centers in profit centers by dimensioning the contribution to the achievement of company profit; reconsideration of the auxiliary and functional compartments, such as carrying out of managerial, economic, technical consulting services etc. for the organizational subdivisions which generate economic substance; concluding management contracts between the company manager and the administration centers'

managers or service contracts between various administration centers;

- promoting the **management contract** inside the organization, which uses Profit Centers Based Management as **juridical tool for making the general manager and the administration center manager more responsible**, the former - regarding the ensurance of the necessary conditions for achieving the objectives, the latter – regarding the obtained results as compared to the planned results;
- promoting and using the **service contracts** between the technical service providers (maintaining and repairing the production equipments, supplying utilities), commercial services (ensuring and administrating material resources, sales, marketing etc.), economic and financial services (book-keeping), on the one hand, and the beneficiaries of these services, on the other hand – i.e. the administration centers from the production area. Thus, a system of managerial and economic links is set up with unfavourable impact on order, discipline and rigorousness required by the promotion of Profit Centers Based Management. Let us not forget that „any leadership, whether of a company or of a nation,

degenerates in mediocrity and counter-performance if a person is not clearly responsible for the results obtained." (Peter Drucker, 1999);

- reconsideration of management accounting;
- ensuring a high process and structural-organizational mobility, including means such as enriching and enlarging the jobs – effective modalities of diminishing or eliminating the „silo effect" specific to the bureaucratic organizations of mechanistic type;
- creating opportunities for the creation and implementation of managerial methodologies, implementation of IT systems at company level, and outsourcing of services;
- ameliorating organizational climate and, in general, organizational culture with a view to obtaining operational excellence at the administration centers from the production area level and, implicitly, of managerial and economic performances;
- promoting motivational mechanisms centered on performances;

- implementing discipline and rigorousness, to facilitate the extension of the decisional and operational autonomy of the administrative centers, the process of making managers and executants more responsible and, thus obtaining performance;
- promoting a new concept and a new managerial practice: the business format.

5. Conclusions

Promotion and use of the management based on profit centers, in the presented methodological variant is unfortunately a desideratum.

Few companies - including banking institutions - have resorted to such a management tool, despite the undeniable benefits that they generate from managerial, economic and social points of view.

The causes are many but, in our opinion, two are fundamental: firstly, the pragmatic valences of this modern and sophisticated management system are not

known and, secondly, the emergence of "obstacles" of cultural and organizational nature.

We are not used or do not want to work based on objectives, we are not accustomed to being motivated based on individual, group and organizational performances and we do not sufficiently take our responsibility of active participation and actual achievement of the objectives.

We believe that the managerial change through reengineering, one that such a system assumes, will also reduce or eliminate blockages.

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