



Building Responsibility Centers in Manufacturing Companies in Hanoi

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ABSTRACT:

To survive and develop in the market economy, businesses always seek ways to organize production and business effectively and improve competitiveness. With current achievements in management science, decentralization of management to form responsibility centers in most businesses is inevitable. Responsibility centers play an important role in the production and business activities of large-scale enterprises with high industry competition and clearly decentralized organizational structures. This article aims to understand the awareness of managers of manufacturing companies in Hanoi about the importance and role of responsibility centers. At the same time, find out the current situation of applying responsibility centers in these companies.

KEYWORDS: Responsibility center, manufacturing enterprise, application, importance.

1. INTRODUCTION

To survive and develop in the market economy, businesses always seek ways to organize production and business effectively and improve competitiveness. The success in production and business activities of any enterprise depends on many factors. With current achievements in management science, decentralization of management to form responsibility centers in most businesses is inevitable. Therefore, to organize production and business effectively, businesses need to evaluate the results achieved by responsibility centers as well as the shortcomings, causes, and responsibilities of related departments. This means that businesses need to have a system of evaluation criteria to evaluate responsibility centers appropriately. Especially for large-scale companies, decentralization of management to departments plays a prerequisite for the success in managing production and business activities of the enterprise. A responsibility center is a unit, a department, or a part of an organization in which a manager is assigned specific rights and must be responsible for activities related to the assigned rights.

Thus, responsibility centers play an important role in the production and business activities of large-scale enterprises with high industry competition and organizational structures that have been and are being clearly decentralized and managed. This article aims to learn about the current situation of establishing production and business responsibility centers in manufacturing enterprises in Hanoi, and thereby provide recommendations to help improve the effectiveness of establishing responsibility centers in manufacturing enterprises.

2. THEORETICAL BASIS

According to Anthony, and Govindarajin (2001), a responsibility center is a department in an enterprise that is run by a manager and is responsible for a set of activities of that department. Every manager, no matter how high or low level, is responsible for a responsibility center.

Responsibility centers only exist and are effective if the organization has decentralized management, and responsibility is spread across all levels of management in the organization. Therefore, the main responsibility center is to establish the powers and responsibilities of each department and member and build a system of indicators and reports as a basis for evaluating the performance of the departments, and department managers.

A business has many responsibility centers. A responsibility center may or may not be a legal entity. Responsibility centers exist to accomplish one or more goals. These goals help achieve the overall goals and strategies of the entire enterprise (Hansen, Mowen and Guan, 2009). Each responsibility center uses inputs (raw materials, labor, services...) to create outputs (products, services). The output of a responsibility center can be sold to other responsibility centers within the enterprise or sold externally. The responsibility center manager will be responsible for achieving the optimal relationship between inputs and outputs.

Responsibility centers are formed from the organizational characteristics of each enterprise's operating system and it depends on the characteristics of each specific business industry. Responsibility centers are effective when the financial management mechanism is specifically decentralized to each person and department associated with responsibilities, obligations and rights in each activity. At that time, an organization that decentralizes specific responsibilities for each department: departments, divisions, workshops... associated with financial mechanisms of reward and punishment will be an

important driving force in the organization process. Organize activities with high efficiency. Responsibility centers are formed, managers are more proactive in their decisions, they promote thinking and creativity in specific situations to create new things.

Types of responsibility centers: Most researchers believe that businesses have four types of responsibility centers, including: cost centers, revenue centers, profit centers and investment centers.

Cost center: is where businesses use input resources to create output results. According to Madison (1979), "a cost center is a type of management responsibility center where costs are evaluated and effectively controlled on the basis of determined standards". According to the view of ACCA (2010), "a cost center is a type of management responsibility center in which the administrator only controls costs, not revenue and investment capital". According to Fowzia's (2011) view, "a cost center is a type of management responsibility center where the administrator only controls the costs incurred".

Revenue center: revenue center is one of the important responsibility centers because revenue from this center is used to offset costs, reproduce... According to ACCA's (2010) opinion, "revenue center Revenue is a type of responsibility center where the head is responsible only for revenue. According to Fowzia's (2011) view, "revenue center is a type of responsibility center where managers control and maximize revenue".

Profit center: Profit is the goal of any business, so controlling profits is always a top priority for businesses. In most businesses that apply responsibility accounting in management, the profit center is always considered the main center. According to Madison (1979), "a profit center is a center of responsibility whose head is responsible for increasing profits from the activities he or she is responsible for controlling". According to the view of ACCA (2010), "a profit center is a responsibility center whose members are responsible for both costs and revenues from the products and services they provide". According to Fowzia's (2011) view, "a profit center is a responsibility center whose Manager is responsible for the profits of the divisional units".

Investment center: According to the view of ACCA (2010), "investment center is the responsibility center in which administrators and employees control costs, revenues and investment levels". According to Fowzia's (2011) view, "an investment center is a responsibility center whose administrator is responsible for the profits of its divisions and investment capital sources to create profits".

3. RESEARCH METHODS

The research method is carried out by combining qualitative and quantitative research.

Qualitative research aims to learn about assessing the importance of responsibility centers for administrators. And the level of understanding of the administrator about the functions of establishing a responsibility center. Qualitative research is used through in-depth interview techniques. The interviewed subjects were 10 directors and deputy directors at manufacturing enterprises in Hanoi.

Quantitative research to evaluate the level of application of various types of responsibility centers in businesses. Done through the following 3 steps:

Step 1: We build a questionnaire on Google Forms, send it to accountants and business managers via email using a convenient sampling method, and send it to friends, relatives, and partners. ...

Step 2: The number of survey questionnaires distributed was 150, sent to 150 enterprises, and the number of votes collected was 130 from 130 enterprises, reaching 86.6%. All receipts met the required information requirements.

Step 3: We analyze the data on SPSS 22 software with the following tools: Frequency statistics, mean statistics, and mean difference analysis One-Way ANOVA

The questions in the survey apply the 5-point Likert scale: 1- Strongly disagree; 2 - Disagree, 3 - Normal, 4 - Agree, 5- Strongly Agree.

4. RESULTS

Descriptive statistical results of manufacturing enterprises in Hanoi

Of the 150 businesses sent survey forms, the research team received responses from 130 businesses with 130 valid survey forms.

Regarding business type: There are 92 companies (71%) are joint stock companies and 38 companies (29%) are limited liability companies.

Regarding the scale of business capital: There are 105 companies (accounting for 81%) with business capital of less than 20 billion VND, 19 companies (accounting for 15%) with business capital from 20 to 100 billion VND and 06 companies (accounting for 5%) surveyed have business capital exceeding 100 billion VND.

Regarding the size of the number of employees: There are 26 companies (accounting for 20%) with less than 10 employees, 73 companies (accounting for 56%) have employees from 10 -200 people, 25 companies (accounting for 19%) has a workforce of 200 -300 people, and 6 companies (accounting for 5%) have a workforce of over 300 people.

Table 1. Characteristics of surveyed enterprises

Characteristics		N = 130	Percentage (%)
Type	Joint Stock Company	92	71%
	Limited liability company	38	29%
Number of employees	< 10 persons	26	20%
	10- 200 persons	73	56%
	200-300 persons	25	19%
	> 300 persons	6	5%
Capital	< 20 billion VND	105	81%
	20 – 100 billion VND	19	15%
	> 100 billion VND	6	5%

Through statistical data, if we classify enterprises as large, medium, and small according to Decree 56/2009/ND-CP, the majority of enterprises operating in the manufacturing sector have small and medium-scale capital.

Recognize the importance and functions of responsibility centers in manufacturing enterprises in Hanoi

The results of interviews with subjects showed that: All interview subjects believed that responsibility centers are an important management tool. However, many interview subjects did not understand all the functions of responsibility centers. In the 10 interviews, the main ideas are summarized as follows:

"In my opinion, establishing a responsibility center is important, especially in businesses with clear decentralization. My company established a responsibility center, and used a system of indicators to evaluate the responsibility center." (Director, interview)

Through information from the responsibility center, the performance of departments will be evaluated." (Director, interview)

"My company has established a responsibility center, but has only established a cost center and a profit center. The aim is to control costs incurred and measure profits." (Director, interview) "Responsibility centers are quite important to my company. Thanks to the responsibility center, it is possible to evaluate the efficiency of departments and the performance of managers. Thereby building a suitable reward regime for employees." (Director, interview)

Current status of applying responsibility centers in manufacturing enterprises in Hanoi

At manufacturing enterprises in Hanoi, four types of responsibility centers are being used but with different levels. According to statistical results, cost centers are used the most by businesses with a mean of 4.19%, followed by profit centers with a mean of 3.99%, and investment centers with a mean of 3.78%. Revenue centers alone are applied the least with a mean of 3.49%.

Table 2. Current status of responsibility center application

Code	Responsibility center	Mean
RC 1	Cost center	4.19
RC 2	Revenue center	3.49
RC 3	Profit Centers	3.99
RC 4	Investment center	3.78

According to survey results on the current status of responsibility center application compared to enterprise size, there are differences between enterprises of different sizes. Businesses with 200 or more employees have a higher level of application of responsibility centers than businesses with less than 200 employees. For businesses with over 300 people, the level of use of responsibility centers is almost 100%. Similarly, when comparing capital size, the level of use of responsibility centers in enterprises with capital of 20 billion VND or more is higher than in enterprises with capital of less than 20 billion VND.

Table 3. Current status of responsibility center application compared to the number of employees

Responsibility center	Number of employees	N	Mean	Responsibility center	Number of employees	N	Mean
Cost center	< 10 persons	26	3.15	Revenue center	< 10 persons	26	3.10
	10- 200 persons	73	4.05		10- 200 persons	73	4.20
	200-300 persons	25	4.90		200-300 persons	25	4.65
	> 300 persons	6	4.90		> 300 persons	6	5.00
Investment center	< 10 persons	26	3.31	Profit Center	< 10 persons	26	3.50
	10- 200 persons	73	3.52		10- 200 persons	73	3.55
	200-300 persons	25	4.88		200-300 persons	25	4.69
	> 300 persons	6	5.00		> 300 persons	6	5.00

Table 4. Current status of applying responsibility centers compared to capital resources

Responsibility center	Capital	N	Mean	Responsibility center	Capital	N	Mean
Cost center	< 20 billion VND	105	3.58	Revenue center	< 20 billion VND	105	3.85
	20 – 100 billion VND	19	5.00		20 – 100 billion VND	19	4.79
	> 100 billion VND	6	5.00		> 100 billion VND	6	5.00
Investment center	< 20 billion VND	105	3.32	Profit Center	< 20 billion VND	105	3.53
	20 – 100 billion VND	19	4.85		20 – 100 billion VND	19	4.84
	> 100 billion VND	6	5.00		> 100 billion VND	6	5.00

Thus, the majority of manufacturing enterprises in Hanoi have formed responsibility centers in management, but the number of companies that have formed all 4 responsibility centers is not many. This is related to the organizational structure as well as the size of the enterprise. Normally, large-scale enterprises have all the conditions to form enough responsibility centers.

5. CONCLUSION

Qualitative research results show that most managers of manufacturing enterprises in Hanoi are aware of the importance of responsibility centers in enterprise management activities. However, managers also admit that responsibility centers have not been fully understood and fully applied in businesses. Currently, for managers of manufacturing enterprises in Hanoi, only two responsibility centers have been established: cost center and profit center.

Quantitative research results show that manufacturing enterprises in Hanoi have been establishing responsibility centers. However, the degree of application of different types of responsibility centers has clear differences. Most large-scale enterprises have formed four responsibility centers. In each responsibility center, the center manager is assigned authority and responsibility associated with the assigned authority. This is proven through survey results. Furthermore, the survey shows that these companies delineate the departments belonging to each management responsibility center very specifically - in other words, most large-scale companies implement relatively clear management decentralization. This is the basic premise for determining appropriate and correct criteria for evaluating management responsibility centers.

To form responsibility centers and evaluate the performance of responsibility centers as well as evaluate the achievements of responsibility center managers, the author proposes a number of solutions:

Firstly, perfect the organizational structure of the management apparatus. Companies need to review their organizational structure, governance regulations, and financial regulations to adjust and supplement deficiencies in the direction of clear and transparent assignment and responsibility for each responsibility center.

Second, clearly decentralize responsibilities in departments. These companies need to develop and promulgate governance regulations, financial regulations, restructure the organizational structure, and implement clear assignments and responsibilities for each specific department according to the public nature.

Third, garment enterprises in Hanoi City need to organize responsibility centers as follows: Cost centers: Based on cost classification by function, detailed by department, production creating a basis for calculating product costs, determining non-production costs and finally determining the business results of the Corporation. Cost centers are divided into 3 groups: Production block cost centers; Business block cost center; and Management block cost center. Revenue center: Collected from actual revenue generated in business departments such as branches and stores. Profit centers: Are subsidiaries, affiliated companies, branches, stores in which profit centers are associated with each level of management, responsible for the production and consumption results of the investment center: A center where the center's administrator not only manages costs and revenue but also decides the amount of capital used to realize the goals.

Fourth, develop an appropriate and timely reward regime for individuals and departments who complete their work well. After having department reports and a system of indicators to evaluate performance, garment enterprises need to establish an incentive and reward system related to the results achieved by the responsibility center.

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