

# The Efficiency and Effectiveness of the Managerial Methodological System

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## Abstract

*The main objective of this manuscript is to present a perspective on two characteristics of the methodological component of the management system – its efficiency and its effectiveness. Multiple measures of these characteristics are presented within the paper. In addition to this, we have highlighted the most important ties between the instruments that compose this subsystem and the economical performances that can be obtained through their promotion, establishment and usage within an organization. The analyzed instruments include major management systems (like management based on profit centres, management by objectives and others) and the most used methods: the diagnostic method, the dashboard method, the delegation method. All of these instruments have certain effects on the economic and financial situation of a firm, effects that are highlighted within this paper.*

**Keywords:** *management system, managerial methodological system, efficiency, effectiveness, managerial performances, economic performances*

**JEL classification:** M10, M12.

## Introduction

Performance, as a management and economic concept, can only be addressed in the context of two other important concepts for managerial and economical theory – efficiency and effectiveness.

The national and international scientific literature offers multiple definitions for these concepts, varied in form, but almost identical in terms of content. We will refer to some of these in the following paragraphs.

According to the Le Petit Larousse encyclopaedic dictionary (Le Petit Larousse, 1995), efficiency is defined as “the capacity of performance yield”, while effectiveness is defined as “the quality of an objects or of a person that is effective”. Performance is “the result of the execution of a certain task”.

The Concise Oxford Dictionary (1999, p. 1060) defines performance as “the proportion or the extent in which an investment is profitable”.

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Developing the subject, we could affirm that the management of a company is characterized by performance, if it is capable of generating profit or if it is useful. We must mention that profit is not necessarily translated as a financial benefit. In other words, profit means a win, a form of usage, a benefit or, as political economy goes, a form of added value – so, it can have a diverse nature: financial, social, environmental and others.

Therefore, performance translates as the obtained profit – the result of an action, while performance evaluation as appreciation of the added or gained value (Burz, 2010).

Y. Mougin (2007, p. 82) states that:

- An organism exists through its finality or goal;
- Performance is expressed by achieving this finality (effectiveness) and compared to the resources used for this purpose (efficiency);
- An organism (process or individual) can only have a single finality, a single target; performance can only be expressed in relation to this single finality;
- Effectiveness is the ability of an organism or of a process to produce the expected effect; it is an absolute value;
- Efficiency is the ability to produce the expected effect, by optimizing the use of resources; it is a relative value;
- Performance is the sum of effectiveness and efficiency.

Another French specialist, Didier Noye (2002, pp. 5-11), states that performance is “achieving the goals (that the organisation has set), in convergence with the enterprise guidelines”. In defining performance objectives, it is necessary to consider the following elements:

- The results expected by customers;
- The past results, that we wish to improve;
- The results obtained by competitors, that we wish to achieve and/or to overcome;
- The results associated to a project and to the ambitions of the company.

In the same context, effectiveness is explained through “achieving the desired results”, while efficiency is explained through “achieving the desired results, minimizing the consumed resources”.

At a methodological system level, a system embodied into managerial tools (managerial systems, methods and techniques) and into the methodologies of design/redesign and maintenance of management and its major components, effectiveness and efficiency have specific features. These features are generated by the decisive role of this system, that is to add a scientific aspect to the work of managers on different hierarchical positions, but also by the progress in this area in recent years. According to Professor Ion Verboncu (Nicolescu, Verboncu, 2000, pp. 89-96), the two defining concepts have the following significance:

- The efficiency of the methodological system lies within the development, the promotion and the use of the managerial instruments and of managerial methodologies “in a proper manner”, meaning the quantifiable and qualitative effects must be superior to the efforts involved;

- The effectiveness of this system implies the development, the promotion and the use of managerial instruments and of managerial methodologies “that are suited”, that obtain results and satisfy the objectives and the requirements of managers and performers.

Therefore, we can invoke the efficiency and the effectiveness of the managerial instruments and of the methodological elements used in management for the development of complex actions of rationalization/modernization/improvement or managerial redesign, on a global or partial scale.

Efficiency can be approached as efficiency in a narrow or broad meaning and as efficiency that is quantifiable or not.

### **1. The efficiency and the effectiveness of the methodological system**

In a narrow approach, efficiency involves determining the effort implied by the design, the implementation and the usage of management systems, methods and techniques or of managerial methodologies. It also implies the determination of the effect within the managed domain, the comparison of effort and effect resulting into efficiency or inefficiency. There are major difficulties in quantifying all of the perspectives of the design and the operation of a managerial component like the one described.

In a broader approach, efficiency considers the efforts and the effects linked to the operation of a organisation as a whole, the methodological system detaining a major role in amplifying its functionality, efficiency and effectiveness. A performing management is not possible without a modern, dynamic methodological component, that must facilitate a managers’ work, reflected in the usage of management processes.

Efficiency that is quantifiable is a direct efficiency – with a focus on the synthetic highlighting of direct results associated to the rationalization/modernising/improvement or to the managerial methodological redesign – and an indirect efficiency – shown by the indirect results determined by such movements within this managerial component. Efforts are considered to be following ones:

- Labour expenses, required by the speciality personnel within the organization that assures (the design and) the promotion of managerial instruments and of managerial methodologies;
- Expenses with management consultants, when such services are provided by consultants of this type;
- Expenses with consumables and other indirect costs;
- Expenses with investments (purchase of PCs, servers and of other equipments needed for the computerization of complex managerial instruments usage, based on rigorous methodological fundamentals).

The effects gain the following significance:

- Profit gains, obtained by the whole organization, due to the resizing of unitary costs and of the selling prices for sold products/services;

- Income gains (turnover), in terms of creating and taking advantage of selling opportunities – markets and selling or supply prices;
- Absolute and relative economy of management and execution positions;
- Total cost economy;
- Absolute reductions of the time budgets of managers;
- Superior levels of efficiency indicators, like: labour productivity, expenses for 1.000 lei turnover, rates of return, level of computerization for management and execution processes.

In regards of efficiency that cannot be quantified, the most relevant aspects of this dimension of efficiency refer to:

- Determining the usage of certain characteristics related to order, discipline and rigor within the managed domain and within the organization as whole. This is realised through the promotion of evolved management instruments and of rigorous methodological elements, able to offer a remarkable element for professional managers;
- The assurance of favourable conditions for the rapid transfer towards a participative management, that will permit the active and responsible involvement of managers and performers to the settings and realization of objectives;
- The creation of favourable conditions for the unfolding of entrepreneurial spirit of managers and performers. Through this, the rapid, contextual solving of the organizational problems is facilitated;
- The creative potential of personnel in regards of decisional and operational problem solving is more intensively used;
- The development of a work climate that is optimal for performance, through the correct delimitation and dimensioning of tasks, at a position level, but also through the adequate accountability of the persons occupying these positions, tied with the consequences of their decisions;
- The amplification of the predictive dimension of management, in which the organizational problems are approached by setting realist objectives, by setting decisional and operative priorities at the managers level and by implying accuracy and realism characteristic to these actions;
- The assurance of a pronounced scientific dimension of management, through the promotion of design, operation and redesign methodologies for it and its components and the correct usage of these methodologies;
- It facilitates the redesign of the organizational management as a whole, of the quality of managements instruments and of decisional, informational and structural redesign methodologies. The functionality and performances of these managerial components are dependent of the functionality of the methodological system, situated in the “downstream” of them.

Effectiveness has also some peculiarities for this component of the management system, among which we can find the following ones:

- In the area of managerial instruments, the promotion and usage of the needed management systems, methods and techniques is very important,

especially of those that highly contribute to the realization of objectives set for the managed domain. The orientation towards “modern” systems, methods and techniques, just for the sake of it, with a high investment, is, from multiple perspectives, disadvantageous on a long term;

- Secondly, the exactly opposed situation can develop. System, methods and techniques that are recommended for an organization, in certain situations, are introduced and used. This action is effective, but the obtained effects, even if they are indirect, cannot overcome the involved efforts. We can state that such an approach is not efficient.

## **2. Methodological system – economical performances correlations**

The impact of the usage of these management instruments on the economic and financial situation of the firm, on its economical performances is reflected in:

- Recording higher levels of direct and indirect economic efficiency;
- Recording higher levels of the quantifiable efficiency;
- In the meanwhile, the results of certain quantitative objects are also influenced (physical production, turnover, profit, production costs and other).

As an example, we will continue by presenting the implications of the most complex management system – management based on profit centres – upon firm-level economical performances.

The managerial performances determined by the usage of this management system (Verboncu, Zalman, 2005) “cause”, as mentioned before, the development of firm-level and subdivision economical performances. It cannot be disputed that this complex and sophisticated management instrument assures the achievement of remarkable results, compared to the assumed objectives, but also to the situation in which this system would not be used.

- The first and the most influenced economic indicator – considered a performance indicator by us – is the unitary and total cost of production. If, on an overall perspective, the costs do not modify, at a product/service level they have new dimensions, given by the cost-hour-production system (SCOP). This system implies the usage of calculation methods for costs different from the ones used in the command-based method or in other classical methods of calculation. The correct value of unitary costs allows a realist determination of the unitary profit and of the profitability of each product/service. Knowing unitary costs and profits allows taking well-based decisions on the assortment structure, by amplifying the production of profitable products, if the market allows this. Through this, the company can be cost-effective and profitable, the rate of renewing the product assortment is amplified and profit centres can highly address their own processes of obtaining efficiency.
- Another highly influenced indicator is labour productivity. The management of profit centres and of the whole organization have high

interests in the realist dimensioning of personnel needs, based on the assumed objectives, on the volume and complexity of work processes needed for the realization. The need for a certain number of positions, correctly determined, determines a certain number of employees, determined as able to fulfil the needs of efficiently operating these positions. The gains of productivity, generated by these actions and by the increases in incomes (turnover), are obvious.

- The establishment and the operation of management centres (cost centres and profit centres) allow the identification, setting and following of economic objectives and results. We firstly refer to the assumed and realized profit for each management centre, but also to other indicators of economic performances – costs, rates of return, labour productivity, turnover (when this is possible) and other indicators.
- Economic and managerial decentralization, coupled with the increase of decisional and operative autonomy of management centres, is the premise of collaboration between realist norms and regulations and, based on this, of certain managerial performances. The establishment of the cost for an hour of production is consider another reason for amplifying competition between management centres, within the firm. Meanwhile, this indicator is also an important measure of costs and of highlighting deviations from normative costs (Pintilie, 1980).

The mean through which influences of the management based on profit centres on the economical performances are highlighted allows approaching even more correlations between management instruments and economic performances, as follows.

**Table 1 Influences of management instruments on economical performances**

Item no.	Management instrument	Influences on economical performances
0	1	2
1.	Management by objectives	<ul style="list-style-type: none"> <li>• The rate of realizing the set objectives, expressed through quantitative and qualitative indicators;</li> <li>• The unitary costs undergo changes, as methods of calculations different from the ones used before the implementation of this system are not used;</li> <li>• A better contribution of certain structural divisions to the achievement of assumed level of economic efficiency, though the breakdown of objectives in: fundamental, derived, specific and individual objectives;</li> <li>• A more effective repartition of material, financial, human resources, on structural divisions, based on the volume, complexity and difficulty of objectives;</li> </ul>

Item no.	Management instrument	Influences on economical performances
		<ul style="list-style-type: none"> <li>• A greater flexibility in determining the potential of economic viability within the organization and in determining the contribution of each division to its profit;</li> <li>• The enhancement of labour productivity, due to the judicious correlation between wages and the rate of realizing objectives and due to the judicious and more realistic dimensioning of objectives (from fundamental ones to the individual objectives);</li> <li>• The assurance of an economical support needed for realizing the correlations between the dynamic of turnovers, wages and number of employees, as well as the dynamic of labour productivity and the one of the medium wage.</li> </ul>
2.	Management by projects	<ul style="list-style-type: none"> <li>• Assures a better usage of material, financial and human resources available;</li> <li>• Facilitates the increase of physical production , of turnovers and of profits, when the projects refers to the assimilation of a new product or technology or to making products/technologies;</li> <li>• Increases the load factor for top specialists;</li> <li>• Assures the realization of the fundamental and derived objectives of the organization, projects being a part of one of these types of objectives;</li> <li>• Facilitates the achievement of remarkable economical performances, in a shorter period of time;</li> <li>• Allows management to focus on major objectives;</li> <li>• Creates new opportunities for valuing the results of using management by projects.</li> </ul>
3.	Management by exception	<ul style="list-style-type: none"> <li>• Through live updates for managers on different levels, it assures real-time decision-making to reduce and/or eliminate deviations from preset tolerance limits;</li> <li>• Though the elimination of the causes of deviations, favourable premises are set for the realization of assumed objectives, referring to: physical production, turnover, profit, expenses with materials or normative material costs, expenses with wages or normative direct labour costs;</li> </ul>

Item no.	Management instrument	Influences on economical performances
		<ul style="list-style-type: none"> <li>• By generalizing the causes that provoke positive deviations, results can be superior to the assumed objectives; we refer to the results and objectives that are highlighted through the “alert scheme” (physical production, different categories of expenses and/or normative elements that they are based on, turnover or profit).</li> </ul>
4.	Management by budgets	See “Management based on profit centres”
5.	Cost-hour-production System (SCOP)	<ul style="list-style-type: none"> <li>• Direct influences on unitary production costs, by increasing or decreasing them, compared to other classical methods of calculation;</li> <li>• The improvement of the production structure by orienting production towards products with high profitability and ensured sales;</li> <li>• On a broader scale, the volume of turnovers can register significant increases, through amplifying the sales of profitable products, but also through promoting more attractive prices for products that have an ensured market and are of a good quality;</li> <li>• The volume of profit can favourably modify, through the increase of turnovers, but also through the relative increase of unitary profit in the selling price;</li> <li>• Overall, total costs can be reduced through a more rigorous accountability of management and execution personnel, in regards of using material, financial and human resources;</li> <li>• The establishment and the usage of a new economical performance indicator, at a division level and at a organization level; we currently refer to the cost of a production hour, that reflects economic efficiency and can be used for comparing divisions within the organization, divisions that are treated as management centres.</li> </ul>
6.	Diagnostic method	<ul style="list-style-type: none"> <li>• It uses a wide range of economic indicators, that can be called economical performances, when the expressed results are identical or better than the assumed objectives;</li> <li>• It allows the determination of the economical viability potential;</li> <li>• It highlights the weaker “areas” and the potent “areas” of the firm, from a managerial, economical and financial perspective.</li> </ul>

Item no.	Management instrument	Influences on economical performances
7.	Dashboard method	<ul style="list-style-type: none"> <li>• See the influences of management by exception;</li> <li>• In the case of the manual usage of the dashboard, the increase of costs with filling and sending templates for it is possible;</li> <li>• In the case of the computerised usage of the dashboard, the need for personnel relatively decreases, coupled with the increase of labour productivity and the relative decrease of wages;</li> <li>• The duration of a managers' work day decreases (from more than 8 hours per day), especially in the case of top management. This determines a more scientific-based decision-making process;</li> <li>• The material costs are reduced (stationery).</li> </ul>
8.	Delegation	<ul style="list-style-type: none"> <li>• Aids to the better usage of a top managers' work day;</li> <li>• It allows the realization of individual objectives, in superior quantities, both for the manager that uses it and for the delegated persons.</li> </ul>

### Conclusions

In conclusion, we can state that there are multiple means through which the effectiveness and the efficiency of the methodological system are measured, as shown in this paper. In addition to this, there is a strong tie between this component of the management system and the economical performances of the organization. Each management instrument contributes in a specific way to the growth of the economic indicators of an organization. Based on this, that certain organization will be able to obtain performances in this domain – economic results that are better than the assumed objectives, than the ones in the past or than the ones obtained by market competitors.

From a broader perspective, the effects of managerial performances on economic performances are once again highlighted. Obtaining performances within the managerial domain will most certainly “cause” the development of economic and financial ones for that certain organization. Even though all of the components of the management system have this kind of effects, the most important one is, from our point of view, the methodological component of the system. The affirmation is motivated by the fact this certain component has a major influence on the functionality and performances of the other components.

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