

## The Actual Situation of Building Responsibility Centers at Garment Enterprises in Hanoi



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**ABSTRACT:** The trend of the economy is increasingly opening, garment enterprises have many opportunities but also many challenges. In order to enhance competitiveness in the market, garment enterprises need to decentralize management and management rights. When departments in an enterprise have a clear hierarchy, managers at all levels are assigned responsibility and evaluated on their achievements, then the department is formed as a responsibility center. Building a system of criteria to evaluate the performance of responsibility centers is how senior managers realize the strategic goals of the enterprise. Enterprise administrators understand that the importance of responsibility centers is just the beginning, building and operating responsibility centers to achieve the highest control efficiency is a challenge for business administrators in general and garment enterprises in Hanoi in particular. Therefore, studying the actual situation of building responsibility centers is the actual need of garment enterprises in Hanoi.

**KEYWORDS:** Responsibility Center, Garment Enterprise, Hanoi.

### 1. INTRODUCTION

In order to survive and develop in the market economy, businesses are always looking for ways to organize production and business effectively and improve their competitiveness. With the current achievements in management science, the decentralization of management to form responsibility centers in most businesses is inevitable. Therefore, to organize production and business effectively, enterprises need to decentralize, decentralize and form responsibility centers. The garment industry is an important manufacturing industry that contributes to the economic development of Vietnam. For a long time, the industry's average export growth was 20% per year, contributing from 16% to 18% of the total industrial value of the country, accounting for about 15% of the total export turnover, and creating jobs for more than 2 million workers. In the industrial development plan for 2020–2030, the garment industry continues to be an important industry in the industrial structure of Vietnam. The trend of the economy is increasingly opening, garment enterprises have many opportunities but also many challenges. Enhancing competitiveness in the market requires garment enterprises to develop not only financial but also non-financial strategies. To do this, businesses need to build responsibility centers in line with their development strategies. And at the same time, build a system of criteria to evaluate the performance of responsibility centers. Therefore, studying the actual situation of building responsibility centers in enterprises is a practical need for many garment enterprises in Hanoi.

### 2. LITERATURE REVIEW

#### Responsibility Center

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

A business has multiple responsibility centers. The liability center can be a legal entity or not a legal entity. Responsibility centers exist to accomplish one or more goals. These goals help to achieve the overall goals and strategies of the whole enterprise. (Hansen, Mowen, and Guan, 2009).

## The Actual Situation of Building Responsibility Centers at Garment Enterprises in Hanoi

Each responsibility center uses inputs (raw materials, labor, services, etc.) to create outputs (products, services). The output of a responsibility center can be sold to another responsibility center within the business or sold externally. The responsibility center manager will be responsible for achieving an optimal relationship between inputs and outputs.

The responsibility center is formed from the organizational characteristics of the operating apparatus of each enterprise and depends on the characteristics of each specific business line. The responsibility center comes into play when the financial management mechanism is specifically decentralized to each person and each department associated with responsibilities, obligations, and interests in each activity. At that time, an organization that decentralizes specific responsibilities for each department: department, department, workshop, etc. associated with the appropriate financial reward and sanctioning mechanism will be an important driving force in the organizational process to organize activities with high efficiency. Responsibility centers are formed, managers are more active in their decisions, and they promote thinking and creativity in specific situations to create new ones.

### Types of responsibility centers in manufacturing enterprises

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

*Cost center:* According to Madison (1979), "a cost center is a type of management responsibility center in which costs are effectively evaluated and controlled based on defined criteria." ACCA (2010) has stated that "a cost center is a type of management responsibility center in which managers only control costs, not revenue and investment capital". According to Fowzia (2011), "a cost center is a type of management responsibility center in which the manager controls only the costs incurred".

*Revenue center:* According to ACCA (2010), "A revenue center is a type of responsibility center where the head is solely responsible for revenue". According to Fowzia (2011), "Revenue center is a type of responsibility center where managers control and maximize revenue". Basically, the central administrator will be primarily responsible for revenue. In fact, there are some revenue centers that also control prices, the structure of consumables, etc. Revenue centers are associated with stores, points of sale, and expenses incurred at their department.

*Profit center:* In Madison's (1979) view, "A profit center is a responsibility center whose head is responsible for increasing profits from activities over which he or she is responsible." According to ACCA (2010), "A profit center is a responsibility center where members are responsible for both costs and revenues from the products and services they provide". According to Fowzia (2011), "A profit center is a responsibility center whose manager is responsible for the profitability of its divisions".

*Investment center:* According to ACCA (2010), "An investment center is a responsibility center in which managers and employees control costs, revenues and investment levels". In the same view, Fowzia (2011) stated, "An investment center is a responsibility center whose administrator is responsible for the profits of the divisions and the sources of investment capital to make that profit".

According to Sarkar and Yeshmin (2005), up to 33% of enterprises have four types of responsibility centers, and 30% of enterprises have three types of responsibility centers (cost centers, profit centers, and investment centers). These two authors argue that the existence of three or four types of responsibility centers depends on the size and needs of the business. Whether businesses have three or four types of responsibility centers, the important things are still operational efficiency and the determination to pursue the management method they have chosen. In fact, the application of the responsibility center evaluation criteria system since 1980 has received more attention from businesses. Research by Firth (1996) shows that 92% of enterprises in state-owned enterprises and 36% of enterprises in other types of enterprises assess cost center responsibility by applying the comparative method and elimination methods to control costs and reduce product costs. Research by Nanjing (2001) shows that the criteria for assessing responsibility levels in responsibility centers by individual level is 37%, working group level is 33%, and factory level is 22%. The most important criteria for evaluating cost centers is the difference between actual costs and estimates, investment centers are EVA, ROI, and RI. A study by Biddle et al. (1998) evaluated the use of EVA and confirmed that EVA became a common measure, representing the tendency of businesses to emphasize the increase in shareholder benefits, and this indicator is used to increase exponentially. Thus, the system of responsibility center evaluation criteria has been applied more and more by companies, and the combination of financial and non-financial criteria to evaluate the responsibility center is becoming more and more popular around the world.

### 3. RESEARCH METHOD

Quantitative research aims to assess the level of establishment of responsibility centers and the use of indicators to evaluate performance in enterprises. This is done in three steps:

## The Actual Situation of Building Responsibility Centers at Garment Enterprises in Hanoi

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 140, sent to 140 enterprises, and the number of votes collected was 120 from 120 enterprises, reaching 85.7%. All receipts met the required information requirements.

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

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

### RESEARCH SAMPLE

In the study, the author applies a stratified sampling method to divide the research population into different subgroups, satisfying the criteria that the elements in the same group have high homogeneity and the elements between groups have high homogeneity and high heterogeneity. The overall study is divided into two groups: (1) large enterprises; (2) small and medium enterprises. The size of large, medium and small enterprises is based on the number of employees of the enterprise according to Decree 39/2018/ND-CP guiding the Law on Supporting Small and Medium Enterprises. Accordingly, enterprises with fewer than 200 employees are classified as small and medium-sized enterprises. Enterprises with employees of 200 people or more are classified as large-scale enterprises and large-scale enterprises.

**Table 1. The survey sample**

Enterprises	Number of enterprises sending survey questionnaires	Number of enterprises responding to survey questionnaires	Number of survey questionnaires sent	Number of survey questionnaires received
Large enterprises	21	18	42	36
Small and medium enterprises	49	42	98	84
Total	70	60	140	120

## 4. RESULTS

### Enterprise size

The author has sent questionnaires to 70 enterprises with 140 survey questionnaires, the results received information about 60 enterprises with a total of 120 survey votes are 120. According to the survey results, out of 60 enterprises, there are 16.7% joint stock companies, and 83.3% limited companies. This result also shows that the number of limited companies accounts for a large proportion of the textile industry in Hanoi.

**Table 2. Characteristics of surveyed enterprises**

Characteristics		N = 120	Percentage (%)
Type	Joint Stock Company	20	16.7
	Limited liability company	100	83.3
Number of employees	< 10 persons	4	3.3
	10- 200 persons	73	60.8
	200-300 persons	23	19.2
	> 300 persons	20	16.7
Capital	< 20 billion VND	76	63.3
	20 – 100 billion VND	32	26.7
	> 100 billion VND	12	10.0

Regarding the results of business capital, the number of enterprises with capital below 20 billion accounted for a large proportion (with a rate of 63.3% of enterprises), enterprises with capital scale from 20 billion to 100 billion had 32 enterprises with a rate of 26.7%, enterprises with capital over 100 billion accounted for 10%. According to the survey results on the number of employees,

## The Actual Situation of Building Responsibility Centers at Garment Enterprises in Hanoi

3.3% of companies have fewer than 10 employees, 60.8% of companies have 10-200 employees, 19.2% of companies have 200-300 employees, and only 16.7% have over 300 employees.

In terms of enterprise size, the author finds that there are similarities in the survey results between the two groups of enterprises. The group of enterprises with a capital scale of less than 20 billion (accounting for 63.3%), had similar results to the group of enterprises with a number of employees under 200 (accounting for 64.1%). Similarly, the group of enterprises with a large capital scale of over 2 billion (ratio of 36.7%) is similar to the group of enterprises with over 200 employees (ratio of 35.9%).

### Organization of the management apparatus and decentralization of management

According to the survey results, the organizational structure of garment enterprises is divided into two types: Online-based organizations and online-functional organizations. The number of companies organized by the online model is 1.5 times greater than the number of companies that organize according to the online-functional model. The number of companies organized under the online model (accounting for 60%), 40% of the number of garment companies in Hanoi organize their management apparatus according to the online-functional model.

**Table 3. Management hierarchy**

Characteristics		N = 120	Percentage (%)
Organizing Committee	Online-based organizations	72	60.0
	Online-functional organizations	48	40.0
Management hierarchy	No responsibility center organization	18	15.0
	Organized responsibility center	102	85.0

Survey results show that 85% of garment companies decentralize organizations into responsibility centers, and only 15% of companies do not organize into responsibility centers. This shows that most of the garment enterprises in Hanoi city have started to form responsibility centers, however, the level and number of responsibility centers at companies are different.

### Purpose of establishing a responsibility center

The survey results show that garment enterprises in Hanoi are most interested in the goal of effective control with a selection rate of 45%. This is also a basic goal in the responsibility accounting system, forming responsibility centers, through which to evaluate the performance of departments, the management efficiency of managers, and more control performance. With the goal of decentralization and division of responsibilities, 31.7% of enterprises choose, this shows that senior managers have a desire to delegate certain powers to divisional managers, and responsibility is attached to rights assigned execution. Only 8.3% of garment enterprises choose the goal of establishing a responsibility center to concretize the strategy.

**Table 4. Purpose of establishing a responsibility center**

Purpose of establishing a responsibility center		N = 102	Percentage (%)
	Concretize strategy	10	8.3
	Decentralization	38	31.7
	Effective control	54	45.0

### Delegation of authority, division of responsibilities

At garment enterprises in Hanoi, the division of responsibility centers and decentralization and division of responsibility for responsibility centers are based on two main criteria: Based on the charter and production and business characteristics of the company, which accounted for 18.3%, based on the company's charter, management regulations and production and business characteristics, accounted for 66.7%. Most garment enterprises attach importance to governance regulations, which are also the main basis for dividing responsibility centers and decentralizing authority to administrators in the responsibility center.

**Table 5. The basis of division of responsibility centers**

The basis of division of responsibility centers		N = 102	Percentage (%)
	Charter, production and business characteristics	22	18.3
	Charter, production and business characteristics, management regulations	80	66.7

## The Actual Situation of Building Responsibility Centers at Garment Enterprises in Hanoi

### Responsibility Center

Out of a total of 102 responses about enterprises forming responsibility centers, up to 13.7% only formed cost centers and profit centers (usually small-sized enterprises), 66.7% formed all 3 responsibility centers (cost center, profit center and investment center), the remaining 19.6% formed all 4 responsibility centers (cost center, profit center, revenue center and investment center).

**Table 6. Responsibility Center**

Responsibility Center	N = 102	Percentage (%)
Cost center, profit center	14	13.7
Cost center, profit center, investment center	68	66.7
Cost center, profit center, investment center, revenue center	20	19.6

Thus, most of the garment enterprises in Hanoi city have established responsibility centers in management and control, but the number of companies forming all four responsibility centers is not much. This is related to the organizational structure as well as the size of the enterprise, usually large-scale enterprises have enough conditions to form enough responsibility centers.

### Use evaluation criteria

For the basic criteria to evaluate the results of production and business activities of enterprises, the author chooses to study the use of cost, revenue, profit, and ROI assessments.

The most commonly used groups of indicators include the assessment of direct material cost differences (mean 4.02), revenue differences (mean 4.28), and profit differences (mean 4.25). This shows that garment enterprises in Hanoi are interested in the performance results shown in the revenue and profit targets. With business characteristics in the garment industry, the cost of raw materials accounts for a large proportion, and for all products, the norm of raw materials is built, so business managers are interested in actual raw material cost data incurred and the estimated cost of raw materials, to assess the level of control of material costs in the enterprise.

The remaining group of indicators, including: Direct labor cost difference, direct manufacturing overhead difference, and ROI are used as indicators of business performance, but the level of use is lower. The indicator of difference between direct labor costs and direct manufacturing overheads used by enterprises is similar with mean values of 3.97 and 3.98, respectively. The level of use of the ROI assessment criterion is at its lowest level (mean 3.69).

**Table 7. Level of use of evaluation criteria**

Cod	Evaluation criteria	Mean
EVA1	Direct material cost difference	4.02
EVA 2	Direct labor cost difference	3.97
EVA 3	Direct manufacturing overhead difference	3.98
EVA 4	Revenue difference	4.28
EVA 5	Profit difference	4.25
EVA 6	ROI	3.69

### Compare the level of use of assessment criteria in enterprises with established and not established responsibility centers

To evaluate the difference in the level of use of assessment criteria in enterprises with established and not established responsibility centers, the author has compared groups. According to this result, in all evaluation criteria, the level of use in enterprises that organize management according to responsibility centers is greater than that in those that do not form responsibility centers. Specifically, for the indicator of the difference in direct material costs, the mean of use in the group of enterprises that established a responsibility center is 4.25, in the group of enterprises without a responsibility center, the mean is 2.72. The level of use of the indicator of direct labor cost difference is similar between the two groups of enterprises with a mean of 3.83 and 3.99, respectively. Indicators of direct manufacturing overhead difference and cost difference, revenue difference, and profit difference have a significant difference in the level of use, in the group of enterprises that have established a responsibility center, the mean times are 4.01, 4.4, and 4.38 respectively, while in the group of enterprises that do not have a responsibility center, the mean is 3.83, 3.56 and 3.5, respectively.

## The Actual Situation of Building Responsibility Centers at Garment Enterprises in Hanoi

**Table 8. Compare the level of use of assessment criteria in enterprises with established and not established responsibility centers**

Evaluation criteria	Responsibility Center	N	Mean	Evaluation criteria	Responsibility Center	N	Mean
EVA 1	NO	18	2.72	EVA 4	NO	18	3.56
	YES	102	4.25		YES	102	4.40
EVA 2	NO	18	3.83	EVA 5	NO	18	3.50
	YES	102	3.99		YES	102	4.38
EVA 3	NO	18	3.83	EVA 6	NO	18	2.11
	YES	102	4.01		YES	102	3.97

### Compare the level of use of evaluation criteria in enterprises by business size

Besides assessing the level of use of assessment criteria by subgroups with or without the formation of a responsibility center, the author compares the level of use of evaluation criteria by business size. The group of small and medium-sized enterprises (whose number of employees is less than 200) has a lower level of use of evaluation criteria than the group of large-scale enterprises (whose number of employees is greater than 200).

**Table 9. Compare the level of use of evaluation criteria in enterprises by business size**

Evaluation criteria	Number of employees	N	Mean	Evaluation criteria	Number of employees	N	Mean
EVA 1	1-200 persons	77	3.87	EVA 4	1-200 persons	77	4.05
	> 200 persons	43	4.28		> 200 persons	43	4.67
EVA 2	1-200 persons	77	3.79	EVA 5	1-200 persons	77	4.04
	> 200 persons	43	4.28		> 200 persons	43	4.63
EVA 3	1-200 persons	77	3.86	EVA 6	1-200 persons	77	3.27
	> 200 persons	43	4.21		> 200 persons	43	4.44

## 5. CONCLUSION

### Large-scale garment enterprise

Through the research results, the author found that large-scale garment enterprises in Hanoi had decentralized management, thereby forming responsibility centers. Most large-scale enterprises have established four responsibility centers. In each responsibility center, the center manager is assigned rights and responsibilities associated with the assigned authority. This is proven by the survey results. Furthermore, the survey shows that these companies have very specific divisions within each management responsibility center; in other words, most large-scale companies implement relatively clear management decentralization. This is the basic premise for determining the appropriate and correct management responsibility center evaluation criteria.

Through the survey results of the use of indicators to evaluate the performance of garment enterprises in the area of Hanoi on a large scale, the study shows that there are indicators that are used by garment enterprises are used on a regular basis to evaluate performance, but the business itself does not really attach importance to those indicators, such as profitability ratios. These are the traditional indicators of performance evaluation.

### Small and medium-sized garment enterprises

Through the survey results, the author found that small and medium-sized garment enterprises have not had much access to the responsibility center. Although business managers have a considerable understanding of responsibility accounting, as well as a clear understanding of the purpose of forming responsibility centers. Small and medium garment enterprises have set out a strategy to expand the domestic market, focusing on attracting skilled workers, but the evaluation of the performance of the divisions has not been properly established. This shows that the organization and management hierarchy is not clear, and administrators will encounter certain obstacles when evaluating responsibility centers. In addition, some companies decentralize management according to narrow governance, while medium-sized companies will have many levels of management and many responsibility centers, which are cumbersome and inefficient.

Regarding the evaluation criteria system, small and medium-sized garment enterprises still have certain shortcomings. The number of indicators is not much, focusing on financial indicators, evaluating them based on available data from accountants. Many

## The Actual Situation of Building Responsibility Centers at Garment Enterprises in Hanoi

businesses do not use non-financial indicators to evaluate them. The quality of indicators is standard, available, and does not fully represent the actual operation situation at the enterprise, so the results of these indicators are not a reliable basis for managers to evaluate the effectiveness in the division, as well as the performance of managers during the business period.

Thus, with the results of research on the actual situation of establishing responsibility centers and using indicators to evaluate performance in garment enterprises in Hanoi, it can be seen that these enterprises responsibility centers have been established and criteria have been developed to evaluate performance. However, the targets mentioned are those in the financial aspect. These are indicators taken from accounting information, so only the results are evaluated and do not reflect the future of the business.

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