

SOME ASPECTS REGARDING THE COSTS AND PERFORMANCE OF THE ENTERPRISE

Sorin BRICIU, Professor, PhD.
Florentina SAS, Ec., PhD. Student
University „1 Decembrie 1918”, Alba Iulia

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Abstract: The managers of the enterprises need relevant information for the planning, substantiation, implementation and control of decision. An important source of information is the management accounting. In the conditions of the modern management, the determination of costs has new dimensions, contributing at taking decisions. Another way of obtaining the information necessary for the management is the performance report. This contains information regarding the system managed, presented in a synthetic and preestablished form. The performance report has some developments, such as: the piloting report, the performance report on processes or projects, the report of situations and balanced scorecard.

1. The study of costs in the management activity

In achieving the objectives established, the management of the enterprises practices its functions by receiving information and transmitting decisions to the operative environment.

The premises of a good unfolding of the activity of the enterprise refer also to the existence of an informational system well structured.

The managers need relevant information for the planning, substantiation, implementation and control of decision.

The managers of any enterprise are conscious that the obtaining of optimum results is possible only by deep knowing of the problematic of costs. In the conditions of the modern management, the determination of costs has new dimensions, contributing at taking decisions [Sorin Briciu, 2006].

The contemporary economies determine the appearance of some problems regarding the maximum satisfaction of the consumer's needs with minimum effort of revenue, on one way, and the maximization of the producer's profit with minimum of expenditures, on the other way. The maximization of the profit is an objective function of minimization of the costs of the products obtained, services made and works executed.

There appears the necessity of delimitation between the calculation of costs and the responsibility of calculation of costs. For the level of costs doesn't respond the calculation of costs, but every manager for its place, sector of the enterprise.

The activity of determination of costs can be considered an instrument of the management, as an integrant part of the techniques of the management.

The information of costs are generated in the enterprise at the operative level in the area of the management accounting, or at the level of the tactic management, the management of the compartments of accounting. The information of costs, after its producing and processing, it's conducted, by the informational system to the superior echelons of the decision. At this level, the information of costs is filtered and grouped

by the own necessities of the management and contributes to the substantiation of some decisions which will be transmitted to the executants.

The proper management of the enterprise needs, for the management team to observe and know the phenomenon that takes place inside the enterprise, to express the economic phenomenon in a proper system of indicators, to establish the functional relationships by the theories and mathematical techniques, to use the theories and the functional relationships for making economic-mathematical models of optimization and for the elaboration of strategies of development. In this context, appears the utility of the informational system of evidence and economic analysis that permits the taking in any moment the optimum decisions of efficient management of the enterprise.

When one of the features of the modern enterprises is the distance of the management activity by the process of execution, the explaining of such phenomenon is made by the increased complexity of the elements managed, the amplexness and the dynamics of the economic processes of the enterprises. The two activities continue to form a unitary whole, tied in a reciprocal interdependence and conditioning. By the distance of those two activities, there were produced some difficulties of the management activity. The enterprises can not be lead by traditional methods based on the intuition, experience and talent, manifested spontaneously according to the vocation of the manager.

In the current conditions, there are necessary specific activities of information, to make the connection between the process of management and the process of execution. The study of costs has a definitive role in such a step being a real “connection wire” between the two processes. By using the information of costs, the decider can keep under permanent observation the unfolding of the economic processes of the enterprise, on each area of activity, and in the same time he can act directly over the processes.

To manage an enterprise means not only to well know the current activity and to intervene with operative decisions, but also the prevision of the future evolution and the elaboration of prognoses that can outline the direction of future development of the enterprise. The knowledge and analysis of costs lead to foreseen information, based on costs, that concur to the optimum unfolding of the activity of the enterprise.

The calculation of costs became an instrument of modern management of the enterprises, having a central place in the managerial steps.

2. The role of the performance report in the management activity

The managers of the enterprise can obtain information regarding the system managed by using an instrument of management, namely the performance report.

The performance report can be defined as being “an ensemble of pertinent information regarding the results obtained in the system managed, presented in a synthetic preestablished form and transmitted to the beneficiaries” [Ovidiu Nicolescu, 2000].

The performance report is one of the instrument of management that answers very well to the substantiation and sustaining of the managerial decisions with data complementary to those given by other informational means [Titus Aslău, 2001].

The performance report represents “an instrument of piloting of the enterprise because it permits the managers to have in real time a synthetic vision over the main indicators regarding the enterprise and the business environment, in order to take decisions in their cadre of competency” [Ion Ionascu, Andrei Tiberiu Filip, Mihai Stere, 2003].

The performance report ensures the satisfying of the internal needs of operative information of the managers at different levels of organization, so that on the basis of the information, to allow the rapid and complex appreciation of the activity and the orientation in taking decisions [Sorin Briciu, 2003].

The performance report uses more data sources, being based on more instruments: the budgets, the quality administration, the commercial administration (orders, market share), the social administration (the personnel), the technique administration, the financial accounting, the system of calculation of costs etc. The performance report can be made, as well as the budget, on the basis of the structure of responsibilities existent in the enterprise and applying the same principles of analysis of the differences, being more synthetic, with data sometimes approximated. While the accounting privileges the accuracy and the exhaustiveness of data, the performance report is made for rapid disposal of partial and approximated data. In the performance reports with big frequency will be predominant the extra accounting data and on the annual reports the majority of the indicators are calculated on the basis of the accounting information. The performance report differs from the informational circuit of the management accounting, but sometimes, the two instruments of the control of management allow inside the structure of the enterprise that have delegation of authority, the obtaining of the same results. The management accounting represents a source of data of excellent quality and can not be neglected or substituted with the performance report, this being based on the management accounting.

In elaborating the performance report there can be considered the following principles [Nadia Albu, Catalin Albu, 2003]:

1. *The coherence.* The performance reports are made at the level of every centre of responsibility or at the level of any other unit of cutting of the enterprise and then are centralized in order to be useful for more hierarchical levels. Thus, they must be coherent with the cutting of the enterprise. In order to permit an aggregation at a superior level, the performance reports for identical functions and for the same hierarchical level must contain the same indicators of performance, the same definition of the indicators and a common source. For example, for a store of distribution there can be made performance reports for the following levels, using the next indicators:

Table 1

Level	Personnel	Sales	Stock
Team	- rate of absenteeism - number of hours worked	- turnover on the salesman	
District	- number of personnel - rate of absenteeism - aggregation of hours worked on teams	- particularization of the quantities sold on families of products	- particularization of the stock in type of products - products hard saleable
Store	- personnel - cost of personnel on districts	- turnover on district - gross margin on district	- aggregation on district (% of turnover) - speed of rotation of the stocks on district

2. *The pertinence.* The performance report must contain little indicators, but essential for the respective mission.

3. *The urgency.* The frequency of the performance report is established depending on the nature of activity and the need of information for the pursuance of the achieving of the objective. The rapidity of making and transmitting the performance report is more important than the accuracy of calculation.

4. *The efficiency.* The efficiency results from having an attitude in front of the figures in the performance report. The scope of the performance report is the alerting of those responsible, the generating of an action and the organization of the action.

5. *The references.* In order to interpret correctly the indicators and to take the right decisions, beside the real values of the period, must be given one or more references: a historical basis, meaning the level achieved in the past, a foreseen basis that represents the budgeted level of the indicators, a technical basis, meaning the level of optimum performance from the technical point of view, a basis of the costumers' expectations, that is very useful especially for the steps oriented to quality and a basis of performance of other unit that consists of using the benchmarking for determining the data base.

By example, for the sector of Production, the performance report can look like this:

Table 2

The performance report for the sector Production

Indicators	Month March 2008		Aggregated since 01.01.2008		Target values	
	Realized (Lei)	Budget debate (Lei)	Realized (Lei)	Budget debate (Lei)	Values (Lei)	Debate (Lei)
Turnover	35.000	500	120.000	1.000	40.000	5.000
Costs with raw materials	10.000	- 500	40.000	- 1.000	7.000	- 3.000
Costs with auxiliary materials	5.000	- 50	20.000	- 200	4.500	- 500
Costs with energy and water	1.500	- 30	4.200	- 80	1.300	- 200
Costs with manpower	6.000	- 10	19.000	40	5.600	- 400
Costs with services made	1.000	- 15	3.500	- 30	800	- 200
Costs with liquidation	800	10	2.400	15	800	0
Costs with rent	200	10	600	15	200	0
Total costs	24.500	- 585	89.700	- 1.240	20.200	- 4.300

Instead of the comparison with the budget or historical data, there can be used technical references or the costumers' expectations, depending on the nature of the indicators. For being efficient, the performance report must lead to action, so it has to be accompanied or followed by comments, explanations and plans of action. In order to allow the rapid action, the performance report is replaced by a clear definition of the responsibilities and by a selection of the useful indicators for the action on short term. Thus, we have the following steps in elaborating the performance report.

1. The establishing of the cutting of the enterprise:

The manager does not act on the figures, but on people, on ways of achieving a scope, on collaborators to who was delegated a part of the responsibilities. By making the performance report, it must be highlighted a clear and coherent cutting of the enterprise, in order to be defined the main responsibilities. The delegation of the responsibilities implies the appliance of some ways of control. The performance report has this function, allowing the responsible ones to appreciate the results obtained by the subordinates and giving the subordinates the possibility to explain the results. The performance report can highlight the dysfunctions of the enterprise. On the basis of the organization table, of the existent hierarchical relationships, can be determined the objectives, the results that must be achieved by each responsible person.

2. The cutting of the key-points of decision.

This step begins with the analysis of the activity of each responsible person, of the objectives established and results obtained in order to observe which are the most important elements that can influence the performance and the elements susceptible to vary on short term that can determine an alteration of the points to be achieved. The determination of these key-points is highlighted by the establishing of the responsibilities of management, specified in the organization table. In this way, the elaboration of the performance report can be better integrated in the general cadre of the enterprise.

The strategic objective of the enterprise will generate sub objectives according to the nature of the centre, for example, a sub objective in terms of margin or profit for a centre of profit, one of cost for a centre of cost, one of profitableness for a centre of investment. The choosing of a type of centre and of the criterions of management is a delicate and subjective mission. This choice depends on the nature of the activity and type of product, the strategy of the enterprise, the type of power and the degree of delegation of authority and responsibility: the more decentralized and delegated is the power, the more important will be the number of the centers.

In defining the centers there must be considered the following principles:

Table 3

Nature of mission	Type of centre	Structural level
Production	Centre of cost	Plant, atelier
Services Sale	Centre of turnover	Commercial service
Result	Centre of profit	Plant
Profitableness of invested capital	Centre of investments	Subsidiary

3. The choosing of the characteristic indicators.

The performance report is an instrument of analysis, made to allow the action, because a document too voluminous risks to become unusable. In order to achieve its efficacy, the performance report must contain only characteristic indicators and in a limited number. In order to limit the number of indicators, the performance report must be centered on that information which is susceptible of leading to decisions of management on short time and corresponds to the key-points of the management of the enterprise. For having the quality of an instrument of measure, an indicator must have some features: to be loyal and objective, to vary like the phenomenon measured, to have an identical significance in time and space, to be obtained rapidly and to be aggregated in the moment of passing to a superior level. In order to assure the

coherence and visibility of the system of indicators of the performance report, these indicators are grouped in more categories, such as: *financial indicators*, like the treasury, the need for circulating funds, etc.; *indicators of activity*, like the turnover; *indicators of measurement of costs*, like the cost type indicators, calculated on the basis of data from the management accounting, with the condition that such instrument to exist and be pertinent, or expenditures type indicators, on the basis of the financial accounting, analyzed by their natures and relation of causality with the turnover; *indicators of profitability*, that have a bigger time of unfolding, the profitability being analyzed each trimester; *indicators of productivity*, that must take into account the specific of the activity and the objectives established; *specific indicators*, that translate the points of success into a certain sector, or those elements that must be developed and appropriated in order to be performing (key-points of success).

By example, the commercial service can use the following indicators:

Table 4

Indicators	Objective	Sources
The margin on the variable expenditures, global and on groups of products, sectors	The measurement of profitability The analysis of the weight of fixed expenditures	The management accounting
The margin on the direct expenditures	The measurement of profitability The analysis of the weight of the indirect expenditures	The management accounting
The costs of the commercial function	The detection of the side-slips at the level of the main expenditures: publicity, commissions, transport	The financial accounting

The indicators chosen must show their contribution to the achieving of the enterprise's objectives:

Table 5

Demers	Signification	Example
The mission of the centre	The definition of the objectives	The maximization of the production considering a level of the rejects
Key-points of management	The translation of the objectives by key-points	- productivity - functioning of the equipments - quality of production
Parameters that condition the key-points	The definition of the parameters explaining the key-points	- effective power of the personnel and equipments - viability of the material - qualitative products
Indicators	The indicators translate the parameters	- productivity of work (of type effect-production/effort-number of hours) - rate of rejects

The choosing of the indicators must be based on those whose performance are measured, because the responsible persons are the first who verify the selected indicators and also, are the first who are interested in exercising the direct control of the essential points with the most significant influence.

4. The collecting of the information.

The necessary information is searched in the inside and outside of the enterprise, in statistics, in the forecast program, in accounting. The performance report must be based mainly on the data sources already existent. The lack of the information at day implies estimations and extrapolates.

By example, the finality of using the indicators and the sources used for the calculation of the indicators can be presented in this way:

Table 6

Indicators	Objective	Sources
The global turnover	The appreciation of the global performance of the force of sale	The financial accounting
The turnover distributed on groups of products, costumers, sectors	The final analysis of the sales	The financial accounting adapted
Turnover/Turnover on sector	The measurement of the part of market, globally, on products; the measurement of the competitive position	Sectoral statistics
Turnover for the new products	The following of the launch of new products, action in case of side-slip	The financial accounting adapted
The level of increase of market	The reporting to a sector	Statistics and sectoral studies

The internal control has the role of applying the procedures that can assure the obtaining of the viable and coherent information.

5. The construction and utilization of the performance report.

The performance report must be adapted to the characteristics and need of each enterprise, by its fond and shape. The information must be expressed clearly in order to facilitate their utilization. There must be avoided the wordings and abbreviations and it is necessary to be mentioned the measure units of the indicators. In the construction of the performance reports are used the tables with figures or the graphics. It is established the periodicity of elaborating the performance report, the interval of bringing to day and the person responsible with that. As a methodology of work used in making and implementing the report, there are used the questionnaires and interviews, as well as the analysis of the instruments of management existent and used. The indicators can be used for many scopes, in different types of performance reports.

The utilization of the performance report has the following **advantages**:

- the amplification of the degree of substantiation of the decisions taken by giving to the decider some operative information, relevant, regarding the main aspects from the enterprise or from the domain managed;
- the rationalization of the use of time of work of the managers and organisms participating to the management, by orienting the activity to key-problems that the performance report revealed;
- the increase of the managers' responsibility for the activity unfolded, the performance report giving them the synthesized aspects and critical domains on which they are going to orient their efforts;

- the approach of the information regarding the management activities, in a systemic vision and the making of superior conditions, favorable for a high functioning of the enterprise;
- the assurance of efficiency and high quality of the reporting to different organisms, in the same time with facilitating the extent of using the electronic equipments of the information;
- the use of proper criterions for appreciating the contribution of every community of employees to obtaining the economic and financial results of the enterprise, through the information given by the performance report.

The disadvantages of using the performance report are the following:

- the repetitive recording of some information, in the statements required by the performance report and the current reporting of the enterprise to different organisms of the system to which the enterprise belongs;
- the volume, sometimes too big of work required by the filling in the statements needed by the performance report, especially when the collecting, recording, transmitting and processing of the information is made by hand;
- the relatively high cost of the performance report, if its filling in is a single action, and the ensemble of operations of collecting, recording, transmitting and processing of the information is made by electronic means.

The performance report has some **developments** nowadays, such as:

1. The report of piloting:

The report of piloting contains indicators of alert that are constructed in the plan of action that eliminates the constraints. If a constraint was not or can not be eliminated, the system risks to not achieving its results. The performance report is the point of convergence of the two fluxes – objectives and results.

This system is based on the model CCE (contributions-constraints-exigency) with which it can be managed and measured the performance; its using allows the passing from “to want” to “to can”. This model requires the identification of the internal and external constraints by reporting to the exigencies of the environment, elaborating plans of action for the elimination of the constraints and the allocation of the contributions. The objective of progress can not exist without the identification of the constraints that keep down its making and putting in practice a plan of action for eliminating them.

Many authors separate the function of analysis from the one of piloting of the performance report. An instrument of analysis must be loyal to the real process, must be precise, exhaustive, complex and stable in the same time (examples of such instruments: the analysis of costs, of quality, of terms and of reports between them). A system of piloting refers first to behaviors and their orienting, thus it has to be simple, clear, evolutionary, integrated (to contain all the aspects of the performance), finalized by the strategy (the translation of the strategy through activities). An indicator of piloting forms a triangle with an objective and a mean of action, being used firstly to the own management and not to reporting. A system of piloting is oriented to process and not to result, because the last one shows the final result of the process. Thus, it is not recommended to use the indicators of piloting to remunerate the employees (that would lead to the falsification of indicators). In other way, it must be coherence between the piloting and the administration of the personnel, because both are based on the key-factors of success, but there must be privileged the collective, interfunctional approaches. The special attention paid in the last years to the hidden costs led to the integration of its analysis in the performance report, defining in this case the report of

piloting of the dysfunctions and hidden costs that give a dynamic vision of analysis and prevention of the debates (by vigilance in following the hidden costs).

2. The performance report on processes or projects:

In the conditions of the transversal cutting of the enterprise there are defined performance reports on activities, processes or projects. The performance report made in a transversal vision contains indicators of performance that correspond to the objectives of the process, indicators of performance for the plans of action. In the case of an organization on processes, the objective of the process will be the contribution to the achieving of the strategic objective.

3. The report of statements:

Another development of the performance report is the report on situations that is a group of information on the following categories: the statement of the market (ABC curves on types of customers, strategic segmentation, competitive position etc.); the statement of the administration (the profitability of the products, the analysis of the margins, of the debts and of the stocks); the statement of the production (the quality, the effect of experience); the statement of the distribution (types of distributors etc.); the statement of the sales (commercial costs, impact of the publicity, the analysis of the sales on sectors) and the statement of the human resources (rotation, absenteeism, distribution on products etc.).

4. Balanced scorecard:

The practice of the results, of the performances of the business represents a constant of the control of administration, even if there have been differences over the nature of information, over the orientation to past or future, or regarding the role of the indicators of information or action. The introduction of *the non financial indicators* for the measurement of the performance together with the financial indicators is another feature of the control of administration for the last years, the most known version at international level being the *balanced scorecard*. This instrument appeared because of the insufficiencies of practicing *the reporting* in the American companies, being based only on financial indicators and made in 1992 by Robert Kaplan and David Norton [Ion Ionascu, 2003]. The big French enterprises used since the interwar period *the performance report (tableau de bord, fr.)*, as an instrument of piloting of the enterprise, being mentioned in manuals, articles or documents of administration since 1932. In the anglo-saxon literature is made the separation between *the performance reports* that represent a comparison between the values realized and foreseen of the main financial indicators, *inside of a cutting of the enterprise on responsibility centers, and balanced scorecard*, a set of financial and non financial indicators that show the construction of the performance of the enterprise through the equilibration and inter conditioning of four forces, *on the basis of a cutting of the enterprise on processes and activities*. Although some authors consider that *balanced scorecard* would be a new version of the old performance report, any of the two instruments must be understood depending on the *cultural environment* in which they operate. Between the two instruments of management of performance there are some common points: both are using the non financial performance in the systems of measuring the strategic performances, the development of measures of performance that ameliorate the reactivity, the selectivity of the information.

Balanced scorecard looks for identifying the factors generating the performance of an enterprise in order to permit the managers to anticipate their actions. Balanced scorecard is constructed on four axes, that mobilize the predetermined dimensions of

the strategy and the evaluation of the performance: 1. *the satisfying of the investors* (answers the question: “Which are the expectations of the shareholders?”); 2. *the satisfying of the customers* (answers the question “Which are the exigencies of the customers regarding the enterprise?”); 3. *the quality of the internal processes* (answers the question “In order to satisfy the shareholders and customers of the enterprise, what key-processes must be controlled?”); 4. *the capacity of development and innovation of the enterprise* (answers the question “In order to achieve the objectives proposed, how will develop the enterprise?”).

Through *balanced scorecard* there can be highlighted the causal relationships between the *operative performances and the strategic results* of the enterprise. Thus, the satisfying of the shareholders must be conditioned by the satisfying of customers, and the last one depends on the quality of the internal processes of the enterprise that depends on the capacities of amelioration and innovation of the enterprise. Balanced scorecard must be adapted to the specific of every enterprise by the containing of the indicators that characterize the four dimensions of the management of the enterprise. Balanced scorecard is an instrument applicable in all the types of enterprises, because encourages the employees to take into account the impact of the decisions on the performance of the enterprise, analyzing the relationship cause-effect that exists between indicators. The relationship cause-effect dominates the four perspectives of the report: by example, through the formation of the personnel it is assured the increase of the efficiency of the processes of production; these will generate an increase of the value for the customers that will be felt in the financial performance.

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