AN APPROACH TOWARD THE EFFECTIVE COMMUNICATION OF INTERNAL ACCOUNTING INFORMATION FOR CONTROL

Thesis for the Degree of Ph. D.
MICHIGAN STATE UNIVERSITY
THOMAS G. EVANS
1969

THESIS

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ABSTRACT

AN APPROACH TOWARD THE EFFECTIVE
COMMUNICATION OF INTERNAL
ACCOUNTING INFORMATION FOR CONTROL

By

Thomas Giles Evans

This thesis concentrates on the managerial accounting function of communicating accounting information needed by the management of responsibility units within business firms in their efforts to achieve financial control, defined as the conformance of actual financial performance of a unit to planned or budgeted performance. An interdisciplinary approach was utilized, based on the subject areas of both managerial accounting and interpersonal communication.

The management information system of a firm is a collectivity of sub-systems whose major function is to supply information needed for problem solving and decision making to the firm's management. One such sub-system is the managerial accounting system, which collects, processes, and transmits financial information to management for its use in planning, decision making, and control.

The transmission of data to management for use in control is known as control reporting. The vehicle used is

the control report, containing data concerning the actual financial performance of a responsibility unit, the planned performance, and any difference between the two, known as the variance. The major purpose of this report is to inform management of its success in achieving control over its resources and to indicate areas under its direction that warrant further efforts toward control.

This study sought to provide managerial accountants and the discipline of managerial accounting with a comprehensive set of guidelines to follow in the control reporting process, recommended to achieve the effective communication of internal accounting information for control. The literature on both interpersonal communication and the communication phase of managerial accounting was examined. A case study of an actual business firm was conducted, concentrating on the control reporting system between the managerial accounting division and an operating division. Two opinion surveys were conducted by questionnaires, one concerning the control reporting within business firms and the other concerning the views of management service staffmen of national CPA firms on the status of control reporting in modern firms.

The results of this study indicate that control reports and the control reporting process possess certain major weaknesses that block or impair effectiveness as vehicles of communication. The specific barriers associated with the control reporting process are these: too many reports are being prepared and sent to management; a lack of feedback to the managerial accountants about the effectiveness or suitability of the reports; a lack of coordination between the accountants and the managers as a group in the planning and development of the control reporting system; a lack of personal contact between the accounting department staff members who prepare the reports or have authority over their preparation and the managers who receive the reports; a lack of flexibility in the control reporting system, often a result of the use of electronic data processing equipment; and finally, a lack of accounting backgrounds in the receivers of the reports. The major weaknesses associated with the reports themselves are that they appear as a mass of data and that they contain poor terminology. The analysis indicates that one major reason for the existence of these weaknesses is the lack of a sound, well-grounded comprehensive set of

guidelines for the managerial accountant to follow in his control reporting activities.

The general conclusion of this study is that the application of the general guidelines from the subject area of interpersonal communication results in a comprehensive set of guidelines which will contribute toward the effective communication of accounting information for control and will overcome and/or eliminate the barriers to effective communication that now do or potentially exist within the business firm.

AN APPROACH TOWARD THE EFFECTIVE COMMUNICATION OF INTERNAL ACCOUNTING INFORMATION FOR CONTROL

By

Thomas G. Evans

A THESIS

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in partial fulfillment of the requirements
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I sincerely wish to express my appreciation and gratitude to Drs. Lemke, Wenck, and Hepler for their able assistance, advice, and guidance as my thesis committee. It should be noted that Dr. Hepler agreed to serve on this committee after much work had already been done on the topic, and this was greatly appreciated. I also must express much appreciation to Dr. Thomas Farrell, Professor of Administrative Engineering at the University of Iowa, who, while at Michigan State University, contributed much in the early stages of this effort.

The financial support of the Department of Accounting and Financial Administration at Michigan State University and the Certified Public Accounting firm of Ernst and Ernst is gratefully acknowledged.

The accountants and managers of the aerospace firm must be thanked for their co-operation and assistance during the case study phase of the research design.

Of course, more appreciation than words can express is due my wife, Marilyn, not only for her great support and help during the project, but also for her very able secretarial assistance in the preparation of the rough draft.

Finally, as a Christian with faith in Christ as my Lord and Savior, I must acknowledge the answer to many prayers concerning this thesis and especially for the assistance of James 1:5.

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CHAPTER I

INTRODUCTION TO THE STUDY

Topic

The topic of this dissertation is the internal communication of accounting information needed for achieving financial control over segments of a business firm. More specifically, it concentrates on the managerial accounting function of communicating or reporting accounting information needed by the management of responsibility centers or units in their efforts and decisions to achieve control, defined as the conformance of actual financial performance of a responsibility unit to planned or budgeted performance. This study utilizes an interdisciplinary approach to this topic, drawing from the subject areas of both managerial accounting and interpersonal communication.

Statement of the Problem

The Importance of Effective Communication to Accounting

Functionally, the general accounting process can be viewed as essentially composed of a number of different

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activities, the successful performance of which contribute to the effective functioning of the whole accounting process. The following definition portrays this functional view of accounting and identifies the major activities involved in the accounting process:

> ...the process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by the users of the information.[1]

Basically, the activities which make up the process of accounting can be separated into two classes. They are these: (1) those activities aimed at generating the economic information in a form usable in various economic decision making processes; and (2) those activities concerned with transmitting this transformed information to those users or third parties who rely upon the accountants for the data.

More specifically, the first class of activities, hereafter referred to as the generation phase, obtains the raw data, operates upon it and transforms it into that which is relevant to the user; whereas the second class of

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[1] Committee to Prepare A Basic Statement of Accounting Theory, A Statement of Basic Accounting Theory, (Evanston, Illinois: American Accounting Association, 1966), p. 1.

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activities accepts the results of the first phase as raw material and conveys it to where it is needed, usually through some form of accounting report. This second class of activities will be referred to as the communication or reporting phase. It is important to note that the only function of this phase is to convey the results of the preceding phase to the users. Basically, only the form of the data is changed in the communication phase. Very little additional data is supplied during this phase--usually the data from the generation phase is rearranged and/or put in a different form.

The effective performance of the whole accounting process is a function of effective performance of these two phases. Hence, unless both phases are being performed fully to their potential, the accounting process itself is less than fully effective, as stated by Schmukler.

> More succinctly, the accounting function involves knowing, doing, and telling, all important in equal measure.[2]

In addition, the communication or reporting phase has added significance. Not only does the efficiency with

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[2]N. Schmukler, "A Program for Effective Communication in Accounting," New York Certified Public Accountant, (March, 1967), 189.

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which it is performed affect the efficiency of the whole accounting process, but it also is the only justification for the existence of the accounting process as a service to those economic units in the economy who rely upon it. Without the communication phase, the accounting information could not fulfill its objective of being useful in economic decisions and judgments by third parties. Without the reporting stage, the accounting process would exist merely for the sake of performing its operations on the data and would have no real utility or value to the economy. The following emphasizes the importance of effective communication to the accounting process:

> We might have the very finest set of accounting records, but unless the information which these records contain is transmitted in an appropriate manner to various individuals or groups, much of the real purpose, much of the real justification for the existence of accounting is lost.[3]

It must also be recognized that communication is also vitally important to most of the economic units which make up the environment in which accounting functions. Those economic units with a formal organization structure have been greatly affected by communication. One source

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[3]C. Babcock, "Accounting Is Communication," Co-Operative Accountant, (Summer, 1964), 30.

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refers to communication as the essential ingredient of organization and notes that communication techniques have a large influence upon the operation of decision making units within the organization.[4]

Managerial accounting is the field of accounting that functions within the business firm. Basically, it provides information to be used to determine the cost of producing products and for financial control. Managerial accounting is one of the major sources of economic information for those units within the firm and the communication phase must be effectively performed if the whole organization is to function efficiently and have the data needed to make correct decisions. The following description of the role and responsibility of the managerial accountant succinctly explains his importance to the firm and the importance of effective communication to his functioning:

> The accountant is responsible for the form and maintenance of corporate and operating records, the compilation of statistics and the production of financial and operating reports. It is his job to determine the information to be collected and the form in which it will be transmitted to the

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[4]H. Simon, Administrative Behavior, Second Edition, (New York: The Free Press, 1965), p. 154.

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> supervisors and officers of the company. As the source of information, he is the pivotal position, performing a liasion function and linking together the various segments of the business. ... The success of a company accountant in a modern business organization ultimately depends upon his ability to communicate to management useful information from the records.... Clear, accurate, and timely reporting is essential if an efficient operating level is to be reached and proper decisions made.[5]

On the other hand, if the financial information within the firm is lacking, not effectively communicated, inaccurate, or handled excessively, these situations can cause or greatly compound many of the major problems that corporations face. Milroy lists the following examples of corporate problems arising from poor communication of economic information within the firm: over-investment in inventories, excessive overhead costs, unproductive selling expenses, "panic buying," high communication costs, and poor decision making in general.[6] Thayer declares that inefficient

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[5]Editorial Board, "Communications and the Accountant," Canadian Chartered Accountant, LXXXII (March, 1963), 187.

[6]N. Milroy, "The Disintegration of an Information Systems," in Management Control Systems, Cases and Readings, Edited by R. Anthony, J. Dearden, and R. Vancil (Homewood, Illinois: Richard D. Irwin Company, 1967), p. 17. See also J. Brooks Heckert and James D. Willson, Controllership, (New York: Ronald Press, 1963), p. 521.

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communication is probably one of the greatest hidden overhead costs of operating a business.[7]

Current State of Managerial Accounting Communication

With a knowledge of the vital importance of effective communication to accounting in general and managerial accounting in particular, the immediate question arises: How effectively is the communication or reporting phase of managerial accounting being currently performed?

In general, business communications and corporate communications are not free of charges that they definitely need improving. As Lloyd and Warfel charge:

> If money is the lifeblood of business, the nerve is language. Every business suffers in one way or another from disease in this nerve. Every corporation, no matter how successful it seems, confesses itself to be in trouble in its communication....[8]

John Dearden, while commenting on the state of management information systems, the main channels of communication through the firm, declared that all systems can be

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[7]L. Thayer, Administrative Communication, (Homewood, Illinois: Richard D. Irwin Company, 1961), p. 91.

[8]D. Lloyd and H. Warfel, "The Language of Business," in Dimensions in Communication, Edited by J. Campbell and H. Hepler, (Belmont, California: Wadsworth Publishing Company, 1965), p. 176.

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improved and that some can be improved drastically.[9]

In accounting, too, the communication phase has long been the subject of criticism. In general, one noted author considers the communication phase of accounting as the "axial problem."[10]

The effectiveness of communication in financial accounting and through the published audited financial statements has been the subject of a recent study by Abraham J. Briloff. Based on a questionnaire survey of 138 members of the financial community (i.e. financial analysts and chief financial officers of publicly owned corporations) and the accounting profession (i.e. practitioners and professors of accountancy) and library research, he concluded

> This, then, was the primary thrust of the research: to determine whether there is a common understanding of the accounting function and the way in which it is being fulfilled. As has been demonstrated above, a consensus is absent both within the profession and between the profession and the audience to which it is directing its communication.... The communication process can thus be seen to be seriously deficient.
>
> By way of a conclusion to this opening gambit and as a prologue for that which follows, it is our

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[9] J. Dearden, "Can Management Information Be Automated?" in Management Control Systems, p. 533.

[10] L. Goldberg, An Inquiry Into The Nature of Accounting, (Iowa City, Iowa: American Accounting Association, 1965), p. 348.

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> view that the research has confirmed that the language of accountancy has not been most seriously confounded.[11]

The picture is no brighter when attention is directed to the communication phase of managerial accounting. For example, Horngren states that the communication phase presents the greatest challenge to accountants in that they must learn to "communicate their techniques with care and enthusiasm." He further declares that although managerial accounting is often considered to be the "seeing eye dog" of management, the actual situation is often that of the blind leading the blind![12]

Another reports that the communication or reporting system of managerial accounting has caused heated discussions among industry executives. He reports that management is dissatisfied and frustrated by the traditional monthly reports from the system because they are difficult to comprehend.[13]

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[11]Abraham J. Briloff, The Effectiveness of Accounting Communication, (New York: Frederick A. Praeger, 1967), p. 24.

[12]C. Horngren, Cost Accounting, Second Edition, (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1967), p. 275.

[13]A. Bows, "Broadening the Approach to Managerial Reporting," Arthur Andersen Chronicle, XXII (April, 1962), 7.

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Other sources concur that the report, the final product of managerial accounting, has many weaknesses that block or impair the effectiveness of managerial accounting communication. R. B. Lewis acknowledges that the stimulus for writing his well known text on accounting reports was the short comings of reports in use at that time [1957].[14] Other similar charges have been leveled at managerial accounting reports:

> We have all seen accountants submit, with pride, reports that are crystal clear but which are actually meaningless to a large degree, to the recipient.[15]

> Weaknesses in reports themselves are major factors in the high cost of reporting systems.[16]

Pelej confirms and supports the above charges by stating that top management is very receptive to any ideas that make internal accounting reports simpler, clearer, less costly, more reliable, and more effective.[17]

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[14]R. B. Lewis, Accounting Reports for Management, (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1957), p. iii.

[15]Editorial Board, "Communications and the Accountant," 187.

[16]W. Hilton, "Analyzing Reporting Systems," Management Accounting, XLII (January, 1966), 59.

[17]J. Pelej, "Controller Communication With Top Management," Controller, XXVII (April, 1959), 203.

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Whereas the techniques and methods of processing internal accounting data have grown in sophistication and efficiency over time, the above evidence strongly suggests that the communication or reporting phase of managerial accounting is weak and in need of improvements to increase the over-all effectiveness of managerial accounting. One source notes that the reporting stage is perhaps the least successfully performed area of managerial accounting.[18]

This apparent discrepancy between the effectiveness of the generation phase and the communication phase of managerial accounting becomes understandable in the light of the trend of developments in managerial accounting. The operations performed by the managerial accountant upon internal data have been the subject of studies and research aimed at making those operations more efficient and the results of the operations more useful to management or finding new operations that are more efficient than those presently used. However, the communication or reporting phase has not received an equal emphasis in the studies or research and has instead developed through the traditional process of trial and error and, most importantly, lacks a sound basis

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[18]Heckert and Willson, p. 521.

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The survey of the literature on the communication phase revealed that a majority of the articles in this area are critical of the managerial accountants' reports and reporting activities, while offering very little in the way of comprehensive programs or recommendations to improve his reports and efforts. And more importantly, there is a disappointing lack of progress toward finding ways to comprehensively apply the guidelines toward effective interpersonal communication found in the interpersonal communications subject area to the problems and weaknesses in managerial reports.

Objectives of the Study

The ultimate objective of this study is to improve the decision making and problem solving efficiency of the management of the business firm, the common objective of all applied research in business.[19] This study is especially concerned with those decisions by the managers of responsibility units within the firm that lead to financial control, defined as the conformance of actual financial performance to planned performance.

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[19]See P. Rigby, Conceptual Foundations of Business Research, (New York: John Wiley and Sons, Inc., 1965), p. 43.

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More specifically, the immediate objective is to provide managerial accountants and the discipline of managerial accounting with a comprehensive set of guidelines to follow in the control reporting process recommended to achieve the effective communication of internal accounting information for control. This set of guidelines will be based on the general guidelines toward achieving effective interpersonal communication drawn from that subject area.

Hypothesis

The hypothesis examined in this dissertation is as follows: That there exists within the subject area of interpersonal communication a set of general guidelines toward achieving effective interpersonal communication and that their discovery, collation, and application to the internal accounting control communication process will yield a comprehensive set of guidelines that will contribute toward effective communication in this process and will overcome and/or eliminate many of the barriers to effective communication of control information that now do or potentially exist within business firms.

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Research Methodology

This dissertation is based on the following research efforts:

(1) Library research on interpersonal communication

A number of general texts, articles, and unpublished material on the interpersonal communication process were examined in depth. The aim of this phase of the research was to obtain general information on the nature of interpersonal communications, the important variables or elements acting within the process, and the general guidelines advanced by authorities in the area to reach or achieve effective interpersonal communication. These guidelines were collected and assembled into a comprehensive set of integrating and grouping them according to the following classification scheme of Farrell:[20]

1. Observation
2. Description
3. Analysis
4. Synthesis
5. Composition

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[20]T. Farrell, "Principles of Communicating Based on the Eight Essential Components of the Communication Process," Michigan State University, (Mimeographed).

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(2) Library research on the communication phase of managerial accounting

Both journal articles and textbooks dealing with the communication stage of managerial accounting and particularly managerial accounting for control were examined in depth. The examination covered articles and texts for the past decade. This examination provided information on the following topics:

(a) The goals, purposes, or objectives of internal accounting communication for control (control reporting).

(b) The importance of effective communication as an element of managerial accounting for control.

(c) The general nature of internal accounting information systems and the important variables or elements acting within the systems.

(d) The barriers to effective communication that presently or potentially hinder the reporting process.

(3) Field research

A case study of an actual firm was made, concentrating on the control reporting system between the internal or managerial accounting division and an operating division.

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This phase of the research design provided a description of an actual control reporting system and actual information on the four topics noted in the previous research step (2a, b, c, and d on page 15).

The techniques used to obtain this information were those of personal interview and observation. Separate personal interviews were held with the executives of both the accounting and operating division. The interviews not only provided a description of the actual operation of their control reporting system but also provided the opinions of the two groups, the accountants and managers, on various topics related to the control reporting system. Appendix A contains the outline followed in the personal interviews.

A number of internal firm publications, such as organization charts, firm manuals, reports, etc. were provided by the firm and examined to provide additional information on the operation of their control system and background information on the firm itself.

The organization studied was a division of a large aerospace firm. The division studied is the largest of all the divisions of the firm and specializes in the production of electronic equipment for civilian and government aerospace programs and vehicles. The study concentrated on

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their non-standard cost control reporting system, existing between the accounting and operating department within the division. The division was well suited to the topic being studied as the nature of its activities placed a high premium on attaining financial control over its responsibility units. The division had a modern, computer based control system in operation. A description of this system is presented at the conclusion of Chapter II below.

(4) Questionnaire surveys

Two opinion surveys were conducted for this study. They were as follows:

(a) Business firm survey, sent to forty-two business firms or divisions of firms or eighty-six executives in these firms. The survey was aimed at obtaining the views and opinions of members of the two major groups involved in the control reporting communication situation, namely managerial accountants and managers, on the control reporting process and also to provide empirical tests of some of the concepts found during and as a result of the library research phase of the research design.

The forty-two firms used in this survey were located in the greater Detroit, Michigan and Dayton, Ohio industrial areas. The firms were selected from the directory of a

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ıtional business organization and through the advice of
›lleagues. The two industrial areas were chosen for basi-
lly two reasons: (1) both contain a wide variety of in-
stries and firms; and (2) both were sufficiently close
ographically to the author to make any personal follow-up
rk on the questionnaires convenient. Details concerning
e firms, their industries, and their sizes is presented
Appendix B.

As noted earlier, the aim of the survey was to ob-
in the opinions, attitudes, views, etc. of members of the
oups communicating with each other through the control
porting system. The aim of the survey was to question a
nagerial accountant and manager in each firm who communi-
ted with each other through the control system. Obviously,
e precise names of two such executives in each firm was not
ailable, so the following procedure was employed: a ques-
›nnaire packet, containing three cover letters and two
fferent questionnaires (one designed for the managerial
countant and the other for the manager of a responsibility
it[21]) was sent to the controller's office of each firm.

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e controller's cover letter informed him of the nature of e study and asked him to select the two appropriate exec- ives within his organization and then forward the two aled envelopes, each containing a cover letter and ques- onnaire to the chosen executives for them to complete and turn to me. Appendix B contains a copy of the cover letters d the questionnaires used in this procedure.

Both the manager's and the managerial accountant's estionnaires were designed to provide data on the exec- ive's personal views of the following topics:

(a) The importance of control reports to achieving control and to managerial accounting for control.

(b) The general effectiveness of their current control reporting system.

(c) The actual and potential barriers to effective control reporting.

(d) The relative importance of the various elements within the control reporting process.

(e) The guidelines currently used in their control reporting system.

(f) The ideal or best guidelines to be used.

Out of the forty-two firms contacted in the survey, ponses were received from 18 firms, yielding an overall ponse of approximately 42 per cent. In terms of the

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ıdividual questionnaires, out of the 86 questionnaires[22]
ent out, 16 managerial accountants and 11 managers replied
ı the above points.

(b) Accounting firm survey, involving four of the
ig Eight" national certified public accounting firms. A
estionnaire was sent to a staff member in each firm in
e management services area (after first contacting each
telephone and asking for their co-operation) to obtain
s opinions and judgments, based on his experiences, con-
rning the following aspects of the control reporting process:

(a) The general effectiveness of control reporting systems he is familiar with.

(b) The barriers to effective control reporting he has seen.

(c) The importance of sound guidelines to control reporting.

Additionally, the questionnaire asked him to criti-
lly evaluate the comprehensive set of guidelines resulting
om this study.

Out of the four management services accountants

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[22] In one firm, the author knew of at least two managerial accountants and managers that communicated with each other through the control reporting system and hence, sent two of each type of questionnaire to that firm in the packet.

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veyed, two replied, yielding an overall response of 50 cent.[23]

Appendix C contains the cover letter and questionre used to conduct this phase of the research design.

Limitations of the Study

There are three major limitations related to this y. The first is inherent in the topic under investiga-. It is a behavioral topic and therefore necessarily itative, with human opinions, views, attitudes, and ment playing a very important role. It should also be d that these opinions, views, attitudes, and judgments titute the strongest available evidence for the examion of hypotheses in this area.

The second concerns the samples used for the questnaire surveys. Neither sample was random and hence the ity to generalize the results of the surveys extensively nd the present study is limited. However, the results quite relevant and appropriate to the present investion.

The last major limitation is related to the response

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e and therefore the conclusions and recommendations
d on the surveys are not as strong as could be had the
onse been larger. It is the author's opinion, however,
a larger response would have led to the same conclu-
s and recommendations.

Contribution Toward Accounting

It is believed that this dissertation will benefit
managerial accountant and the discipline of managerial
unting in the following three ways:

(1) The identification of and description of the
rtant elements operating within and effecting the com-
cation phase of managerial accounting for control.

(2) The identification of the barriers that hinder
effective communication of accounting information for
rol within the business firm.

(3) The presentation of a comprehensive set of
elines recommended for use by managerial accountants in
r control reporting activities to achieve effective com-
cation and to eliminate and/or overcome the barriers.

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CHAPTER II

THE NATURE AND ROLE OF MANAGERIAL ACCOUNTING FOR CONTROL

Introduction

As noted in the previous chapter, the scope of this udy is limited to the managerial accounting function of oviding accounting information for control to the manage- nt of a business firm. The purpose of this chapter is to plore and describe in detail the nature and role of this counting function and the nature of its operation in the dern business firm.

Additionally, this chapter has a second purpose. It to help provide a description of the situation to which e relevant guidelines of interpersonal communication will later applied. This description is contained in the con- nt of this chapter and Chapter III.

The content of this chapter is based on the results nerated by the following three phases of the research de- gn: (1) the library research into the nature of managerial counting; (2) the case study of management control system

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and control reporting system of the aerospace firm; and (3) the questionnaire survey conducted on the business firms.

The chapter first deals with the concept of control within business firms and the managerial function of control. Next, the concept of an information system is presented, followed by a general description of the communication phase of managerial accounting for control, viewed as a subsystem within the management information system of the firm. The goals and attributes of this phase are identified and discussed, emphasizing the role and importance of the control report. The chapter is concluded by a description of control reports, with examples of the general types used in industry.

The Concept and Function of Financial Control

In its most basic social sense, the concept of control can be described by the following

> ...any process in which a person (or group of persons or organization of persons) determines or intentionally affects what another person or group or organization will do.[1]

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[1]Arnold S. Tannenbaum, "Control in Organizations: Individual Adjustments and Organizational Performance," in Charles P. Bonini, Robert K. Jaedicke, and Harvey M. Wagner, Management Controls, (New York: McGraw-Hill, 1964), p. 299.

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This concept of control, as it is related to the social organization known as a business firm, is called financial control, defined in the previous chapter as the conformance of actual financial performance to planned or budgeted performance. In a technical sense, this definition really represents the end or goal of financial control, that is, the state of affairs which is sought through the use of control techniques. When this state has been achieved or exists, the given situation is referred to as being "in control."[2]

Having defined financial control as a state of affairs to be achieved, it is important to discover why this state of affairs is desired, that is, the main reason or purpose for seeking control. In a general sense, when financial control is obtained the resources of the firm are used efficiently and effectively in reaching the pre-determined goals of the enterprise.[3] If control exists, it

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[2]Peter F. Drucker, "Controls, Control, and Management," in Bonini, Jaedicke, and Wagner, p. 286.

[3]Robert N. Anthony, "Characteristics of Management Control Systems," in Robert N. Anthony, John Dearden, and Richard Vancil, (eds.), Management Control Systems, (Homewood, Illinois: Richard D. Irwin, Inc., 1965), p. 2. See also Tannenbaum, p. 297.

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usually means that the firm's chosen financial alternatives have been accepted and the plans for achieving them have been carried out.[4]

It is almost universally recognized that one of management's important functions within the business firm is that of seeking to achieve financial control. It is their job to make decisions and take actions that either influence others to achieve their pre-determined objectives or lead to the accomplishment of their own organizational goals or both. Their actions and decisions are based on a measurement of actual performance and its comparison to the pre-determined plan or budget. This measurement and comparison is the trigger or stimulus. Various techniques, methods, and tactics have been developed to aid management in their efforts to achieve financial control. These methods are known as controls and represent the means to the end.[5]

The financial control process can be viewed as a cycle with the following four steps in it:

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[4]Committee to Prepare A Statement of Basic Accounting Theory, A Statement of Basic Accounting Theory, (Evanston, Illinois: American Accounting Association, 1966), p. 45.

[5]Drucker, p. 286.

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(1) establishing future financial goals to be accomplished;

(2) planning operations to achieve the goals;

(3) determining actual performance and comparing it to the planned performance; and

(4) taking corrective action if necessary.[6]

his cycle usually operates over a given period of time and an be applied to the firm as a whole and/or to any indi-idual segments within the firm.

The first step in the cycle is often called budget-ng or forecasting and involves the determination of the tandard against which actual performance will be evaluated. tep two involves planning to obtain the necessary resources nd their effective utilization to achieve the plan or goals. oth of these steps are taken before the actual period in uestion has begun. Step three occurs during the period nd involves the determination of the actual financial per-rmance of the unit being controlled and the periodic com-rison to the plan. Such a comparison will often yield a riance, a non-correspondence between actual and planned rformance. Such variances can be either favorable or

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[6]Walter B. McFarland, Concepts For Management counting, (New York: National Association of Accountants, 66), pp. 75-76.

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avorable, the former referring to a situation in which financial goals were achieved with less time or resource lization than expected. Variances must be analyzed to ermine their causes. The variances act as triggers to fourth step, the taking of corrective action if possible eliminate the cause of any unfavorable variances. It is s final step that essentially leads to control in that it only can often eliminate undesirable variables within unit that act to block the achievement of control but provides the decision maker with an index or idea of effectiveness of his past decisions, as shown by Chambers

> We admit that past experience is one of the foundations of future actions. It would seem, therefore, that a careful analysis of past performance would throw some light on the validity or effectiveness of past decisions....[7]

By and large, management has the greatest role and onsibility in this control cycle. Management is responle for steps one, two, and four and for the analysis of iance phase of step three. In contrast, the accountant's e is basically limited to step three, the determination actual performance, its comparison to planned performance

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[7]Raymond J. Chambers, Accounting, Evaluation, and nomic Behavior, (Englewood Cliffs, New Jersey: Prentice-, Inc., 1966), p. 313.

l the computation of the variances. Heckert and Willson

w the nature of the accountant's relationship to the con-

l cycle thusly,

> The management function of control is the measurement and correction of performance so that business objectives and plans are accomplished. Management control seeks to compel conformance to plan or standard. In this function, also, the controller assists. He does not enforce control, except in his own department, but he provides information which the functional executive is expected to use to achieve the required performance.[8]

An important aspect of the control cycle, and espe-

lly important to management's success in performing the

le, is the quality of the information that management

eives. The control cycle implies a continual flow of

ormation to management, consisting of planned financial

formance, actual performance, and the difference, the

iance. Through this information, management keeps in-

med about those areas out of control and needing correc-

e action.[9] The importance of this information is noted

McFarland,

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[8]J. B. Heckert and J. D. Willson, Controllership, ond Edition, (New York: Ronald Press Company, 1963), 15.

[9]McFarland, p. 76.

> The degree of success which management has in maintaining control depends in large measure on the relevance and promptness of the information it receives.[10]

Management Information Systems

As shown above, management must have information to effectively perform its role in the control cycle. In general, the problem solving units within any kind of organization must have information to perform their jobs effectively. In fact, relevant information is a primary pre-requisite for engaging in decision making and problem solving.

According to Rigby,[11] problem solving and decision making can be viewed as a process made up of three activities. The first, called problem analysis, calls for the formulation of the problem and development of alternative courses of action. In the second step, called prediction, the outcome of each alternative is predicted. The final stage is the decision, in which the most appropriate alternative is selected. At each stage, the appropriate information is needed for effective decision making. In fact, information

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[10] Ibid., p. 90.

[11] Paul H. Rigby, Conceptual Foundations of Business Research, (New York: John Wiley and Sons, Inc., 1965), p. 43 and 52.

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To obtain the appropriate information needed for problem solving and decisions, systems have been created to generate or secure this information, process it and make it available to those problem solving units requiring it. These systems are called information systems and can be described as follows:

> An information system may be a simple instrument for collecting observations of the environment, or a complex network (an "organization") of men and machines who make observations, process them, and send messages to each other and finally to those who perform actions impinging on the environment....[12]

The concept of an information system has been used frequently in regards to the business firm. Within the firm, the problem solving units are the managers, those men who have been assigned a group of economic resources and are expected to use these resources to efficiently achieve some pre-determined goal. Within this context, the concept of an information system exists to serve management and its goal becomes to provide them with the information they need for decisions concerning the utilization of their resources.

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[12]J. Marshak, "Problems in Information Economics," in Bonini, Jaedicke, and Wagner, p. 38.

The information system then becomes a management information system, described by the following:

> ...a system for accepting data as raw material and, through one or more transmutation processes, generating information as a product.[13]

The management information system is composed of a number of functional elements whose activities contribute toward achieving the goal of producing usable information for the management of the firm. In general terms, the operation of this system can be described as follows: data enters the system and is recorded (captured in symbols and signs); the data is stored until it is needed; when the need arises, the appropriate data are searched out and processed to fill the need; the processed data is transmitted through the system to the organizational unit or units requiring it and presented to the unit.[14]

This information system is usually treated as an entity, but actually is a collectivity, composed of a number of intertwined sub-systems. Each of these sub-systems are specifically concerned with the collection, processing, and

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[13]P. Firmin and J. Linn, "Information Systems and Managerial Accounting," The Accounting Review, XLIII (January, 1968), 75.

[14]Ibid., p. 76.

transmission of certain kinds of information to the problem solving unit. All the sub-systems combined constitute the management information system, which when combined with the other information systems of the firm constitute the firm's over-all communications system.

The Accounting Information System

The financial information system is one of the sub-systems of the managerial information system. In general, this system represents the flow of dollars through the enterprise.[15] The accounting system is the major component of the financial system and has two prime objectives: first, providing a safeguard over the assets of the firm and noting the changes in these assets over time; and second, providing information to certain groups who have an interest in the firm. These groups include the firm's shareholders, the public, the government, and the management of the firm. The information is provided to these groups through accounting reports. The reports sent to management are used by it in planning, measuring, and integrating the operations

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[15] J. Dearden, "How to Organize Information Systems," Harvard Business Review, XLIII (March-April, 1965), p. 69.

of the enterprise.[16] It must be noted that frequently, the accounting system is the only formal information system in the enterprise.[17]

That aspect of the accounting system concerned with reporting data to internal management for use in planning, decision making, and control is known as managerial accounting. More specifically, managerial accounting is,

> ...a composite of the data gathering techniques embodied in a system whose focus is managerial planning, decision making, and control.[18]

As an element of the management information system, managerial accounting performs the same basic operations (i.e. collection, processing, and transmission of data) that were presented earlier regarding the general operation of the management information system. The only differentiating characteristics of the management accounting system from other sub-systems are the nature of the data collected and the operations performed upon the data to process it. Management accounting is, in reality, a tool of management

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[16] R. E. Pfenning, "Business Information Systems," The Accounting Review, XXXVII (April, 1962), p. 235.

[17] Firmin and Linn, p. 77.

[18] Ibid.

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whose function it is to furnish management with the data it needs to effectively utilize its resources.[19]

To accomplish its objectives of providing a safeguard over the assets and noting the change in these assets and of providing information to the groups who are interested in the firm, the accounting information system is administered by an internal unit of the firm, usually called the controller's department. This organizational unit is responsible for the operation of the accounting information system and has the authority to control its operation.

More specifically, the usual functions performed by the controller's department in fulfilling its responsibilities are shown on the following page in Illustration 1. As an examination of this illustration reveals, there are many different functions performed within the controller's department. The illustration primarily acts as a general indicator of these activities. A more detailed presentation of the organization of the controller's department, according to the Financial Executives Institute, is presented in Appendix D, page 263.

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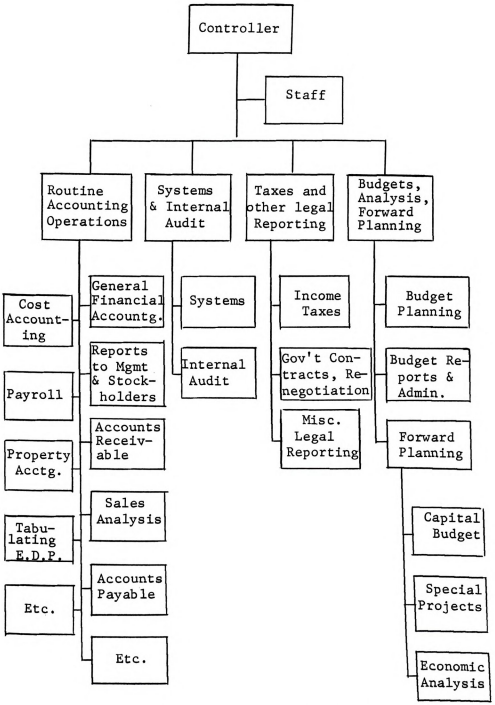
[19]Guy Lambers, "Computers Used As Accounting Tools," Management Accounting, XLII (January, 1966), p. 29.

ILLUSTRATION 1

NORMAL FUNCTIONS
OF CONTROLLER'S DEPARTMENT



Source: D. R. Anderson and L. A. Schmidt, Practical Controllership. Revised Edition, (Homewood, Illinois: Richard D. Irwin, Inc., 1961), p. 100.

Within decentralized business firms, i.e. those firms with separate, semi-independent divisions or plants, the controller's function is often decentralized also, with a divisional controller and staff for each division or plant. There is a great deal of controversy over the operation of this divisional controller function. Basically, the arguments can be divided into the following two positions:

(1) the division controller and his staff exist primarily to serve the division to which he is attached and therefore report directly to the management of the division; and

(2) the divisional controller and his staff are representatives of the controller's department in the division or plant and hence report directly to that department.[20]

Managerial accounting, as a basic component of the accounting system, is one of the general functions of the controller's department. As presented on the chart, managerial accounting is composed of the following separate functions:

(1) Routine accounting operations, consisting of cost accounting, reports to management, and sales analysis.

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[20]Anderson and Schmidt, p. 106.

(2) Budgets, analysis, and forward planning, consisting of budget planning, budget reports and administration, and forward planning (including capital budgeting, special projects and economic analysis).

A typical modification of this ideal organization deals with the reporting function. As shown in the chart, the reporting function is almost wholly in the Routine Accounting Operations sub-section, with both management and stockholders reports grouped into the same function and probably under the administration of a single manager. Although this is most appropriate in a simple and highly stabilized firm, it may well be that separate sections should be created for the management and stockholder reports, with someone in charge of each class of report.[21]

The Communication Stage of Managerial Accounting

As noted earlier, the basic operations of managerial accounting are the collection, processing, and transmission of data. The final operation, often called the reporting stage, is the main focus of this study and involves the transmission of the processed data to the unit within the organization that requires it and its presentation to that unit.

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[21] Ibid., p. 99.

The most frequently used vehicle used to transport the data is the accounting report, described as

> The end result of this process--the accounting report--is the means by which accounting information is transferred to management, which then translates this information into action.[22]

In general terms, the report is the major source of information from the accounting system and the normal form of output from the system. Its purpose or objective can be described as follows:

> ...keeping the maximum number of affected members of the organization informed so that objectives can be attained with the greatest amount of speed and the least amount of confusion.[23]

> The purpose of a report is to enlighten management through a rapid, prompt, and accurate relevation of the facts on hand as the basis for control and corrective action.[24]

Most sources consulted on this topic would concur with the above that the purpose of an accounting report is to inform or educate the recipient and provide him with information

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[22]Gordon Shillinglaw, Cost Accounting, Analysis and Control, (Homewood, Illinois: Richard D. Irwin, Inc., 1961), p. 4.

[23]M. B. T. Davies, "Communications and Internal Control," Internal Auditor, (Fall, 1964), p. 25.

[24]Ronello B. Lewis, Accounting Reports For Management, (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1957), p. 36.

or data which he needs for some purposeful activity. As shown above, the data is a necessary pre-requisite for the action to be taken.

It is the controller's department and the specific units within it that are responsible for maintaining channels of communication to the units within the firm and are responsible for providing the needed information through these channels. The controller's department is specifically responsible for preparing the reports and sending them to their recipients.[25]

The various levels of management within the firm need different information from the accounting system and hence have differing needs concerning the content of the accounting reports they receive. In general, the management of a firm can be divided into two groups, top management and operating management and the needs of each described. Top management is usually concerned with receiving monthly, quarterly, semiannual or annual reports of financial conditions and the results of operations for the firm as a whole and/or major divisions of the firm.

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[25]A. Matz, O. Curry, and G. Frank, Cost Accounting, Fourth Edition, (Cincinnati, Ohio: Southwestern Publishing Company, 1967), p. 667. See also Anderson and Schmidt, p. 93.

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Operating management, including foremen, supervisors, department heads, and divisional or plant managers, seek cost and operational data reported on a daily, weekly or monthly basis.[26] The needs of both groups follow their responsibilities in the firm: top management is responsible for the operations of the firm as a whole, whereas operating management is responsible for the operations of the smaller units that comprise the firm. A quick comparison shows that operating management requires more detailed data than top management and requires it on a tighter schedule.

The reporting stage or function of managerial accounting has a twofold importance. It is not only necessary to the completion of the accounting process but also is vital to the recipients of the reports who need the data for use in the decision making or problem solving process, as shown by the following:

> Insofar as it concerns internal management, the reporting function is closely related to both the planning and the control functions. Reporting is essential to make planning and control effective.[27]

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[26]Matz, Curry, and Frank, p. 666.

[27]Heckert and Willson, p. 16.

> The ever closer identification of accounting as an essential service to and within management has made it clear that the processes of accounting yield reports, not records, as their principal product....[28]

Control Reporting

One of the most important functions or objectives of management accounting is to provide the managers within the organization with information to aid them in their efforts to achieve financial control over the resources under their direction and for which they are responsible. Managerial accounting for control is the descriptive term applied to the process which is composed of all of the activities of the managerial accountant to provide this information. The last step in this process is that of transmitting the needed information to the managers for their use in the control cycle and is often referred to as control reporting. The vehicle used to communicate control information is the control report.

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[28]National Association of Accountants, Reports Which Managements Find Most Useful, Accounting Practice Report No. 9, (New York: National Association of Accountants, 1960), p. 3.

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Purpose of Control Reporting

The control report is an internal accounting statement prepared periodically for management by the managerial accounting staff. Its general purpose is to provide them with accounting information which is needed for control. In a more specific sense, the report shows the manager the specific areas under his direction which are not in control, that is, the actual financial performance does not correspond to the planned performance. The report, then, acts basically as a score-card of the success of the control techniques that the manager has used on his areas and it points to the areas under his direction that need his attention, as shown by the following quotes,

> As the name implies, control reports are intended to assist in the control of operations of the business by indicating areas which need corrective action.[29]

> The report pinpoints an unsatisfactory situation in which actual current or projected near term future operations compare unfavorably with the budget or previous year. The unsatisfactory performance suggests the need for corrective action.[30]

This function of the control report has led one source to

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[29]Heckert and Willson, p. 526.

[30]Lewis, p. 35.

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refer to them as the "efficiency thermometers of business."[31]

The results of the industrial firm questionnaire survey provides additional insights into the nature of the purpose of control reports and the control reporting process. In the questionnaires for both the managers and the managerial accountants, the fourth question asked the recipient to reply to the following:

> 4. In your opinion, what is the goal or purpose of control reporting?

Although this was an open ended question, (that is no choices were given in the question for the respondees to pick) the replies from both groups, the managers and the managerial accountants showed some similarity and could be grouped or classified into five different goals or purposes advocated.[32] Within the group of replies from the managerial accountants, the following are the five basic goals they expressed and the per cent of the total group advocating each:

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[31]Max Block, "Practical Cost Controls--How They Can Help Management Improve Profits," In Hector R. Anton and Peter A. Firmin, Contemporary Issues in Cost Accounting, (New York: Houghton-Mifflin Company, 1966), p. 87.

[32]A complete list of all the specific replies to this question is presented in Chapter VI, "The Analysis of Questionnaire Survey," pages 200-01 and 219-20.

(1) To analyze any variation from plan and provide management with the information needed to overcome problem areas and to control his unit (31%)

(2) To evaluate and control the performance of a unit in meeting profit objectives (19%).

(3) To inform management of areas needing control (19%).

(4) To provide information to be used in management decision making (19%).

(5) To plan, supervise operations, analyze variations, and inform management (12%).

It is significant to note that approximately 81% of the opinions expressed advocated that the goal or purpose of control reporting was to inform and in general communicate information in management (goals (1), (3), (4), (5) above). In essence, the replies from these managerial accountants tend to conform to the role of the managerial accountant in the control cycle as it was described earlier in the chapter. Apparently the managerial accountants who replied have accepted the role and adopted the corresponding goal as their goal in control reporting.

Within the group of replies from the managers polled, three basic goals or purposes were evident from their replies. They are these:

(1) To point out variances, trends, and special concerns (54%).

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(2) To provide information to be used in evaluation and control of a responsibility unit (18%).

(3) To show performance, by responsibility, compared to the plan and the trend of performance (9%).

(4) Miscellaneous unrelated goals (18%).

The numbers in parenthesis represent the percentage of the total replies advocating each goal.

The first two goals listed above, although expressed somewhat differently are basically the same. The first goal mentioned is really an explanation of what information is to be used in goal (2). Hence, approximately 72%, (goals (1) and (2) above), of the managers who replied are agreed that the goal of control reporting should be to provide them with the information they need for control.

An examination and comparison of the sets of goals or purposes advocated by the managerial accountants and the managers reveals a great deal of agreement on the point that control reporting should have as its goal the provision of information to management for their use in the control cycle. Some variation arises as to the exact nature of this information or specific types of information, but all are in general agreement. This agreement also corresponds quite closely to the goals or purposes of control reports and control reporting as presented in the literature and

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General Nature of Communication Situation

The control report represents the major means or vehicle of communication between the managerial accountant and the operating managers in the control cycle. It also represents the major means of communication between the accounting department or controllers unit within the business organization and the operating management. The general nature of this communication is best described as sideways communication, according to Lloyd and Warfel

> Within any organization there is always sideways or horizontal communication, which goes on between persons or units working together on common problems, though on different aspects of them.... The company expects them to co-operate.... Each person involved is a specialist who knows his own job but often little about the other's. The communication is thus normally from the specialist to an outsider who is a specialist in another field.[33]

This description aptly fits the control reporting process. Both the managerial accountant and the operating manager are attempting to improve or further the financial position and operating results of the firm, though each in

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[33]D. Lloyd and H. Warfel, "The Language of Business," in J. Campbell and H. Hepler, Dimensions in Communication, (Belmont, California: Wadsworth Publishing Company, 1965), p. 180.

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his own way. The operating manager has a direct influence on the financial performance of the firm through his decisions concerning the utilization of the resources which he controls towards the goals established for his unit. The managerial accountant, on the other hand, has an indirect affect on the financial performance through the information he furnishes to the manager which is used in his decisions. The accountant is a specialist in accounting and the operating manager is primarily a specialist in some other functional field.

Importance of Control Reporting

In addition, the application of the above description to the control reporting situation points out the importance of control reporting. Both the managerial accountant and the operating manager must cooperate if control is to be achieved and the firm is to function efficiently. And to achieve cooperation, effective communication through the control report must be achieved and maintained. Unless the control report is a means of effective communication between the accountant and the operating manager, the accountant will have fallen short of his goal of providing information to management and the manager will be making decisions without all the necessary data. This reveals the three-fold

importance of the control report and control reporting: it is important to the firm, to the managerial accountant, and to the manager. The following quote from the literature serves to emphasize the importance of the control report managerial accountant:

> Techniques for effective communication of data for control are equally as important as are the techniques for producing the data. Unless management's actions to maintain control are guided by the data it receives, nothing is accomplished by the accountant's efforts.[34]

Relevant insights into the importance of control reports and control reporting can also be seen in the replies to the questionnaire survey. In the questionnaire sent to the managerial accountants, the third question asked them to express their view of the importance of this phase of managerial accounting. The exact form of the question was as follows:

> 3. In your opinion, how important is the reporting stage to managerial accounting for control (check one).

Very Unimportant	Unimportant	Not Very Important	Neutral	Somewhat Important	Very Important	Vital

The question asks them to rank their view of the importance of the reporting stage along the scale provided.

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[34]McFarland, pp. 92-93.

The replies to this question overwhelmingly shows that the accountants regard the reporting stage as being quite important to managerial accounting for control--50% ranked it "Very Important" and 50% ranked it as "Vital."[35]

Similarly, the manager's views of the importance of the control report to his control process were obtained by including the following question in their questionnaire:

> 3. In your opinion, how important are control reports in determining the degree of control you achieve over your responsibility unit (check one please).

Very Unimportant	Unimportant	Not Very Important	Neutral	Somewhat Important	Very Important	Vital

The question seeks to determine the importance or role of the report as a determinant of the degree of control achieved - its practical value, in a sense, to managers.

The replies indicate that the managers consider the control report as a very important determinant of the degree of control they achieve--36% considered the control report to be a "Vital" determinant; 45% considered it as being "Very Important." Hence, grouping these together, a total of 81% consider it as quite important in achieving control.

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[35]See Chapter VI, p. 199.

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Only one manager ranked it as "Very Unimportant" and one manager ignored the request to check only one rank and checked all the ranks. These accounted for the remaining 19 per cent.[36]

In summary, the replies to this question cannot help but lead to the conclusions that the control report is indeed an important determinant of the degree of control achieved by the individual manager and also that control reporting is a very important part of managerial accounting for control. If the replies are combined, much empirical support for the importance of the control reports is evident.

General Form and Content

It was stated earlier that the control report acts somewhat as a score-card for the responsibility unit for which it was prepared. Although the specific type of control report used in the various firms in our economy differ in terms of their format, style, and even frequency of preparation, the contents of these control reports are sufficiently uniform to merit discussion. In general terms, the normal three elements appearing in the control report for a given responsibility unit are as follows: (1) the actual financial

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[36]See Chapter VI, p. 218.

performance of the responsibility unit, represented by the actual costs incurred and charged to the unit and the actual revenues earned by or attributed to the unit; (2) the planned or budgeted financial performance of the unit, represented by planned costs and revenues; and (3) the correspondence or non-correspondence between the actual and planned performance, represented by the differences between the cost and revenue elements of both sets, called the variances. This is the information needed by management for performing their role in the control process described earlier. According to Shillinglaw,

> The medium through which budgets and accounting data are used in the control process is the routine performance report [control report]. ...the performance reports should emphasize deviations between budget and actual so that attention can be devoted to an analysis of the causes of major deviations from plan and to take any corrective action that seems necessary.[37]

The source of the information in the control report is the firm's accounting system. The two specific sources of this information are as follows: (1) the budgets prepared for all responsibility units is the source of planned or budgeted performance; and (2) an accumulation of the

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[37]Shillinglaw, pp. 4-5. See also Anderson and Schmidt, p. 93.

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actual costs and revenues along organizational lines, provided by a "responsibility accounting system", provides the actual financial performance.

The control report itself has two time dimensions associated with it. It is historical in that it reports the results of past actions and events. But it also looks forward into the future in the sense that the results of past events and decisions act as guides to the decisions and actions to be taken in the future.[38]

Control reports can be classified as either summary or current, depending upon the period of time covered by the report and the lag between the period covered and the report's actual preparation. Summary control reports usually cover a long period of time and deal with the overall financial performance of a given responsibility unit, whether a division or the firm. They have two basic functions: (1) to inform higher management of the general effectiveness of financial performance; and (2) to act as a check against current control reports. The latter are prepared more frequently and seek to highlight deviations so prompt corrective action can be taken. They are usually

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[38]National Association of Accountants, p. 3.

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prepared for operating management, those responsible for the operations and performance of their units. The summary control reports are usually prepared for top management.[39]

Examples of Control Reports

In general, control reports can be grouped into classes by the nature of the activity being reported upon. In 1960, the National Association of Accountants polled sixty-one authors to determine what reports management regards as most useful in performing their jobs. The following six general classes of control reports resulted from that survey and are useful as examples of typical kinds of control reports:[40]

(1) Summary Statements of Operations type, which contains the actual results of operations, both revenue and costs, for a given responsibility unit compared to the planned revenue and costs for that unit. Illustration 2 on the following page is an example of this type. It is usually prepared for top management on a monthly basis.

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[39]Heckert and Willson, p. 528.

[40]National Association of Accountants, pp. 5-27.

UNITED STATES DEPARTMENT OF COMMERCE
NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION
NATIONAL WEATHER SERVICE

ILLUSTRATION 2

SUMMARY STATEMENT OF OPERATIONS TYPE

Earnings Statement

	Current Month				Year to Date		
	Actual	Forecast	Variance		Actual	Forecast	Plan
Net sales	10,000	11,000	(1,000)				
Variable C/S	7,500	7,700	200				
Variable margin	2,500	3,300	(800)				
% of sales	25.0	30.0		(1)			
CAPACITY COSTS							
Manufacturing	500	540	40				
Marketing	500	490	(10)				
Administrative	250	225	(25)				
Engineering	450	550	100				
Total capacity costs	1,700	1,805	105				
% of sales	17.0	16.4					
OPERATING EARNINGS	900	1,545	(645)				
% of sales	9.0	14.0					
Inventory adjustment (Fixed complement)	(50)	(25)	25	(2)			
Other Income	130	85	45				
Other Expense	30	90	60				
EARNINGS BEFORE TAXES	950	1,515	(565)				
% of sales	9.5	13.8					
TAXES (Federal, state & foreign)							
NET EARNINGS	455	720	(265)				
% of sales	4.5	6.5					

(Monthly to top management)

(Figures omitted)

(In actual use, notes, as exemplified below, appear at bottom of statement)

(1) For quick analysis of decrease from planned contribution margin (variable)

Actual P/V ratio	25% x (1,000) Sales variance	(250)
Forecasted P/V ratio	30%	
	(5%) x 11,000 Forecasted volume	(550)
Total variance		(800)

Of the $800 decrease in contribution margin, $250 is attributed to product mix and $550 due to sales volume not realized.

(2) Represents change in manufacturing costs allocated to inventories in current month.

( ) Represent income factor.

Source: National Association of Accountants, Reports Which Managements Find Most Useful, (New York: National Association of Accountants, 1960), p. 8.

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(2) Significant Figure type, which presents specialized information that the firm's management requires. Such information is usually concerned with measuring volume in terms of physical units and dollars. Illustration 3 on page 57 is an example of this type. It is usually prepared monthly for department heads and plant or division managers.

(3) Production Activity type, issued frequently as a check on production levels. It contains data on the physical quantity of output, and is usually prepared by electronic data processing equipment.

(4) Labor Efficiency type, used for the control of labor costs. It is usually prepared on a weekly basis for factory managers and foremen. This type of report usually presents comparison of actual labor costs and hours with budgeted costs and hours. Illustration 4, on page 58, is an example of this type.

(5) Manufacturing Expense type, used to control the expenses associated with the manufacturing activities. Usually this type is prepared on a departmental basis and issued monthly to managers and department heads.

(6) Project Cost type, which is used to control the costs in given independent projects. The focus of the report is a project or task, rather than an organizational unit.

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ILLUSTRATION 3

SIGNIFICANT FIGURE TYPE

	Comparison of Significant Figures			
	Base Period	January	February	December
DIRECT LABOR PERFORMANCE				
Machining Division	00%	00%	00%	00%
Welding Division	00%	00%	00%	00%
Total Manufacturing Department	00%	00%	00%	00%
RATIO OF INDIRECT TO DIRECT LABOR HOURS				
Machining Division	00%	00%	00%	00%
Welding Division	00%	00%	00%	00%
Total	00%	00%	00%	00%
VOLUME (in 000's)				
Actual Direct Labor Hours	000	000	000	000
Standard Direct Labor Hours	000	000	00	000
Total Standard Dollars of:				
Prime Products Produced	0000	0000	0000	0000
Transfers to Other Plants	000	000	000	000
DEPARTMENT CONTROLLABLE COST/STD., DIR. LABOR MR.				
Accounting	$ .00	$ .00	$ .00	$ .00
Manufacturing	0.00	0.00	0.00	0.00
Total	$ 0.00	$ 0.00	$ 0.00	$ 0.00
OTHER COST INDEXES				
Spoilage Due to Defective Labor (in 000's)	$ 00	$ 00	$ 00	$ 00
Per Std. Direct Labor Hour	.00	.00	.00	.00
Purchases of Materials & Supplies	0,000	0,000	0,000	0,000
Material Variance (in 000's)	---	$ 000	$ 000	$ 000
Material Variance Percent	---	0.01	0.01	00.01
EMPLOYMENT AND HOURS				
Hires	00	0	0	000
Separations	00	000	00	00
Employment by Department				
Accounting	000	000	000	000
Manufacturing	0000	0000	0000	0000
Total	0000	0000	0000	0000
Actual Hours Worked (in 000's)				
Hourly Roll - Direct	000	000	000	000
Hourly Roll - Indirect All Departments	000	000	000	000
Hourly Roll - Total	000	000	000	000
Weekly Roll	00	00	00	00
Total Hourly and Weekly Rolls	000	000	000	000
Overtime Hours Worked (in 000's)				
Hourly Roll	0.0	0.0	0.0	0.0
Weekly Roll	0.0	.0	.0	.0
Total	00.0	0.0	0.0	0.0
INVENTORIES AT STANDARD COST (in 000's)				
Production Stores	$0,000	$0,000	$0,000	$0,000
Indirect Inventories and Supplies	000	000	000	000
Prime Product Inventories	0,000	0,000	0,000	0,000
Total	$0,000	$00,000	$00,000	$00,000

(Monthly to executive vice-president, plant manager and department heads)

Source: National Association of Accountants, Reports Which Managements Find Most Useful, (New York: National Association of Accountants,1960), p. 15.

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ILLUSTRATION 4

LABOR EFFICIENCY TYPE

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Labor Statistics

		Current Quarter				Year to Date		
		W/E 12-7-58		Qtr to Date 10th Week		23rd Week		
		Hours	% Ind to Dir	Hours	% Ind to Dir	Hours	% Ind to Dir	Annual Objective
Direct hrs	Actual	11,800	-	115,500	-	220,000	-	-
	Budget	11,500	-	115,000	-	225,000	-	600,000
Ind hrs - dir men	Actual	1,800	15%	17,300	15%	28,600	13%	-
	Budget	1,400	12%	14,000	12%	27,000	12%	12%
Ind hrs - ind men	Actual	6,100	52%	61,200	53%	123,200	56%	-
	Budget	6,000	52%	60,000	52%	123,800	55%	50%
Total indirect hrs	Actual	7,900	67%	78,500	68%	151,800	69%	-
	Budget	7,400	64%	74,000	64%	150,800	67%	62%
Hourly overtime:								
Direct hrs	Actual	1,300	11%	10,400	9%	13,200	6%	-
	Budget	1,180	10%	11,800	10%	13,500	6%	15%
Indirect hrs	Actual	360	3%	5,800	5%	6,600	3%	-
	Budget	350	3%	3,500	3%	4,500	2%	5%
Salaries	Actual	$14,400	-	$141,500	-	$320,000	-	-
	Budget	$14,000	-	$140,000	-	$315,000	-	$800,000
Salaried overtime	Actual	$ 1,000	-	$ 8,400	-	$ 12,000	-	-
	Budget	$ 800	-	$ 8,000	-	$ 10,000	-	$ 40,000

Current quarter and year-to-date budget figures are based on quarterly budgets as established.

COMMENTS:

This week's indirect hours by direct men is high due to relocating 8 milling machines. Actual should not exceed budget during remainder of 2nd quarter as all relocation projects have been completed.

(Weekly to operating executives)

Source: National Association of Accountants, Reports Which Managements Find Most Useful, (New York: National Association of Accountants, 1960), p. 22.

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The report highlights the financial status of the project, usually on a weekly interval and is sent to the manager in charge of the project.

Examples of Control Reporting Systems

The examples presented above give a general indication of the form and content of individual control reports that are actually used in industry. It is also important to look at the whole control reporting system, since the reports are not effective alone. A view of the whole reporting system for managerial accounting for control will show how the various types of reports fit together to make up a unified communication system with the single goal of providing the managers of the firm with the control information they need.

The case study phase of the research design provided a description of the control reporting system of the aerospace firm that was studied. This description follows and serves as a useful example of a control reporting system that is currently used in industry. It also is helpful in lending practical realism to the study and as a technique for integrating the concepts and ideas presented thus far.

The specific control system is called the Non-Standard Cost Control System and has as its goal the control

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of costs on various independent projects being manufactured to customer specifications. The cost system is basically a job order cost system, with each individual project as the focus for the collection of the various cost elements. The control reporting system is the major vehicle of communication between the accounting department and the various levels of management responsible for the completion and manufacture of the projects.

The general cost information inputs into the system and their sources are as follows:

(1) Direct Material: Materials are acquired by the firm and kept in the storeroom. As materials are requisitioned from the materials storeroom, the cost of the materials is charged to the appropriate project. This cost includes the acquisition cost of the material plus any material handling charges.

(2) Direct Labor: During each week the hours of the various types and levels of direct labor are accumulated for each project on time cards. The cost of direct labor per project is computed by multiplying the total hours per project by the appropriate rates.

(3) Factory Overhead: The amount of factory overhead charged per project is a predetermined percentage of the total direct labor cost.

As shown above, both direct material and direct labor costs are traced directly to each project, whereas factory overhead is indirectly applied on the basis of direct labor cost.

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The actual procedure followed from the birth of a project is basically as follows: at the beginning, each project has a formal authorization prepared for it, giving the details of the operations necessary to produce the project and an estimate of the costs to be incurred in its production. Each project is assigned a number, which is used to group and collect all actual costs incurred on the project. A periodic comparison between estimated costs from the authorization form and actual costs from the accounting system is the essence of the control system. Primary management responsibility for the control of project costs rests on the project manager, who directs the work on the project and also on the cost center managers, who are in charge of supportive operations such as material inspection, production tooling, etc.

The reports of this system are prepared periodically by electronic data processing equipment. The four major reports of the system are as follows:

(1) The Weekly Cumulative Cost Report, which is the basic control document for the projects. It is prepared weekly and contains the actual direct material, direct labor, and factory overhead cost figures for both the previous week and cumulative totals from the beginning of the month. Both

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are compared to the budgeted costs in the report. This report is prepared for the project managers. A similar report using responsibility centers for the collection and presentation of costs is prepared weekly for the cost center managers.

(2) The Weekly Labor Report, which is also prepared weekly for the project managers. It shows the actual direct labor hours per project compared to the forecasted hours.

(3) The Monthly Project Report, which is prepared monthly for each project and cost center and shows the total cumulative costs incurred to date compared to the forecasted costs. It is prepared for the project managers and cost center managers.

(4) The Financial Monthly Report, which contains the total cumulative actual cost, forecasted cost to complete total cost, and forecasted cost for each project. It is prepared for the project manager, the department manager, divisional manager, and the vice-president of the division. A similar report, called the Monthly Status Report, is also prepared for the same management levels and contains not only the above information but also the total actual cost per project expressed as a percentage of the total forecasted cost per project.

In terms of the summary and current control report

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types noted earlier, the Monthly Project Report and both weekly reports can be classified as current control reports, designed to aid the operating managers (i.e. the project and cost center managers) attain the financial goals set before them and achieve control over their units. The Financial Monthly Report and Monthly Status Report are both summary type control reports, designed to give the upper levels of management (i.e., department and divisional managers) an over-all view of the status of each project and of the division itself.

It is through these four major reports that management receives the information needed to note areas needing corrective action to bring actual costs into line with forecasted costs. In this system, this basic information is provided on a weekly basis, which is a distinguishing feature of this particular system. Otherwise, this description acts as an example of an actual currently used cost control reporting system.

In addition to this description generated from the case study, another description of a cost control system was provided in response to the request for any additional information in the cover letter to the managerial accountant's questionnaire. One managerial accountant of a consumer

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durables producing firm returned not only the questionnaire, but also included the following summary description of the control system used by his firm:

> The first phase of control is utilized in our product planning and engineering [department]. When a new model or product is conceived tooling and piece cost targets are established based on projected selling prices. During the period the product is developed and readied for production, conformance to these cost targets is reported to management to direct their control efforts.
>
> The control of current operations is achieved through the use of a capital plan for capital expenditures and their related expenses and a profit plan for operations. In each of these the primary emphasis is placed upon the planning aspect through the constant analysis and evaluation of regularly projected future variances from these plans.[41]

[41] From a letter from the manager of the Budgets and Profit Analysis Department, August 23, 1968.

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CHAPTER III

THE NEED FOR SOUND CONTROL REPORTING GUIDELINES

Introduction

The previous chapter, in addition to providing a description of the nature and role of the managerial accounting for control function within the firm, demonstrated the importance of effective control reporting within the firm. It was concluded that the degree of effective communication achieved through the control report was vitally important to the managerial accountant's role, the managers' ability or success in achieving financial control over their units, and the financial success of the firm. With this importance established, the present chapter presents and examines evidence, both from the accounting literature and from the replies of the managers, managerial accountants, and public accounting firm management service staffmen to their questionnaires, which indicates how effective current control reports and reporting systems are as vehicles of communication.

This chapter first presents and examines the evidence about the general effectiveness of control reporting.

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This is followed by a presentation and discussion of the problems and barriers to effective control reporting that currently exist within firms or have a realistic potential for existing. The chapter concludes with a presentation of the major sets of guidelines or principles advocated in the managerial accounting literature for control reporting activities. These sets of guidelines are compared and evaluated to examine their ability to achieve effective communication and the goals of control reporting as well as their ability to eliminate and/or overcome the problems and barriers.

Current State of Control Reporting

As noted in the first chapter, pages 9 through 12, an examination of the literature of managerial accounting will lead to the conclusion that the communication phase of managerial accounting is not effectively performed and that both the reports and the reporting systems possess weaknesses that block or impair the effective utilization of control information by management. This seems to be part of a perennial accounting problem, according to Goldberg:

> A more obvious problem in communication which faces the accountant today, as it will always face him, is to devise the form and contents of the reports he prepares from his records.[1]

[1]Louis Goldberg, An Inquiry Into The Nature of Accounting, (Iowa City, Iowa: American Accounting Association, 1965), p. 359.

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Although this present study is addressed to the general solution to this problem, it is not within the scope of this study to examine the criteria used by the managerial accountant to determine the specific content of his control reports. This issue has long been the subject of research efforts and indications are that the research will continue. As far as this study is concerned, the content of the control report will be assumed to consist of actual costs, budgeted or planned costs, and their difference, the variance. Instead, given the content of the control report, this study concentrates on the presentation of the content in such a manner or fashion so as to contribute to its effective utilization by management in the control process.

In addition to the quote presented above and those in Chapter I, "Introduction to the Study," the replies of the managerial accountants and managers to the business firm questionnaire survey provide significant insights into the current effectiveness of the communication of control information through control reports in actual firms. The fifth question in each questionnaire asked the respondee to indicate his opinion as to the effectiveness of his current control reports, that is, those he either prepares or receives, in conveying control information. Hence, the replies to this

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question provided the over-all evaluation of each group of their firm's control reporting system. It should be noted that a full presentation of the results of the questionnaire surveys is to be found in Chapter VI. The total response of each group are shown below; first the replies of the accountants followed by those of the managers:[2]

		12%		19	50	19
Very Un-effective	Un-effective	Not Very Effective	Neutral	Somewhat Effective	Effective	Very Effective

				27%	54	9
Very Un-effective	Un-effective	Not Very Effective	Neutral	Somewhat Effective	Effective	Very Effective

As shown, the managerial accountants' evaluation of the effectiveness of their control reports are somewhat more negative than those of the managers who receive these reports. For the accountants as a group, approximately 70% rank their reports as at least "Effective" with the remaining 30% confessing that their reports are only "Somewhat Effective" or worse yet, "Not Very Effective." A priori, it was expected that the accountants would tend to be more positive about the effectiveness of their reports, since

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[2]The missing ten per cent for the management replies is due to respondee's refusal to select one scale when evaluating the control reports.

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they are the ones responsible for the operation of the control reporting system and would, therefore, be hesitant in confessing its faults and weaknesses. However, the replies cannot but lead to the conclusion that the accountants believe that current control reports are in need of improvement to make them more effective in conveying control information.

In terms of the managers' response to this question, their judgment is somewhat less negative, with 64% stating that the control reports they receive are at least "Effective" in conveying control information, with 27% stating that their control reports are only "Somewhat Effective." It should be noted that fewer managers ranked their control reports as "Very Effective" than did the accountants. The managerial responses emphasize the need for improvements in control reports.

Additional insight into the effectiveness of control reports within the firms surveyed is provided by a comparison of the replies from an accountant and a manager from the same firm on this question. Twelve such comparisons could be made from the replies to the survey. Each comparison tests the correspondence between the perception of the situation by the two parties involved. If both parties are

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not in agreement as to the effectiveness of the control reporting system, it suggests that a lack of communication between them exists and that both parties are communicating based on different attitudes toward the situation. The results of the comparisons were as follows: 42% of the pairs ranked their reports identically--the remaining 58% were at least one or two ranks apart in their evaluation of the effectiveness of their control reporting system. In fact, considering only those pairs that did not correspond, approximately 70% differed by one rank, 15% by two ranks, and 15% by three ranks. It must be concluded that this evidence strongly indicates that a lack of communication about the effectiveness of the control reporting system exists among the firms surveyed, and that both the accountants and managers have different attitudes toward the system.

Additionally, there is evidence that the weaknesses in current control reporting systems are known to management and that firms are making efforts to eliminate or overcome these weaknesses. Of the three firms that were unable to complete the questionnaire, two stated that the reason was that their control reporting system was either being reviewed or overhauled, as the following quotes from the letters show:

> Enclosed is the data which you sent us regarding control reports. We regret that we are unable to complete these at this time. Currently we are making a complete revision to our information system. This includes a computer installation. In addition, we are in the process of making certain personnel changes.
>
> In view of the foregoing we feel that information that we would furnish to you would not be representative of what we expect from control reports.[3]
>
> Our company is in the process of making an extensive review of this same matter [control reporting] with the aid of a team of management consultants.[4]

Additionally, while the case study of the aerospace firm's control reporting system was being conducted, management was in the process of studying the system to provide a program of revisions to make the system more effective.[5]

In summary, then, all the above evidence clearly indicates that the function of control reporting and control reports are definitely in need of efforts to increase their effectiveness in conveying control information and achieving the goals of control reporting and that they possess weaknesses that block or impair their current effectiveness.

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[3]Letter from the Assistant Corporate Controller on July 22, 1968.

[4]Letter from the Controller on July 1, 1968.

[5]Personal interview with the head of the Engineering Administration Department on January 24, 1968.

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Barriers to Effective Control Reporting

The fact that control reports and control reporting systems are not achieving their goals and are not as effective as possible indicates that there are barriers and/or problems associated with the communication situation that are blocking or impairing the effectiveness of control reports as a vehicle of communication. This is not unusual, for the discipline of interpersonal communications has long been aware of the potential barriers and problems associated with interpersonal communication and communication situations. It is helpful at this point to examine the general communication barriers as presented in the communication literature to provide a background and an introduction for an examination of those in the control reporting system.

General Communication Barriers

Taylor describes the following three classes of obstacles that prevent the achievement of communication goals:[6]

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[6]Hal R. Taylor, "Concepts," in American Association of Agricultural College Editors, AAACE Communications Handbook, (Danville, Illinois: The Interstate Printers and Publishers, 1967), p. 14.

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(1) Personal obstacles which are characteristics found in both the sender of a message and the receiver of the message. Examples of these characteristics are poor communication skills, lack of knowledge about the subject, poor attitudes toward communication, etc.

(2) Situation and resource obstacles, which are those arising out of the nature of the actual communication situation, such as budget, time, and space limitations.

(3) Content obstacles, which are those involved with the characteristics of the material to be communicated, such as its complexity or newness to the receiver.

Thayer[7] shows the importance of attitudes in interpersonal communication by showing that communication barriers can arise from improper attitudes by the source and receiver toward the following items: himself, his peers, the subject, the situation, the means used to communicate, the channel or media used, and the other person involved.

The following section is a discussion of the specific communication barriers appearing in the control reporting communication situation. These are weaknesses that block or impair the effectiveness of the communication stage of

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[7]Leo O. Thayer, Administrative Communication, (Homewood, Illinois: Richard D. Irwin, Inc., 1961), p. 108.

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managerial accounting for control and can be associated with either the control reporting process or the control reports themselves and will be discussed using this breakdown. Obviously, the compilation of all the communication barriers that exist in all control reports and reporting processes would be a major research undertaking in itself. However, the major barriers are identifiable and have appeared in some firms and have a realistic potential for existing in others.

It is important at this point to explain the role of the questionnaire surveys in the following sections. Both the literature and the case study identified and suggested some major undesirable situations arising within the control reporting system that act as communication barriers. The questionnaire surveys were used to identify the actual extent of these barriers' existence in the firms surveyed. Each manager, managerial accountant, and management services staff man was given a list of these undesirable situations and asked to indicate those that currently existed within their control reporting system or those of their clients and also later asked to indicate those which in their opinion had a realistic potential to exist in control reporting systems (the over-all response of the accountants and managers to this question is presented in Chapter VI, pages 203-04 & 221-22.

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Both the managers and managerial accountants were also asked in a later question to indicate any barriers that currently existed in their firms that blocked the effectiveness of the control reporting system (see page 89 below). Hence, the replies provided much useful empirical data on the actual barriers to the communication of control information among the firms.

Barriers in the Control Reporting Process

The first weakness or situation that acts as a barrier in the reporting process is that of too many being prepared and sent to management. Given the increased physical ability to communicate more frequently, it appears that quantity, not quality can become an underlying assumption or goal in the control reporting system as well as in all reporting systems. Hence, the literature has presented many articles charging that too many reports are prepared, such as the following:

> Yet in much of this activity, it has been too easily assumed that more communication necessarily produces better communication, an assumption that calls for critical scrutiny. It is indeed very doubtful whether the practice of communication has advanced at anything like the rate of technological practice.[8]

[8]C. S. Deverell, "Communication in Business," Accountant, (February 9, 1963), p. 148.

Hilton states that too many reports tend to deluge management and block the effective utilization of the reports.[9] Correspondingly, it has been strongly suggested that many companies need a reduction in the number of reports they prepare and send to their executives.[10] The problem seems so common that a cost accounting text includes the following example:

> The controller of a large concern stated recently that the directors and top management of his company received 72 monthly reports, the contents of which could never be fully appreciated or digested. A study led to the elimination of 34 reports without reducing the operating effectiveness or decision-making opportunities of management.[11]

The replies to the questionnaire confirm the charge that too many reports is an undesirable situation that is widely prevalent. Approximately 54% of the managers, those who receive the reports, replied that this situation currently existed in their control reporting system and 72%

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[9]W. Hilton, "Analyzing Reporting Systems," Management Accounting, Vol. 42, Section 1 (January, 1966), p. 48. See also Norman B. Sigband, Effective Report Writing For Business, Industry and Government, (New York: Harper & Row, 1960), p. 137.

[10]R. H. Van Voorhis, "Operating Reports and Controls," in R. Wixon, editor, Accountants' Handbook, Fourth Edition, (New York: Ronald Press, 1962), Section 4, p. 35.

[11]A. Matz, Othel Curry, and George Frank, Cost Accounting, Fourth Edition, (Cincinnati, Ohio: South Western Publishing Company, 1967), p. 674-5.

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declared that they felt it had a realistic potential for existing within other control reporting systems. One-fourth of the managerial accountants replying stated that there were too many reports currently in their systems and 50% replied that this had a realistic potential for existing in control reporting systems. One of the management services staffmen contacted replied that he has seen this situation in the systems of his clients.

A second major weakness that blocks the effectiveness of the reporting process is a lack of feedback to the sender about the effectiveness or suitability of the reports. Redding shows the importance of feedback in a reporting system thusly:

> Providing prompt and intelligible feedback is one of the most essential responsibilities of the business manager, both in his person-to-person communication and in his supervision of company communications. Without feedback, control is impossible; and without feedback ... morale is destroyed.[12]

Since the managerial accounting for control system seeks to serve management, the reactions of management to the reports it receives is useful and vital in providing

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[12]W. Charles Redding, "The Organization Communicator," in W. Charles Redding and George A. Sanborn, Business and Industrial Communication: A Source Book, (New York: Harper & Row, 1964), p. 32.

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clues to the effectiveness of the reports and the accountant's communication activities. If feedback appears only if the reports are late, the lack of feedback on the suitability of the reports and their usefulness can lead the accounting personnel to doubt either the usefulness of their efforts, the value of their reports, or both.[13]

The replies to the questionnaires indicate that this situation exists in many firms, for 56% of the accountants and 45% of the managers declared that it characterizes their current control reporting system. In fact, this situation was the situation most frequently selected by the accountants. Seventy-two per cent of the accountants and 62% of the managers felt it has a realistic potential to exist in control reporting systems. Both of the management services men replied that it existed in the systems of their clients.

A third weakness pertaining to the process concerns the lack of co-ordination between the accounting division and the operating managers as a group in the planning and development of the control reporting system. Both the managers and accountants surveyed strongly agreed that this

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[13]Personal interviews with the Manager of the Cost Accounting and Analysis Department of the aerospace firm on February 20 and 27, 1968.

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is a major potential problem in control reporting systems, with 75% of the accountants and 72% of the managers stating that this has a realistic potential for existing. Correspondingly, 25% of the accountants and 36% of the managers reported that this situation currently existed in their firm's control reporting system. Again, both management services men agreed that it existed in the systems of their clients.

If there is a lack of co-ordination in the planning stage, the system will be established by trial and error and the views of only one of the groups involved with the system will dominate in its development. Given a trial and error development or one-sided authority in its planning, the control reporting system will lack the smoothness and balance of a planned and well co-ordinated system. Additionally, the needs of both groups may not be satisfied by the system. Chambers presents the dangers from a lack of co-ordination in the development of the system thusly:

> It is quite possible, indeed it is almost inevitable that a processor [the accountant] will see, understand, and interpret things in a different light than does the actor [the manager]. ...
>
> Again, a specialist may well entertain the notion that the products of his services are ends in themselves....

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> And, again, it may happen that either or both the actor and the processor confuse the functions of the product of an information processing system.[14]

It should also be noted that a lack of co-ordination in the planning and development of the system provides a fertile breeding ground for the growth of other problems and undesirable situations.[15]

A lack of personal contact between the accounting department staff members who prepare the reports or have authority over their preparation and the managers who receive the reports is the fourth major weakness. Such a lack of contact prevents the accounting staff from becoming aware of the personal and professional needs of the managers in the reports and prevents their accurately predicting the information and communication needs of the managers as a group. The basis for decisions affecting the system and the content and form of the reports then becomes the personal opinions and assumptions of the accounting staff members which may be biased or invalid. A lack of contact also

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[14]Raymond J. Chambers, Accounting, Evaluation and Economic Behavior, (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1966), p. 43.

[15]Personal interview with Manager of the Cost Accounting and Analysis Department of the aerospace firm on February 27, 1968.

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blocks feedback and the system may loose its relevancy to the needs of the receivers. This situation is commonly referred to as "desk bound" decisions.

This barrier apparently has a much larger potential for existing than its current extent according to the managers and accountants replying to the questionnaire survey. Only 9% of the managers and 12% of the accountants reported that this situation currently existed in their systems, as compared to 45% of the managers and 56% of the accountants expressing the opinion that it has a realistic potential to exist. Only one of the management services men replied that his clients had experienced this situation.

The next major weakness to be discussed in regards to the process as a whole is a lack of flexibility in the control reporting system. This weakness is often caused by the use of electronic data processing equipment in the gathering of control information and preparation of the reports. The trend toward the use of EDP equipment in control reporting is evidently increasing each year and it appears that the use of sophisticated equipment that achieves a high degree of accuracy and speed may foster a feeling of security and a belief in the effectiveness of the resulting reports. However, the use of EDP is often accompanied by a

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lack of flexibility in the system and reports because changes and revisions in the system and reports are difficult, costly, and hard to make. This undermines the effectiveness of the process.[16] Another cause of inflexibility is the attitude of upper management toward changes in the system.

It appears that the managers as a group feel more strongly about flexibility in the system than do the accountants since 54% of the managers reported that there currently is a lack of flexibility in their system and 72% replied that it has a realistic potential as compared to 25% of the accountants replying that there currently is a lack of flexibility in the system and 56% feeling that it has a realistic potential. One management services staffman reported that this situation exists in the systems of his clients.

The final weakness in the process that will be presented and discussed is that of a lack of accounting backgrounds in the receivers of the reports. Without an accounting background, the managers may not be familiar with or understand the accounting system and operations that generate the reports and especially the limitations of such operations. Hence, their attitudes toward the reports and the system

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[16] Ibid.

generating them can become quite unrealistic. In regards to this, one source observes:

> Part of the managerial accountant's job should be to educate the users of the data. A lack of knowledge about accounting and the accounting system erects quite a barrier to the effective use of accounting reports.[17]

The replies of the accountants on this situation were quite consistent, with 50% replying that this situation currently exists in their firms and 50% feeling that this situation has a realistic potential. Forty-five per cent of the managers stated that this situation currently exists within their firm and 63% feeling that it has a realistic potential.

Barriers in the Control Reports

In addition to the major weaknesses in the reporting process presented above, the reports themselves often have inherent characteristics that may also act to block the effective utilization of the content of the report by the managers. Obviously, there are a wide variety of types of control reports in current use in industry and each type may have unique barriers associated with it. However, there are

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[17] Ibid., on February 27, 1968. See also Sigband, p. 310.

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major problems or areas concerned with reports that have created problems or have a potential for creating problems and these merit discussion.

One major area of criticism in accounting reports in general and control reports in particular is their format, that is, they appear as a mass of data which makes them hard to read. The presentation of numerical schedules, quite familiar to and easily read by accountants, often meets with quite different reactions from executives lacking accounting backgrounds, as the following point out:

> Most executives are not accountants and cannot fully comprehend the mass of data included in typical monthly reports.[18]

> Other reports are magnificently complete, but the mass of figures entirely discourages their use by other than statisticians.[19]

The use of electronic data processing equipment can also contribute to the negative impact of control report formats. The use of "machine burst" forms for the format of the report adds to the "mass of data" appearance and contributes

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[18] A. Bows, "Broadening the Approach to Management Reporting," Arthur Andersen Chronicle, Vol. 22 (April, 1962), p. 7.

[19] Editorial Board, "Communications and the Accountant," Canadian Chartered Accountant, Vol. 82 (March, 1963), p. 187.

toward making the report hard to read.[20] Illustration 1 on the following page is an example of this kind of control report format.

The replies of the managers and accountants show that they feel that this is more of a potential than currently existing situation in their firms, with only 18% of the accountants and 12% of the managers reporting that receiver dissatisfaction with control report formats currently exists in their systems. But 36% of the accountants and 50% of the managers felt that this has a realistic potential. Both management services staffmen reported observing this situation in the control reporting systems of their clients.

Another weakness in the control report itself is that of the terminology used in the report. As a distinct discipline, accounting has its own technical language which is primarily used to express ideas to other accountants. However, these terms are often used in reports and communications to non-accountants and frequently cause confusion in the receivers of the reports. This problem is common to

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[20]Personal interviews with the Manager of the Cost Accounting and Analysis Department of the aerospace firm on February 20 and 27, 1968.

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ILLUSTRATION 1

MACHINE BURST FORM FORMAT CONTROL REPORT

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	2	4	6	444	913	C621	2-04 1.3		11.37
	2	4	6	444	913	E634	2-11 6.5		65.97
							ITEM 23.8	68.20	328.78
							MODEL 118.8	68.20	1204.79
							CONT-ITEM 569.3	112.20	5659.81
E80219	3	1	1	491	006	E441	2-04 24.5		232.09
	3	1	1	491	006	E441	2-11 14.0		132.93
	3	1	1	491	006	E442	2-11 8.0		75.96
							ITEM 46.5		440.98
E80219	3	1	1	444	904		2-03	132.18	132.18
	3	1	1	444	904		2-03	153.38-	153.38-
	3	1	1	444	904	E441	2-04 4.0		37.89
	3	1	1	444	904	E441	2-11 2.0		18.99
	3	1	1	444	904	C621	2-11 .5		4.43
							ITEM 6.5	21.20-	40.11
							CONT-ITEM 53.0	21.20-	481.09
E80219	4	1	1	444	906		2-03	6.22	6.22
	4	1	1	444	906		2-03	179.94	179.94
	4	1	1	444	906	E441	2-11 14.0		132.93
	4	1	1	444	906	C621	2-04 1.0		8.75
	4	1	1	444	906	C621	2-11 2.9		25.65
							CONT-ITEM 17.9	186.16	353.49
							PROJECT 640.2	277.16	6494.39
							CODE 3338.6	1383.52	41553.09

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> Where the originator of a message and the receiver of it are specialists in different fields--in the present case, the actor and the accountant are specialists in different fields--concensus may not be established or if it is established, it may break down. This will occur if terms are used which have quite different referents in two or more fields.[21]

> The professional accountant sometimes fails to realize that many technical terms, which he uses with precise understanding, convey little meaning to a manager unskilled in accountancy.[22]

Only 12% of the accountants reported that there are currently terminology problems in their control reports and 50% replied that they felt this situation had a realistic potential for existing. The managers generally reported a more frequent occurrence for this situation, with 36% stating that this situation currently characterized their control reports and 45% feeling this situation has a realistic potential to exist. One management services staffman observed it in his clients.

It must be noted at this point that of the eight undesirable situations presented in the questionnaire and discussed above, only 7% of the executives responding stated

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[21]Chambers, p. 143.

[22]Editorial Board, p. 187. See also Sigband, p. 310.

that none of these situations currently existed in their firm and only 7% replied that none of the situations had a realistic potential for existing in control reporting systems. This indicates that the undesirable situations listed in the questionnaire are unfortunately common to the firms surveyed.

In addition to these two major weaknesses in control reports themselves, a number of more specific weaknesses have been identified with specific reports in specific firms. Such weaknesses as a lack of comparison between actual and budgetary data; lack of report titles; failure to portray trends; omission of responsible manager; irrelevant, insignificant, and inappropriately classified data; duplication and lack of correlation among reports; and lateness are some that have been mentioned in the literature.[23] Many of these same specific problems were reported by both managers and accountants in reply to an open-ended question asking them to indicate other problems

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[23]C. Griffen and T. Williams, "Ineffectual Accounting Communication," New York Certified Public Accountant, Vol. 33 (November, 1963), p. 788; Hilton, pp. 60-61; and personal interview with the head of the Engineering Administration Department of aerospace firm on January 24, 1968.

nd barriers within their control reporting system that lock the effectiveness of the reports. The actual reply of each executive to this question is presented in Chapter VI, pages 205-06 and 222-23 and in general, they correspond to the specific problems presented at the beginning of the paragraph. Some of the additional problems mentioned by the executives that were not previously presented are the following:

(1) Managements' failure to take appropriate action when the reports indicate that it is necessary.

(2) A lack of imagination by the accountants and the managers in reference to the content of the reports.

(3) Managements' failure to act quickly on the data presented in the reports.

(4) Management is not fully responsible for control.

(5) Accounting adjustments to the reports and arbitrary allocations within the reports destroy the validity of the content.

(6) Accountants do not reply directly to management.

Reasons for the Existence of Weaknesses

The underlying cause of these weaknesses that act as barriers to the effective utilization of the content of control reports has already been presented in Chapter I,

"Introduction to the Study," but merits repeating at this point. The evidence suggests that the reporting stage of managerial accounting for control has been relatively ignored as a field of study in managerial accounting, with the main emphasis of the research concentrating on the techniques and operations used to generate the content of the reports. In fact, it is only recently that the importance of the reporting stage has received the recognition it deserves. It appears as though managerial accounting, as a discipline, has assumed that the reporting phase can be performed efficiently and the goal of control reporting realized through the use of natural abilities without any well grounded or sound theory or guidance for the managerial accountant to follow in this area.

The accounting literature does contain sets of guidelines for the reporting phase of managerial accounting. These guidelines purport to act as valid guides to the accountant in his reporting activity and if valid, should provide him with the guidance to perform his reporting responsibilities effectively. However, these guidelines prove or show that the reporting area has been relatively ignored and lacks well grounded, sound theory, for they display the traditional trial and error pragmatic

development of accounting thought in this area rather than being well grounded and having a strong foundation in interpersonal communications, the discipline which specifically deals with the achievement of goals through interpersonal communication. The following presentation and evaluation of the sets of guidelines currently available to the managerial accountant will help explain the existence of barriers and demonstrate the need for a comprehensive set of guidelines based on information from the interpersonal communications subject area.

Current Reporting Guidelines

The guidelines currently available to the managerial accountants range from single bits of advice or single statements to long lists of directions to be followed. Each must be examined in the light of its potential ability to guide the accountant toward achieving the goal of control reporting, that is providing management with the appropriate control information it needs. Each must also provide practical guidance and be useful or applicable to the situation at hand.

Goldberg advances the following general thought to aid the managerial accountant in his reporting:

> Perhaps the only appropriate general criterion that can be laid down is that the accountant should

> set out to convey relevant information in his reports and either explain the significance of such information or so arrange it that explanation should not be impossible or unduly difficult.[24]

Whereas no one can certainly disagree with this statement, it is questionable as to whether it is of much value as a guide to the managerial accountant. It is helpful in that it advises one as to the general goal of reporting but it goes little farther than vaguely indicating how to achieve the goal. It assumes that the accountant is first fully aware of the significance of the content of his report and is secondly aware of the effect of various arrangements upon the perceived significance by the receivers. It suffers from its general and abstract nature.

Prince also advocates one general guideline for reporting and it is as follows:

> The primary guidelines followed in designing effective internal reports in a responsibility accounting system are to comply with the desires of the users of said reports (the decision-maker) as to format, content, and frequency. Monetary factors regarding the cost of preparing such accountability reports are secondary considerations.[25]

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[24]Goldberg, p. 361.

[25]Thomas R. Prince, Information Systems for Management Planning and Control, (Homewood, Illinois: Richard D. Irwin, Inc., 1966), p. 75.

His advice is basically to ask the receivers of the reports for their preferences and then to follow their advice with the cost of following their advice as a secondary consideration. It cannot be denied that the report-user's needs are quite important in reporting, but Prince assigns complete importance to them. Following this guideline can lead to the receipt of many different recommendations from the users of the reports which cannot be satisfied with one report. The relegation of cost to a secondary position is somewhat questionable.

Pfenning presents three general guidelines in regard to the reports of managerial accounting:

> Hence, it is my view that if accounting organizations are to remain the principal suppliers of management information, they must be sure there is:
>
> (1) enough information
> (2) that it's the kind needed
> (3) that it's available when needed.[26]

While primarily concerned with the general characteristics of the report, Pfenning shows that reports should not be late yet does not give any indication of just how to achieve timeliness. In fact, his guidelines are nothing more than

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[26] R. E. Pfenning, "Business Information Systems," The Accounting Review, Vol. 37 (April, 1962), p. 235.

general goals to be aimed for and are hence too general to have much practical importance.

In his text on managerial accounting, Li[27] discusses control reporting and presents what he calls the "pre-requisites and characteristics of a good management report for control." His pre-requisites and characteristics are as follows: the report should be timely, comparative, analytical, pertinent, and concise. These normative suggestions refer mainly to the content of the report and lack any suggested procedures for complying with them. Again, instead of guidelines, general goals are advanced.

Another cost accounting text presents the following guidelines which it calls fundamental qualities and characteristics: (1) reports must fit the organization chart and authority and responsibility; (2) they must be prompt and timely; (3) they must be issued with regularity; (4) they must contain comparisons of actual and planned cost; (5) they must be analytical; and (6) they should be stated in physical and financial terms.[28] Once again, these

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[27]David H. Li, Accounting for Management Analysis, (Columbus, Ohio: Charles E. Merrill Books, Inc., 1964), p. 293.

[28]Matz, Curry, and Frank, pp. 671-2.

guidelines suffer from a lack of potential application to a reporting situation due to their general nature and are really general goals.

Block suggests the following guidelines concerning written internal reports to be used as management's major tools of control: (1) they must be on printed forms; (2) be designed to provide the required data in the most useful and efficient manner; (3) be uniform in size if possible and suitable for binders; (4) be signed by the person preparing them; (5) be complete; (6) be prompt; and (7) be discussed regularly with the users.[29] Although Block's guidelines are much more specific and operational than those previously presented, they still suffer from being incomplete and too general to be applied. It must be noted, however, that item (7) is a guideline with much merit.

Niswonger and Fess, in their popular principles text, present the principles they feel should be followed in control reporting thusly:

> In order to be of maximum usefulness, internal reports should be prepared in accordance with the following principles:

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[29]Max Block, "Practical Cost Controls--How They Can Help Management Improve Profits," in H. Anton and Peter Firmin, Contemporary Issues in Cost Accounting, (New York: Houghton-Mifflin Company, 1966), pp. 89-90.

(1) The organizational structure and chain of responsibility of the enterprise should be observed.

(2) Irrelevant and immaterial data should be excluded.

(3) The data should be sufficiently accurate for the purpose.

(4) Terminology should be sufficiently accurate for the purpose.

(5) Comparative data should be used to develop significant trends and relationships.

(6) Reports should be timely.[30]

The general practice of presenting general goals or normative statements rather than operational guides seems to have been adopted by Niswonger and Fess in the above quote. Another principle is presented separately in relation to special reports only; it advises that special reports be "designed specifically for the user and the special purpose it is to serve."[31]

Anthony, a noted authority in managerial accounting, disagrees with Niswonger and Fess. He maintains that each control report, not only special reports, "should be tailor

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[30]C. Rollin Niswonger and Philip Fess, Accounting Principles, Ninth Edition, (Cincinnati, Ohio: South Western Publishing Company, 1965), p. 640.

[31]Ibid., p. 645.

made for the specific situation being reported on and for the needs of the user." In addition, he follows traditional practice and states that control reports should have the following general characteristics: objectivity, timeliness, clarity, and analysis.[32]

One of the earliest sets of guidelines for management reports was provided by Lewis thusly:

> ....the ten suggested ways of providing better control in the communication of significant facts to management are these:
>
> 1. Follow organizational lines.
> 2. Give emphasis to important elements.
> 3. Inter connect the data.
> 4. Show significant budget comparisons.
> 5. Avoid prorates [allocations] whenever possible.
> 6. Use standard costs the easy way.
> 7. Write off overhead as period cost.
> 8. Show significant ratios.
> 9. Show significant trends.
> 10. Relate investment to operations.[33]

In addition to suffering from the usual points, these guidelines also suffer from the author's inclusion of his opinions as to what should constitute the report's content and his view on the absorption vs. direct costing controversy!

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[32]R. Anthony, Management Accounting Principles, (Homewood, Illinois: Richard D. Irwin, Inc., 1965), p. 259.

[33]Ronello B. Lewis, Accounting Reports for Management, (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1957), p. 53.

Another source of guidelines, Anderson and Schmidt, take a general approach to this subject in their text on controllership. They recognize that each firm has some particular aspects unique to that firm and seek only to supply the managerial accountant with general guidelines that he must apply to his situation.

> Concerning this final step of communication, advice can be offered only in the most general terms. In the following paragraphs a few basic principles are suggested for each controller to adopt and apply to his own particular situation.[34]

The basic principles they suggest are the following: (1) each report should be aimed at one objective; (2) each report should emphasize variations from plan; (3) each report should be adapted to the need of the recipient; (4) old reports should be supplemented with new material for freshness; and (5) use graphic and verbal presentations.[35]

These bits of advice are certainly valid and an improvement over the lists of general goals presented earlier. However, they are not related and complete. It appears that Anderson and Schmidt are passing along various

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[34]D. R. Anderson and L. A. Schmidt, Practical Controllership, Revised Edition, (Homewood, Illinois: Richard D. Irwin, Inc., 1961), p. 443.

[35]Ibid., pp. 443-45.

techniques that have proven themselves rather than presenting a complete set of guidelines to be followed.

Perhaps the most comprehensive treatment of guidelines for the communication phase of managerial accounting appears in Heckert and Willson's text, Controllership. They present five "basic and overriding" guidelines for the controller to follow and then present eleven supplementary considerations which seek to achieve improved reception from the reader.

The five basic fundamental guidelines that the controller should follow in preparing effective internal reports are these:

(1) The report should contain information related to the responsibility unit being reported upon.

(2) The reports should emphasize the exceptions from plan.

(3) The reports should contain a comparison between actual and planned data.

(4) The reports should be sufficiently summarized for each level.

(5) The reports should include interpretive remarks or be self-explanatory.[36]

The eleven supplementary considerations are as follows:

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[36] J. B. Heckert and J. D. Willson, Controllership, Second Edition, (New York: Ronald Press Company, 1963), pp. 523-24.

(1) The reports should be timely, that is, promptly issued when due.

(2) They should be simple and clear--designed to minimize reader effort.

(3) They should contain language and terms familiar to the reader.

(4) A logical pattern should be followed in report presentation.

(5) The contents of the report must be accurate.

(6) The form of the report must be suited to the executive.

(7) The style, design, and size of reports should be standardized whenever possible.

(8) The report design should reflect the recipients viewpoint.

(9) Reports must be useful, that is, serve a useful purpose.

(10) The cost of reports must be considered.

(11) The more important a report, the more care should be exercised in its preparation.[37]

Although this set of guidelines is the most complete presentation, it is vulnerable to the same basic criticisms leveled at the previous sets. The five basic fundamentals are really relevant to the content of the report and how this content should be generated--these points are fundamental to control accounting rather than

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[37] Ibid., pp. 524-26.

specifically dealing with the communication phase. The fifth basic fundamental advising that reports should be interpreted suffers from the same disadvantages mentioned in regard to Goldberg's same principle.[38]

The eleven supplementary considerations, although comprehensive and containing some rather valid points, are again general bits of advice being passed along. Each of these has basically appeared before as part of the other sets considered and still suffer from the same basic weaknesses. Most of the supplementary considerations are highly normative and yet need more detail or explanation to make them into operational guidelines. Their barrenness becomes evident if they are restated as negative suggestions, such as "Reports should not be unclear."

The final set of guidelines to be presented is also the most recent. The Committee to Prepare a Statement of Basic Accounting Theory of the American Accounting Association in their report proposed that the following be followed as the "guidelines for communication of accounting information:"

1. Appropriateness to expected use.
2. Disclosure of significant relationships.

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[38]Goldberg, loc. cit.

3. Inclusion of environmental information.
4. Uniformity of practices within and among entities.
5. Consistency of practices through time.[39]

Although these guidelines were proposed for those reports sent to parties outside the firm (i.e. published financial statements) and are expressed in terms of current financial accounting problems, they are also advocated for use in the communication of internal managerial accounting information.[40] However, these guidelines are almost exclusively concerned with determining the content of the report and basically ignore completely the questions concerning the form of the reports and the method of presentation and hence are not really appropriate for managerial accounting use, where the content is relatively stable and the form and procedures concerned with transmitting the reports have added importance.

In summary, then, it can be concluded that the sets of guidelines currently available to the managerial accountant in or through the literature can be described in either

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[39]Committee to Prepare A Statement of Basic Accounting Theory, A Statement of Basic Accounting Theory (Evanston Illinois: American Accounting Association, 1966), p. 14.

[40]Ibid., p. 14 and p. 55.

of two ways: (1) either the guidelines are so vague and generalized so as only to point the accountant in the right direction and give him highly ideal goals at which to strive using his own methods or (2) are concerned mainly with the content of the reports and how it is to be generated, a topic relevant to the generation phase of managerial accounting for control. These guidelines are not well grounded in any way to interpersonal communications concepts or knowledge, the discipline concerned with the conveyence of information between human beings, as the following chapter will aptly demonstrate.

It is also interesting to note that although most of the sets presented above have been available to the managerial accountant for some time, the barriers and problems in the control reporting systems still exist. It is true that some of these sets and some individual guidelines within sets are capable of eliminating some of the minor weaknesses mentioned earlier, such as lateness of reports, poor terminology, to mention a few. In fact, a comparison between the barriers reported to be currently existing in the firms contacted by the survey and the guidelines presented above (pages 91 through 102) reveal the following:

(1) Concerning the problem of too many reports

being prepared and sent, only Pfenning comments by stating that the accountant should make sure there is "enough" information.

(2) Concerning the lack of feedback from users, only Block suggests discussing reports regularly with users.

(3) Concerning terminology problems, Matz, Curry, and Frank; Niswonger and Fess; and Heckert and Willson all advise using terms familiar to the user.

(4) Concerning receiver dissatisfaction with report format, Prince; Block; Anderson and Schmidt; and Heckert and Willson all comment on ways to prevent the occurrence of this problem or warn the accountant of its danger.

(5) The remaining four barriers, that is, lack of co-ordination between the managers and accountants in the planning and development of the system, lack of personal contact, inflexibility in the system, and lack of accounting backgrounds in the managers were completely ignored by the previously mentioned guidelines. And yet, these were not ignored by the managers and accountants replying to the questionnaire.

Therefore, except perhaps for terminology and format problems, following any one set of guidelines or any

combination would not prevent or solve the major weaknesses associated with control reporting systems. Obviously, a set that is operational and capable of eliminating and/or overcoming these barriers is needed.

Guidelines Currently Used

Finally, it is also important to examine the evidence which indicates what guidelines are currently being used or followed in actual firms in their control reporting systems to determine the form and content of the control reports. The tenth question of the managerial accountant questionnaire asked each accountant if he or his subordinates followed any formal or informal guidelines and if so, to briefly indicate these guidelines. The actual replies to this question are presented in Chapter VI, pages 209-10. These replies can be summarized thusly:

Reply	Per Cent
Formally stated guidelines are used	32%
Guidelines are used but are informal	50
Neither formal nor informal guidelines are used	11
Guidelines are used but not indicated in reply	5

Although approximately 80% of the managerial accountants

replied that they followed guidelines in control reporting, only 40% of these use formally stated guidelines.

Additional insight into the nature of the guidelines currently used is provided by the managerial accountants response to a later question in their questionnaire, the third part of Question Eleven. Eight managerial accountants stated that their current guidelines resembled certain sets appearing in the literature. Seven of these reported that their current guidelines most nearly resemble those presented by Heckert and Willson and one accountant stated that his current guidelines most nearly resemble those provided by Niswonger and Fess.

Summary

The present chapter has demonstrated the need for a sound set of guidelines for the managerial accountant to follow in his control reporting activities, a set not based on tradition or trial and error but well grounded in the discipline of interpersonal communication. It is the objective of this research effort to generate such a set of guidelines and the next two chapters are specifically concerned with this effort, with the first chapter presenting the appropriate general communication concepts and guidelines

and the following chapter showing the results of their application to the control reporting situation.

CHAPTER IV

THE GOALS OF INTERPERSONAL COMMUNICATION AND THE GUIDELINES TOWARD REACHING THESE GOALS

Introduction

This chapter resulted from research into the interpersonal communication process phase of the research design. It was necessitated by the lack of a comprehensive, codified set of guidelines readily available in the interpersonal communication subject area. The purpose of this chapter is to present such a set plus relevant concepts and definitions, all of which will be used in a later chapter in developing guidelines for control reporting. Hence, this chapter is not directly related to managerial accounting for control, but is concerned with the general interpersonal communication situation and the material in this chapter can be applied to human communication as it exists in any subject area. The guidelines, concepts, and definitions presented here are the basis and support for those presented later in regard to the control reporting communication situation. Hence, this chapter is the means to that end.

As noted in the Research Methodology section of "The Introduction to the Study," pages 14 and 15, the research efforts into interpersonal communications were aimed at providing general information on the nature of interpersonal communication, the variables or elements acting within the process, and the guidelines advanced by authorities in the area to achieve effective interpersonal communication. The following presentation is not, therefore, to be taken as a comprehensive discussion of all the aspects of interpersonal communication, nor are the guidelines presented to be taken as exhaustive or all-inclusive, since the collection and integration of all the existing guidelines would be a substantial (and fruitful) research project in its own right. However, through the research efforts in this area, the author believes that the major, generally accepted, and generally useful guidelines toward achieving effective communication are included and presented in this chapter.

The approach taken to generate the comprehensive set of guidelines was a simple but most realistic and relevant one. The author assumed the role of a managerial accountant who desired advice in the form of guidelines from the literature on interpersonal communication to help

himself become an effective communicator. Once the guidelines were identified, they were grouped according to the scheme of Farrell.[1] This scheme was selected primarily for the following two reasons: (1) it represents a process point of view of the communication process, versus the more static traditional scheme of source, message, channel, and receiver; and (2) it represents the steps that a human being should follow when approaching and acting within the interpersonal communication situation. The eight elements of the Farrell scheme are these:

1. Observation
2. Description
3. Analysis
4. Synthesis
5. Composition
6. Transmission
7. Reception
8. Feedback

This chapter first discusses the goals that are sought in communication. Guidelines toward achieving these goals and therefore achieving effective communication, are then presented and discussed. The chapter is concluded by a summary outline of both the goals and the guidelines.

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[1]Thomas Farrell, "Principles of Communicating Based on the Eight Essential Components of the Communication Process," Michigan State University. (Mimeographed Class Preparation).

Since definitions are a key element of this chapter, they are provided in the context of the chapter.

Goals of Interpersonal Communication

One of the most important distinguishing characteristics of human beings is their ability to think and express their thoughts and ideas to others through communication. Communication as a human activity is a common element in all other human activities.

And yet, human beings have a tendency to take communication for granted. It has become such a common element of our activities that we are often no longer aware of the activity of communication itself. Hence, the concept of communication has become hazy and has acquired a wide range of meanings. To avoid ambiguity, the following definition of communication and descriptive statements of the communication process are adopted as providing the starting point of this discussion:

> Communication may be defined as an attempt to establish a commonness or a relationship between source [sender of a message] and destination [receiver of the message].[2]

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[2]David H. Li, "The Semantic Aspect of Communication Theory and Accountancy," Journal of Accounting Research, I (1963), 102.

> Communication is not something that exists. It is something which occurs. In its broadest perspective, communication occurs whenever an individual assigns significance or meaning to an internal or external stimulus.[3]
>
> The fundamental problem of communication is that of reproducing at one point either exactly or approximately a message selected at another point.[4]

These quotes serve to generally describe what is meant by the use of the term "communication" in this chapter. The quotes, however, are not very specific as to who or what may engage in communication. Observation of the real world reveals that the roles of source and destination mentioned by Li may be played by human beings, machines, and animals, or any combination of these. This study, however, is concerned only with the communication between human beings, referred to as interpersonal communication.

Interpersonal communication is not effortless--to participate in it requires the use of energy. Man has developed a complex system of signs and rules for their use in communication called a language, and the use of this

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[3]Thayer, Administrative Communication, (Homewood, Illinois: Richard D. Irwin, 1961), p. 43.

[4]Claude E. Shannon, "A Mathematical Theory of Communication," The Bell System Technical Journal, XXVII (July, 1948), 374.

language requires, at least at first, a deliberate, purposeful act. Human beings engage in interpersonal communication for a reason. This reason is that they seek to achieve some purpose or purposes through communicating. These purposes are called the goals of communication.

In some situations, the goals of communicating will be implicit and well known. Hence, the source or communicator will not have to specifically define his goals before communicating. In other situations, however, the goals must be precisely determined before communication takes place. In the latter case, the communicator must decide such questions as what he wants the receiver to know after being exposed to the communication or how he wants him to feel.[5] Both types of situations exist many times in our daily lives. An example of the first situation is the greeting a friend; of the second situation, composing a letter.

It is obvious that the specific, definite reason behind human involvement in communicating with other human beings will differ from individual to individual and situation to situation. In general, however, the reason is

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[5]Thayer, p. 85.

airly uniform. The primary goal of interpersonal com-
unication for the purpose of this study is as follows:
o evoke a desired behavior change on the part of the
eceiver of the communication.[6]

Furthermore, although the ultimate goal is to pro-
uce a behavior change, the view is adopted here that com-
unication cannot directly produce this change in the be-
avior of the recipient--communication is limited to
hanging some part of the receiver's personality, defined as

> ...personality defines an individual. It is a structured, an ordered pattern of three facets, each of which is also organized. The cognitive structure is what one knows and how one fits his knowledge together. One's set of feelings and attitudes and the rankings of each constitute one's emotive structure. A goal structure is composed of those ranked values which provide the ultimate motivations of an individual. Each personality is a mosaic of these three interdependent aspects of one's self.[7]

The effect of communication is limited to directly
hanging one or more aspects of the receiver's personality.
ny behavior change is based on this personality and is

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[6]J. Campbell and H. Hepler, "General Introduction,"
n Dimensions in Communication, edited by J. Campbell and
. Hepler, (Belmont, California: Wadsworth Publishing
ompany, 1965), p. 8. See also Thayer,p. 59.

[7]Thomas Farrell, "Communication Evokes Change,"
ichigan State University, (Mimeographed), 1967, p. 1.

decided upon and initiated by the receiver. Communication, then, can only have an indirect effect on behavior through the receiver's personality which is the basis for behavior.[8] Taylor considers this as one of the two groups of goals of communicating, and views it as "...more general 'educating' in terms of influencing attitudes that will lead to a given kind of action later on."[9]

Even though communication cannot directly change behavior, if the communication is planned well and accomplishes the desired change in the receiver's personality, the desired behavior change should result.[10] The concept of effective communication refers to the evoking of the desired change in the receiver's personality, that is, the communicator has accomplished or achieved his goal.[11] Berlo's concept of fidelity closely corresponds to this.[12]

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[8] Ibid., p. 7.

[9] Hal R. Taylor, "Concepts," in AAACE Communications Handbook, edited by the American Association of Agricultural College Editors, (Danville, Illinois: The Interstate Printers and Publishers, 1967), p. 13.

[10] Farrell, "Communication Evokes Change," p. 7.

[11] Ibid. See also Thayer, p. 83.

[12] David K. Berlo, The Process of Communication, (New York: Holt, Rinehard, and Winston, 1960), p. 40. Fidelity refers to the communicator's achievement of his communication goals.

In addition to the primary goal of evoking a behavior change through changing the appropriate aspect of the receiver's personality, a number of secondary goals are also sought in interpersonal communication. The typical secondary goals that the source usually seeks are the receiver's selection (i.e. attention and interest), comprehension (i.e. meaning and understanding), acceptance (i.e. belief and attitude), recall and use of his message.[13] In addition, the communicator seeks to be efficient in his communicating activities, that is he seeks to achieve the maximum effect at a minimum cost in terms of time and money.[14] These secondary goals are complementary to the primary goal and help to reinforce it.

Guidelines Toward Achieving Communication Goals

Given definite goals to be sought in interpersonal communication, it is natural to look for definite rules to be followed by the participants to achieve their goals and achieve effective communication. As noted earlier, Farrell's

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[13]From R. Harrison, "Nonverbal Communication: Explorations into Time, Space, Action, and Object," in Campbell and Hepler, Dimensions in Communication, p. 166; Taylor, p. 13; and Thayer, pp. 113-4.

[14]Thayer, pp. 92-93.

cheme was chosen to organize the various rules or guide-
ines presented by authorities in the interpersonal com-
unication subject area. The resulting comprehensive set
f guidelines represents the eight general steps that the
ommunicator should wholly follow to achieve his goals in
n interpersonal communication situation.[15] These follow:

tep 1: Observation

The first step toward achieving effective communi-
ation advises the communicator to observe the communica-
ion situation objectively to identify the important ele-
ents within the situation.[16]

The following are the six important elements that
hould be identified for each situation:

(1) The originator or source of the message.
(2) The actual lines of communication used, formal and informal, vertical and horizontal.
(3) The means used for communicating.
(4) The direct intended receiver.
(5) The probable unintended receivers.
(6) The motives or purposes for communicating.[17]

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[15]Defined as those conditions prompting the communication and providing the environment within which the communication occurs. Ibid., p. 57.

[16]Farrell, "Principles of Communicating."

[17]From T. Farrell, "Description of Firm and Its Communication Situation," Michigan State University (Mimeographed), p. 2; T. Farrell, "Analysis of a Communication

This step's objective is twofold: First, it seeks to make the communicator aware of the fact that he is about to engage in interpersonal communication and should, therefore, be prepared to use his skills. Second, it provides the communicator with a map of the communication situation, of the environment in which he will act. Knowledge of this map helps him plan, analyze the situation, solve problems, and do a better job, according to Taylor.[18]

It should also be noted that this step provides the framework for the remaining steps.

Step 2: Description

The second step is a formal extension of the first and suggests that the informal observations of the first step be transformed into a written formal record to be used for guidance and future reference.[19] The record should be

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Situation," Michigan State University (Mimeographed); Thayer, pp. 94-95; and M. W. Schutte and E. R. Steinberg, Communication in Business and Industry, (New York: Holt, Rinehart, and Winston, 1964), pp. 220-21, and Robert R. Aurner and Morris P. Wolf, Effective Communication in Business, Fifth Edition, (Cincinnati, Ohio: South-Western Publishing Company, 1967), p. 513.

[18]Taylor, p. 1.

[19]Farrell, "Principles of Communicating."

updated periodically to reflect the current state of the communication situation and its important elements.

The formal record offers two advantages. First, the effect of changes in the elements would be easily noted and recognized from the records. Second, the written record will provide sound guidance to anyone who later becomes involved in the situation.

Step 3: Analysis

The third step in this approach to the communication situation requires the communicator to judge the relative importance and effect of certain characteristics of the basic elements within the situation. These characteristics have a great effect on the quality of communication achieved in the situation.[20] The elements and their important characteristics are these:

A. Concerning the source of the communication:

(1) His skill as a communicator and knowledge of the communication process. The amount of communication skill the source possesses is a key determinant of his ability to communicate, as shown by Berlo:

> A basic assumption of the communication discipline is that any understanding of the [communication]

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[20] Ibid.

> process, the determinants, and the effect of communication improve a man's basic ability to handle the communication problems that he faces....[21]

(2) His attitudes. More specifically, those toward himself, the value of his message, and toward the receiver.[22] Research has shown the influence of attitude toward the receiver largely determines the effect of the communication.[23] The communicator's attitude toward his material is important in the following way,

> For the most part, subject matter attitudes come through. If he does not believe in the value of his subject matter, it is difficult for him to communicate effectively about it.[24]

(3) His knowledge about the subject matter of the message. The importance of this characteristic of the source is obvious: the source cannot communicate effectively what he doesn't know nor understand. Hence, his knowledge and understanding of his material places a constraint or puts a limit on the effectiveness of communication

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[21]Berlo, p. 7. See also Thayer, p. 71 and 108 and Taylor, p. 1.

[22]Berlo, pp. 46-47; Thayer, p. 89; and Taylor, p. 1.

[23]Jay M. Jackson, "The Organization and Its Communication Problem," in W. Charles Redding and George A. Sanborn, editors, Business and Industrial Communication: A Source Book, (New York: Harper and Row, 1964), p. 120.

[24]Berlo, p. 47.

he can achieve.[25]

(4) His social background, education, friends, cultural position, social position, and his position within the social and cultural system within which the communication will occur. Taken together, these elements are called the socio-cultural context of the communicator and communication. The effect of this context can be seen mainly in the communicator's word choices, purpose for communicating, meanings attached to words, and choice of channels.[26]

(5) His motives for communicating in the situation.[27] This characteristic will often determine the extent and quality of his communication efforts.

(6) His relationship to the direct intended receiver. Research has shown this characteristic to become even more important if the relationship is that of superior-subordinate.[28]

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[25]Berlo, p. 48 and Taylor, p. 1. See also Aurner and Wolf, p. 51.

[26]Berlo, p. 49 and Taylor, p. 1.

[27]Farrell, "Analysis of a Communication Situation"; Thayer, p. 51; Howard Dean and Kenneth Bryson, Effective Communication, second edition, (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1961), p. 8; and Jackson, p. 121.

[28]Jackson, p. 121. See also Farrell, "Analysis" and Thayer, pp. 50 and 52.

B. Concerning the actual lines of communication used: The important characteristic of the channel used is its directness. It is important to recognize and be aware of the fact that the actual lines of communication need not completely correspond to the formal channels that have been set up, as Frank states:

> Prediction about communication behavior would be relatively easy if communication always followed the formal lines and these lines alone. However, it rarely does. Therefore, it is not only important for an individual to understand formal communication channels...but also to be aware of the informal channels as well.[29]

Examples of some other lines of communication that are important, especially within formal organizations, are the social lines between friends, the staff lines between specialist and user, and the lines of decision and influence.[30]

According to Thayer, the organization of the lines or channels of communication provides the upper limit to the efficiency of communication to be attained.[31]

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[29]W. Frank, "Social Factors in Communication," Participant's Notebook Article, (Michigan State University/ AID, 1965), p. 6.

[30]Ibid.

[31]Thayer, p. 100.

C. Concerning the means used for communicating: This element has two characteristics that should be analyzed: (1) the circumstances in which various means are used and (2) the purpose for their use in these circumstances.[32]

D. Concerning the direct intended receiver: There is a great deal of similarity and correspondence between the important characteristics of the source and those of the receiver that affect the quality of communication achieved:

(1) His communication skill, that is, his knowledge of the communication process and ability to receive and decode the message. This characteristic is equally important in the receiver as in the sender.[33] Concerning his understanding of the communication process, itself, Berlo notes:

> If he does not understand the nature of the communication process, the chances are good that he will misperceive the messages, make incorrect inferences about the purposes or intentions of the source, fail to operate in what may be his own self interest.[34]

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[32]Farrell, "Description of Firm," and Thayer, p. 56.

[33]Berlo, p. 51 and Taylor, p. 1.

[34]Berlo, p. 51.

(2) His attitudes toward himself; the source's intentions, expertness and trustworthiness; the message content, completeness and validity; and the message treatment by the source.[35]

His attitude toward the source is vital, as shown by Hovland, Janis and Kelly:

> ...the research evidence indicates that the reactions to a communication are significantly affected by cues as to the communicator's intentions, expertness, and trustworthiness.[36]

(3) His knowledge of the code[37] used and resulting ability to understand the message.[38]

(4) His position within the socio-cultural system. It is very likely that the source's position will differ from the receiver's position, but the factors in each will be similar.[39] Again, as shown by Frank, this characteristic assumes added importance within formal organizations:

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[35]Berlo, p. 50; Thayer, pp. 54-55; Dean and Bryson, p. 19; and Taylor, p. 1.

[36]C. Hovland, I. Janis, and H. Kelly, "Credibility of the Communicator," in Campbell and Hepler, Dimensions in Communication, p. 111.

[37]Defined as any group of symbols that can be structured in any way that is meaningful to some person. From Berlo, p. 57.

[38]Berlo, pp. 51-52 and Thayer, p. 118.

[39]Taylor, p. 1 and Dean and Bryson, p. 17.

> We are concerned about social factors in communication in a number of ways. Primarily, we are interested in social factors as they affect our efficiency in formal organizations. The more we are aware of these factors, which influence behavior within the organization, the better able we are to effectively predict the behavior of our receivers.[40]

E. Concerning other factors operating in the situation: This involves identifying and analyzing the influence of the probable indirect receivers of the message on the situation.[41]

These, then, are the important characteristics of the important elements within the communication situation. These characteristics exert a major influence over the degree of effective communication achieved and the communicator's analysis of the relative importance of these characteristics and elements within his situation provides him with a picture of the complexity of the situation and the forces within it that affect his potential success.

It is recognized that the communicator's evaluation of these characteristics and their importance is subjective. But this is necessarily so. It is easily accepted that each particular interpersonal communication situation

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[40]Frank, p. 1.

[41]Farrell, "Analysis" and Thayer, p. 85.

is unique and therefore no statements concerning the uniform influence of the characteristics can be validly provided.

Step 4: Synthesis

The preceding three steps provide the communicator with relevant insights into the nature of the communication situation and those elements or variables operating within it and having an influence upon his effectiveness. In a sense, they provide the background and frame of reference necessary for effectively communicating within the situation. The synthesis step provides guidance in the selection of the particular communication goal to be achieved in the situation and the means to achieving this goal.

At this stage, the communicator must decide upon the change in the receiver's personality that he desires to accomplish in order to evoke the desired behavior change.[42] He should be guided by a knowledge of the receiver's primary concern and relate the change desired to this concern.[43] Economy of effort becomes a relative consideration at this point:

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[42]Farrell, "Communication Evokes Change," p. 1.

[43]T. Farrell, "Some Do's and Don'ts," Michigan State University, (Mimeographed).

> Economy as well as efficiency requires that one apply one's efforts where they will be most fruitful in achieving one's ends. In communicating, the focal point is the change to be made in the learned portions [cognitive structure] of an individual's personality.[44]

In relation to the decision concerning the change to be evoked, consideration must be given to the communicator's knowledge and understanding of the situation at hand and his right to make a change in the personality of the receiver.[45]

After deciding upon the change to be evoked, the communicator must then decide how he is to achieve this change--i.e. what point will he use to accomplish the desired result.[46] It must be noted that the point chosen can have three possible outcomes in the situation, which are:

(1) No change in the receiver's personality;
(2) A regular and well defined change in personality;
(3) A revolutionary change in personality.[47]

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[44]Farrell, "Communication Evokes Change," p. 7.

[45]T. Farrell, "Testing for Effectiveness," Michigan State University, (Mimeographed); and Schutte and Steinberg, p. 221.

[46]Farrell, "Communication Evokes Change," p. 1.

[47]Kenneth Boulding, "Introduction to 'The Image' in Campbell and Hepler, Dimensions in Communication, pp. 29-30.

To evoke the desired change, the point chosen should meet the receiver's concerns directly and be stated in terms of his concerns. It should also be in his best interests and be as free as possible from evoking undesirable changes in his personality.[48]

Step 5: Composition

The composition step is concerned with the actual preparation of the message to be transmitted to the receiver. It must be noted here that the sender should be aware that the message is not an end of the communication process but a means to acomplishing his communication goals.[49] The most important emphasis at this stage is the sender's analysis of the receiver and the relevant guidelines in the previous steps provided the information needed to compose an effective message.

> One of the most important emphasis of communication theory is a concern with the fellow at the far end of the communication chain--the receiver.
>
> The receiver always has to keep in mind when the source makes decisions with respect to each of the communication factors we have discussed.[50]

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[48]Farrell, "Testing," and "Do's and Don't's".

[49]Thayer, p. 222.

[50]Berlo, p. 52. See also Schutte and Steinberg, pp. 224-25.

> ...as communicators we can most easily control our own behavior. Therefore, as sources, we accept the major effort and responsibility in encoding our messages. The more important the communication is to us, the more effort we will be willing to expend. Much of this effort will involve analysis of our receivers.[51]

The relevant decisions to be made in the composition stage concern the selection of stimuli, their organization into a message and message content and the presentation of the message.[52] Each decision has its own appropriate guidelines and these are as follows:

A. Concerning the selection of stimuli: The stimuli selected must first agree or be in accord with the desired change to be evoked in the receiver's behavior and then related to the receiver's concerns. The code chosen should be known to the receiver and understandable to him. The elements chosen from this code should appeal to the receiver and be easy for him to decode.[53]

B. Concerning the organization of the stimuli: Within the message itself, the code elements should be

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[51]R. Engbretson, "Communication and Meaning," Participant's Notebook Article, (Michigan State University/ AID, 1965), p. 3.

[52]Farrell, "Principles of Communicating,"

[53]Berlo, p. 62; Thayer, p. 120 [Proposition One]; Dean and Bryson, p. 17.

structured to minimize the effort required to decode and interpret it; the content should be convincing to the recipient and pertinent to his needs and interests.[54]

The two general principles of organization are presented by Thayer thusly,

> 1. Put that first which the receiver needs first in order to comprehend the message, and
> 2. Put that first which is needed first to affect the receiver in the desired way.[55]

Additionally, the order of appearance of certain items or the sequence in which items appear becomes important since the receiver may learn to become conditioned to perceive things in certain ways in our messages only.[56]

In structuring the elements of the message, the pace of the elements is important, as shown by Harrison:

> Within a message, the communicator also makes decisions about timing. Pacing of information and message elements may make the difference between an exciting and boring communique....[57]

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[54]Berlo, p. 62; Thayer, p. 121 [Proposition Three]; and Taylor, pp. 3-4.

[55]Thayer, p. 237.

[56]M. MacLean, "Perception and Communication," Participant's Notebook Article, (Michigan State University/AID, 1965).

[57]Harrison, p. 167.

C. Concerning message presentation: The presentation of the message will be guided by the previous steps relating to the communicator's analysis of the receiver. The general guidelines for message presentation suggests that it be matched to the estimation of the receiver's personality, attitude, communication skills, knowledge level, etc.[58]

As MacLean points out, at this step the sender can aid the receiver perceive the message content.

> As communicators, we can help our receivers to perceive things more as we do by increasing certain stimulus energies and decreasing others. Thus, we can emphasize, highlight, silhouette those aspects or those things we consider important. Again, we can do this more effectively where we know the ways our receivers see things and what their purposes are.[59]

It is appropriate at this point to note that error in communication is unavoidable and should be recognized by the communicator during the composition stage. The inevitability of error is due to the fact that meaning exists in people and is not an inherent attribute of the message or message elements.

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[58]Thayer, p. 58 and Farrell, "Principles of Communicating."

[59]MacLean, op.cit. supra. n. 56.

> Our previous discussion stated that even though man may have similar meanings for any set of symbols, no two men have exactly the same meanings. Because of this, we as communicators can expect some degree of error in our communication efforts. Since we expect some degree of error, we must ask ourselves, "How much error can I afford?" We are forced to admit that we cannot eliminate error.[60]

Step 6: Transmission

The sixth step is concerned with the transmission of the message to the receiver; that is, choosing the means used, the channel, to deliver the message. The decision at this stage is not independent of the previous stages. In fact, the choice of channel is directly related to the information generated by the previous steps:

> Clearly, we cannot discuss or make decisions about the selection of channels independently of our decisions on message. The content, the code, the treatment of a message are related to our choice of channel. At the same time, knowledge of our receiver is related to the choice of channel....[61]

It is very important for the source to be able to recognize the channels that are available for his use in transmitting a message to the receiver. The most easily recognized channels are the formal ones, but Thayer presents seven differing types of channels that usually are

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[60]Engbretson, p. 3. See also Thayer, p. 70.

[61]Berlo, p. 67. See also Thayer, p. 56.

available for use in an administrative communication situations. They are these:

(1) Formal and informal, where the formal ones have been consciously established and the informal ones risen by accident;

(2) Organizational and interpersonal, where the former are shown and follow the organization chart and the latter established by the members or by habit;

(3) Authority and power, the lines which follow the hierarchy of command within the organization;

(4) Intergroup and intragroup, where the former are usually between leaders of two groups and the latter are established within one group;

(5) Prestige and common interest, usually horizontal channels generated and sustained by mutual interest;

(6) Idea and value, which are facilitated by ideological interests;

(7) Functional and situational, where the former handle recurring messages and the

latter serve special situations.[62]

In light of the communicator's decisions about the message, his knowledge of the receiver and of the channels available, it is most important that he choose the most direct channel to use in the given situation.[63] In addition, the following seven guidelines are helpful in the choice of the most appropriate channel for given types of messages:

1. The more important, significant, or urgent a message, the more channels should be used.
2. When speed of transmission is the guiding factor, use informal channels.
3. To be authoritative, an official message must pass through formal, organizational channels.
4. To be influential, the most advantageous are power and prestige channels, followed by intragroup and interpersonal channels.
5. Policies are most effectively transmitted through organization channels but practices are more effectively transmitted through interpersonal channels.
6. A channel which ordinarily "carries" a certain type of message may "carry" other types of messages less effectively.
7. Attitudes are best reached through intragroup, interpersonal, and value channels; knowledge best reached through formal and ideological channels.[64]

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[62]Thayer, pp. 252-54.

[63]Farrell, "Principles of Communicating."

[64]Thayer, pp. 254-55.

The timing of message transmission is also vital to achieving effective communication. The communicator will usually have control over the time when the message will reach the receiver and should seek to have it arrive when the receiver will be most receptive to it and will give it his attention. Useful techniques in achieving receiver attention are to provide lead time or advanced notice of the time of message arrival. Often, delay and off schedule transmission will also command receiver attention.[65]

Step 7: Reception

The reception step advises the communicator to actively attempt to monitor the message being transmitted to the receiver to be sure that it is the message he intended to send.[66] This step becomes especially important if the activity of transmission has been delegated to a third party, acting in behalf of the communicator.

Step 8: Feedback

The last step in the suggested approach to the communication situation is that of the communicator

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[65]Harrison, p. 167 and Thayer, pp. 52 and 55.

[66]Farrell, "Principles of Communicating." See also W. Charles Redding, "The Organizational Communicator," in Redding and Sanborn, Business and Industrial Communication: A Source Book, p. 31.

receiving feedback from the receiver after the message has been delivered. At this stage, the roles are somewhat reversed--previous to this, the communicator has been active and the receiver somewhat passive. Now the communicator becomes somewhat passive and, in fact, more of a receiver than a sender. However, feedback is vitally important in the source's efforts to achieve effective communication and there are a number of steps he can initiate to evoke feedback from the receiver. Succinctly, the communicator should plan for and provide for feedback, interpret the feedback as objectively as possible, and then use his interpretation and analysis of feedback in modifying his behavior and decisions in future communication situations.[67]

Feedback is important because it informs the communicator of the effect of his communication on the receiver. It can be defined as "...information about any changes in the condition of B [the receiver] attributable to his [the communicator] communication."[68] Given feedback, the communicator can then check to determine whether he has

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[67] Farrell, "Principles of Communicating," and Thayer, pp. 71 and 95-97.

[68] B. Westley and M. MacLean, "A Conceptual Model for Communications Research," in Campbell and Hepler, Dimensions in Communication, p. 63.

achieved his communication goals, that is evoked the desired behavior change through changing the appropriate aspect of the personality and avoided any undesirable changes.[69] Based upon his determination, the communicator becomes aware of his success or failure in achieving his communication goals and can then attempt to modify his future communication activities appropriately, as Engbertson so notes:

> When the feedback they [good communicators] receive indicates that the receiver did not behave as they expected, they analyze the situation. They try not to let emotional feelings interfere with the analysis. Two questions are important to ask. First, "How did the receiver interpret my communication?" Second, "How can I change my communication to more accurately indicate the behavior that I wish from the receiver?"[70]

It must be noted that there are some dangers or negative aspects associated with feedback. If there is too much feedback, the channels which carry it may become clogged and no longer operate efficiently, that is, either completely block further feedback or distort it. Another danger is that the communicator will distort the feedback through his own prejudices or feelings. Dangers arise

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[69]Farrell, "Communication Evokes Change," p. 1.

[70]Engbretson, p. 4. See also Thayer, p. 132.

from the source's inability to analyze and evaluate the feedback properly.[71] A major danger is that feedback will be ignored for fear that it will show someone to be a poor communicator or cause change.

These, then, are the guidelines advocated for the communicator to follow to achieve his communication goals in interpersonal communication. They apply to any general interpersonal communication situation. Both the goals and guidelines are presented below in outline form as the summary of this chapter. It must be noted that the sources cited in the chapter are an integral part of this outline summary but are not repeated here.

Summary

I. Goals of Interpersonal Communication

A. Primary Goal: to evoke the desired change in the receiver's behavior through evoking the desired change in his personality structure (his emotive, cognitive, and goal structure).

B. Secondary Goals: to obtain selection, comprehension, acceptance, recall, and use of the message by the receiver in an efficient manner.

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[71]Thayer, pp. 95-96.

II. Guidelines Toward Achieving These Goals

A. Observation

1. Look at the communication situation objectively to identify the following six important elements:

a. the originator or source of the message.

b. the actual lines of communication used.

c. the means used for communicating.

d. the direct intended receiver.

e. the probable unintended receivers.

f. the motives or purposes for communicating.

B. Description

1. Record the observations made in the first step for guidance and future reference and use. Keep the record up dated.

C. Analysis

1. Determine the relative importance and influence of the following characteristics of the elements on the situation:

a. Concerning the originator or source of the message:

(i) his skill as a communicator and knowledge of the communication process.

(ii) his attitude toward himself, the value of his message, and toward the receiver.

(iii) his knowledge about the subject matter of the message.

(iv) his position within the social-cultural framework.

(v) his motives for communicating.

(vi) his relationship to the direct intended receiver.

b. Concerning the actual lines of communication: their directness.

c. Concerning the means used for communicating: the circumstances when they are used and the reason for their use.

d. Concerning the direct intended receiver:

(i) his communication skill and ability to receive and decode the message.

(ii) his attitude toward himself, the source, and the message.

(iii) his knowledge of the code used and resulting ability to understand the message.

(iv) his position within the social-cultural setting.

e. Concerning other factors operating within the situation.

D. Synthesis

1. Find your receiver's primary concern and determine the desired change in his personality appropriate to his primary concern and to the desired change in behavior. The focal point should be the change in his learned (i.e. cognitive) structure.

2. Relative considerations to this decision about the changes are:

a. Are you right about it?

b. Do you really understand the situation?

3. Decide upon the point to be used to evoke the desired change. The possible effects of the message upon the receiver's personality are these: no change; regular and well defined change; and revolutionary change.

4. To evoke the change, devise your point to meet the receiver's concern directly, state it in terms of his concerns, and determine if your

point will produce any undesirable effects.

E. Composition

1. Select your stimuli in accord with your intentions and relate them to the receiver's concerns:

   a. Choose codes the receiver can understand and are known to him;

   b. Select elements from the code that appeal to him; and

   c. Select elements from the code that are easy for him to decode.

2. Organize your stimuli:

   a. Structure code elements to minimize the effort required to decode and interpret the message;

   b. Choose content that is convincing to the receiver;

   c. Choose content that is pertinent to his needs and interests; and

   d. Pace the elements of the message to achieve attention.

3. Match the presentation of the message to the estimation of the receiver's personality, his attitudes, communication skills, and knowledge

level. Present your point positively.

F. Transmission

1. Select the most direct channel in light of the message content, code, treatment, and the receiver.

2. Consider the timing of transmission: is it adapted to the situation?

3. Attempt to have the message arrive when the receiver is most likely to accept it. Use advanced notice or delay to achieve attention.

G. Reception

1. Actively try to monitor what is being sent to the receiver.

H. Feedback

1. Plan for and provide for feedback.

2. Interpret feedback objectively.

3. Use the interpretation of feedback in future communication situations.

CHAPTER V

GUIDELINES TOWARD THE EFFECTIVE COMMUNICATION OF CONTROL INFORMATION

Introduction

Up to this point, the need for a sound, well grounded set of guidelines for the managerial accountant to follow in his control reporting activities and decisions concerning the form and content of control reports has been demonstrated. Additionally, the information concerning the general communication goals and the guidelines toward reaching these goals in an interpersonal communication situation from the interpersonal communications subject area needed to develop this set of guidelines has been presented, thereby affirming the first part of the hypotheses to be tested by this study and presented on page 13 in Chapter I. It is the purpose of this chapter to affirm the rest of this hypothesis by presenting the set of guidelines which resulted from the application of the material in the previous chapter to the control reporting situation and showing that they will eliminate and/or overcome the

major barriers to effective communication as presented in Chapter III and of achieving the communication goals of control reporting.

The chapter first discusses the goals to be achieved through the communication situation between the managerial accountant and the manager concerning the transmission of control information through the control report. The set of guidelines to be followed by the managerial accountant to achieve the goals is next presented and the ability of these guidelines to eliminate and/or overcome the major barriers associated with the control reporting process is demonstrated. An evaluation of the proposed guidelines by the executives taking part in the questionnaires survey is also presented and the chapter concludes with a summary outline of the goals and guidelines.

It should be noted that the present chapter is addressed to the managerial accountant, seeking to present him with operational guidelines he could utilize in fulfilling his organizational responsibilities to provide control information to management. This point of view is appropriate and necessary since the managerial accountant is responsible both to upper management and more broadly to the discipline of managerial accounting to maximize his

efforts to achieve the effective communication of control information to management.

The Goals of Control Reporting

An awareness on the part of the managerial accountant of the goals of this stage of managerial accounting for control has a vital influence on his performance as a communicator. His perception of what he is trying to accomplish or should be trying to accomplish through the control report and reporting process, and his resulting responsibilities, will determine the extent and strength of his efforts in the area. For example, if the managerial accountant's goal is merely the presentation of a schedule of costs and budgeted financial figures accumulated along organizational lines to management, then he will seek only to achieve this goal and no more. Or, if he has not considered the specific goals that he will seek to attain through the control report, his activity will be random and unorganized, and not effective. The latter case, hopefully, will be rare.

Although the general goal of control reporting was discussed earlier, a more detailed treatment is now necessary. Since the managerial accountant is engaging in interpersonal communication at this stage of managerial accounting for control, the goals of interpersonal communication

theory apply and should be adopted to guide his activities and efforts. Hence, his main goal is to shape or influence the organizational behavior of the divisional manager in his decisions concerning control. The accountant seeks to reinforce the managers past decisions that are shown in the control report to have led to successful control in certain areas and to inform him of the need for corrective action in other areas that are shown not to be under control. Hence, through the control report and its content, the accountant is seeking to influence the future decisions and activities of the manager regarding the utilization of the resources that he has authority over and is responsible for.

However, the accountant usually has no direct authority to command the manager's activities and cannot directly specify the future activity of the manager or how to make his decisions. Organizationally, the accountant usually has a staff relationship with the manager, meaning he has the authority to advise the manager and provide him with information that will assist him but cannot force him to use the information in any particular way. The manager alone, as a semi-independent organizational unit, decides his future activity. Hence, the accountant is limited to influencing the manager's decision by providing the

information that will be used in this decision. As noted earlier in Chapter IV, it is assumed in this study that this decision will be based on the manager's cognitive, emotive, and goal structures. Therefore, the ultimate effect of the control report and reporting process will be to change one or more aspects of his personality so as to indirectly influence the manager's behavior regarding the utilization of the resources of his organizational unit. In terms of this adopted structure, the accountant seeks to change the cognitive structure by informing the manager of his success in attaining control of the activities of his organizational unit by presenting factual evidence of the relationship between actual and budgeted financial performance; to change the emotive structure by presenting evidence of the manager's over-all success in performing the control function; and to change the goal structure by highlighting those areas under his control that need immediate action and attention to bring them under control. If these desired changes are accomplished, the desired behavior change will be evoked. This is advanced as the managerial accountant's primary goal through his control reporting activities.

To accomplish the primary goal, a number of secondary

goals concerning the attitude of the manager toward the control report and control reporting process must also be attained. These are attaining his interest in and attention toward the report, his acceptance of the information presented in the report as valid and trustworthy, and his comprehension of the meaning and understanding of the message. These secondary goals must be attained or the primary goals will not and cannot be. In a sense, they set the stage or open the door to provide the accountant with the opportunity to change the manager's personality. Obviously, if the manager refuses to accept the control report contents and will not give it any attention, the accountant's attempts to influence his behavior through his personality are blocked and futile. Hence, the primary and secondary goals are inter-dependent and complementary to each other.

Economy of effort is another secondary goal that must be considered since it often acts as a constraint upon the accountant's efforts in this area. In addition to embracing the above goals, he must also recognize that he will be expected to be as efficient in his communication activities as possible.

In summary, then, the main goal which the managerial

accountant seeks to achieve in control reporting is to shape the behavior of the divisional manager toward achieving financial control of his unit. However, due to the nature of the organizational relationship, the accountant is limited to changing the manager's personality, hoping that the desired behavior change will follow. The accountant also seeks to evoke the manager's interest in the report, his acceptance of the report content as valid, and his comprehension of the meaning of the content. In addition, the accountant seeks to obtain these goals with a minimum of effort. All these goals are inter-dependent and complementary to each other.

Guidelines Toward Achieving the Goals

Given that the managerial accountant has accepted and adopted the above goals, the natural question arises: What can he do to achieve them? To achieve these goals, there must be a definite program of operational steps which the accountant can also adopt to guide his communication efforts. It has already been shown that such guidelines exist for the general communication situation. It is strongly recommended that the managerial accountant follow a similar set of guidelines based on the general guidelines in his communication activity. These guidelines, as they

are related to the control reporting situation, are presented below and advanced for the accountant to follow to achieve the above goals. The guidelines are presented as the following seven steps or activities all of which must be followed:

Step 1: Observation and Description

The first step is that of observing the characteristics of the control reporting communication situation and recording these observations. This step is vitally important because it causes the accountant to be aware that he is engaging in a communication situation and is no longer working wholly within the strictly accounting environment. In essence, he is performing two roles, those of accountant and communicator with primary emphasis on the latter. He must become aware of the fact that although communication is a part of the managerial accounting for control process, there is no direct relationship between the content of the two areas and that a superior knowledge and ability in managerial accounting does not necessarily make one an effective communicator of accounting information and vice versa.

Within the control reporting process, a number of reports are prepared, usually differentiated by the frequency

of preparation and the level of their destinations. It is suggested that this differentiation be employed as a classificatory scheme for identifying and recording and that each type of report be considered a separate communication situation to be described and analyzed. For example, assuming a firm with three manufacturing divisions and weekly and monthly control reports prepared for each divisional manager, two separate communication situations exist: 1) the weekly control reporting situation and 2) the monthly control reporting situation. Each situation requires separate identification and description.

The following are the important elements to be objectively identified and recorded for each situation.[1]

(1) The originator of the communication, that is the staff member or members in the accounting department who are responsible for the preparation of the report and also any other men who have the authority to influence the report.

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[1]In addition to the references cited in Chapter IV for this step in the communication literature, see also Hilton, W., "Analyzing Reporting Systems," Management Accounting, Section 1, Vol. 42 (January, 1966), p. 61 and Pelej, J., "Controller Communication with Top Management, Controller, Vol. 27 (April, 1959), p. 203.

(2) The actual lines of communication used in the situation, referring to the actual way in which the report is delivered to the direct intended receiver and unintended receivers from the accounting department.

(3) The means used for communication, that is, the control report itself. Its title, frequency of preparation, general content and format should be identified and recorded.

(4) The direct intended receiver(s) of the report, that is the manager or managers for whom the report is prepared and transmitted. If the report is sent to a number of managers, they may be grouped by their area, such as engineering division managers or manufacturing division managers.

(5) The probable unintended receivers of the report; that is, any personnel who might also receive a copy of the report and not use the content directly and may have the power to influence the reporting process.

(6) The purposes for communicating in the situation; that is, the specific reason for the report's preparation.

The accountant may find a simple form useful in recording the above information for each communication situation in the control reporting process. Such information

should be kept on file in the accounting department for guidance and future reference. Such a file would provide a good description of the communication activities of the accounting department and should be kept up to date by being modified when any changes occur in the above elements.

Step 2: Analysis

The second step requires the managerial accountant to judge the relative importance of the elements within the situation which have an effect on the quality of the communication that can be achieved. These elements correspond to those in the previous step and have certain characteristics which have a vital influence on the flow of communication in the situation. The accountant must be aware of the states of these characteristics to be able to communicate effectively, since their states will often determine how his activity is to be accomplished.

An awareness of these elements and their characteristics provide the accountant with relevant insights into the nature of the communication situation in which he is to operate. By judging the relative importance of these elements (i.e., subjectively determining the magnitude of their effect in the specific situation), he is provided with the necessary raw material and frame of reference for

use in later steps.

The replies by the managerial accountants and managers to the business firm survey provides significant information concerning the relative influence of the various elements in the control reporting communication situation. The ninth question in each type of questionnaire provided the respondee with a list of the following elements of the situation and asked him to rank the elements in terms of his evaluation of their relative influence on the over-all effectiveness of the control report:

(a) The form and content of the report itself.
(b) The lines of communication used to transmit the report.
(c) The person responsible for preparing the report.
(d) The managers who receive the report.
(e) The managers who receive the report and do not directly use the information within the report.

The actual replies of the managers and accountants appear in Chapter VI.

The replies of the managerial accountants resulted in the following ranking of the elements from most influential to least influential:

(1) The managers who receive the reports.
(2) The form and content of the report.
(3) The person responsible for preparing the report.
(4) The lines used to transmit the report.
(5) The managers who receive the report and do not directly use the content.

The replies of the managers resulted in a less clear ranking of the elements, such that a listing in order is not possible. However, the replies clearly indicate that the managers consider the form and content of the control report as the most influential element and that they consider the sender and receiver (themselves) as either secondly or thirdly influential. They also concluded that the lines used to transmit the report was the least influential.

A comparison of the rankings of both groups shows agreement on the greater importance of the report, the sender and receiver as major sources of influence over the effectiveness of the report. This is important in that it indicates that it is these elements and their corresponding characteristics that the managerial accountant should concentrate his analysis upon.

The important characteristics of the elements that merit analysis are the following:

1. Concerning the originator of the control report:

The most important characteristic to be judged is his knowledge of the communication process and his ability as a communicator. As the source, the communicator holds the major responsibility for the success of his communication

and hence, his operating without a knowledge of the communication process presents a handicap to his efforts to achieve any degree of success. It is true that within the control reporting process the source has less flexibility and freedom because of the fixed content of his message (as compared to letter writing, for example) and, hence, is blocked from using more actual personal communication skills. However, the nature and importance of the situation place greater emphasis upon his knowing about the general communication process. Also, as will be shown in later steps, actual face-to-face interpersonal communication in addition to the control report will be needed in the control reporting process and, hence, his ability to communicate will become even more important to his over-all success. The most valid and efficient basis for judging these characteristics is direct personal contact.

The source's attitudes also have a vital effect on the quality of communication achieved. The important attitudes are those toward himself, the value of the message, and the receiver. A communicator must assume a realistic attitude toward himself to be effective. A lack of confidence in himself or over confidence in his ability will block his effectiveness. A confident attitude toward

himself as a communicator can only come from a knowledge of the communication process. The source's attitude toward the manager is also vital and tends to determine how the source reacts to any aspect of the communication situation. The importance of the source's attitudes toward the managers who receive the reports was emphasized by the results of the questionnaire survey. In response to a question asking the accountant to rank the importance of his attitudes or those of his subordinates toward the managers as an element in the decisions concerning the form and content of the reports,[2] 82% ranked attitudes at least "Important" with 44% ranking it as "Very Important." It often determines how much motivation the source has to engage in communication. A poor attitude toward the manager or managers as a whole will block the co-operation that is needed between source and receiver to achieve effective communication. Likewise, the lack of a proper attitude will also block effectiveness. His attitude toward the material will also effect the situation, since if he does not believe in its value, he won't be able to communicate it effectively. For example, a lack of confidence in the accuracy of the

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[2]See Chapter VI, page 207.

financial information in the control report will dampen his enthusiasm to communicate it to the manager.

The source's knowledge of the material is also important but in the control reporting situation is less of a potential danger since the source is usually an accountant and therefore should be familiar with the accumulation and processing of the financial information. If not, it would be easy for him to acquire knowledge.

The source's purpose or motive for communicating also exerts an influence on his effectiveness. If he views his efforts as only the fulfillment of corporate policy, his efforts will be half hearted. However, if he believes that his control reports are a service and are necessary to help management, his efforts will be highly motivated.

Lastly, the relationship between the source and management will also have an effect. Not only their organizational relationship but also their actual personal relationship is important, since it often acts as a basis for their opinions and attitudes toward each other. A lack of a positive relationship blocks any feedback and does not provide the source with a valid basis for his attitudes toward the management.

These, then, are the major influential characteristics

of the person responsible for the control report and their possible affects on the communication situation.

2. Concerning the direct intended receiver(s) of the report:

There is a great deal of similarity between the characteristics of the source and those of the receiver, the manager, that have an impact on the communication situation. The manager's ability to communicate and his knowledge of the communication process are equally important to the situation. His knowledge of the process determines how he views the situation and his awareness of his responsibilities in it. A lack of knowledge prevents him from validly acting within the process and will tend to frustrate the efforts of the source.

Likewise, his attitudes play an important role. His attitude toward himself has basically the same affect as that of the source toward himself. The managers attitude toward the source, the managerial accountant, and the control report is a key element which determines the effect of the report. An unfavorable attitude toward the source and his efforts, the control report, can easily nullify the accountant's efforts toward achieving effective communication.

Correspondingly, the manager's knowledge of the

code used (accounting) is vital. Unless he is familiar with the accounting process used to generate the report and its limitations and understands the significance of the costs and variances in the report, he cannot fully rely upon it as a valid basis for decision.

Lastly, his relationship to the accountant will often provide the basis for decisions concerning how he reacts in the situation.

3. Concerning the actual lines of communication used in the situation:

Within the control reporting situation the lines to be used are usually fixed, those of the formal organization. However, the informal lines existing can have an affect and must be considered. The directness of the channel being used must be evaluated also.

4. Concerning other factors operating within the situation:

This element refers to the probable indirect receivers of the reports and their affect on the situation. The fact that other managers, particularly those higher than the operating managers, receive the control reports also is a valid consideration since they may have an affect on the communication situation.

These four major elements and their characteristics are vital to the effectiveness of the communication

situation and must be analyzed in each situation. These elements can be viewed as forces within the situation that have a profound effect on the success of any attempts at achieving effective communication. However, since each communication situation is very likely to differ from others, no statements about the uniform effect of these elements and their characteristics is meaningful. Instead, the discussion has identified the major important elements and described the general effect they can have. Hence the need for a subjective analysis of their affect on the specific situation in question by the accountant.

Step 3: Synthesis

The two previous steps can be considered as data gathering in nature. Their purpose was to provide the communicator with the necessary information about the situation to properly guide his efforts. The synthesis step is one of examining this information to draw conclusions from it related to the specific communication goal to be achieved and the means to be used to achieve it.

Correspondingly, the accountant must now decide upon the specific change to be evoked in the manager's personality to produce the desired behavioral change. The accountant must be aware of the control process and the

role of the control report within it to satisfy this step. The discussion of the communication goals of the managerial accountant presented earlier on pages 146-150 is also relevant at this point in time.

As a communicator, the synthesis step is easier to follow for the managerial accountant due to the nature of the managerial accounting for control reporting process than in other communication situations. He is easily aware of the primary concern of the manager and what he can do to fulfill it. Or, if any doubt about the manager's primary concern exists, the accountant can seek it by merely asking and then using the response in this step. As noted earlier, the manager's primary concern which is relevant to the accountant is the manager's responsibility to achieve control and the role of managerial accounting for control in aiding the manager to achieve control has been well defined. Thus, much of the guess-work of this step has been eliminated. Additionally, the accountant is not the judge of whether control exists; he only reports the financial evidence which itself determines whether control exists or not. And again, the accountant need not question whether he has the right to change the manager's cognitive, emotive, and goal structures--it is well defined as his organizational

duty.

At the synthesis step, the accountant, then, should remember that his goal is to change the managers personality by informing him of his success in achieving financial control of his unit through the presentation of a comparison of actual financial performance to budgeted financial performance. The major emphasis is to the managers cognitive structure, the learned portion of his personality, since the manager relies upon the control report to inform him of his success. For example, if the weekly control report were not prepared, it is doubtful whether the management would know its exact success in achieving control. In a large sense, the nature of the organizational relationship between the accountant and the manager aids the accountant in his communication activities by defining a number of variables in the process, thus eliminating the accountant's concern over them.

Step 4: Composition

The fourth step is concerned with the preparation of the actual message to be sent to the receiver, i.e., the control report itself. It is in this step that the information gathered in the previous steps and the decisions made then are now utilized. At this step, it is the

receiver, the manager, who becomes the focus of interest.

This step is basically concerned with three decisions concerning 1) the selection of stimuli, 2) their organization into a message, and 3) presentation of the message to the receiver. However, within the control reporting process, the first decision has already been made by the nature of the financial control process and, hence, the accountant can concentrate on deciding how to organize and present his message to best suit the manager's communication needs. In other words, the accountant need not spend time considering what stimuli to include in the control report--this decision has already been made in favor of actual costs, budgeted costs, and the resulting difference collected along organizational lines. This is the stimuli that the process of financial control requires. In more specific instances, the managerial accountant can easily determine what specific actual and budgeted costs are to be included in the control report by simply asking management what they want. Thus, the accountant should concentrate an organizing and presenting the content in a manner most suitable to the manager. It must be emphasized at this point that the control report itself is but a means to an end and not the end itself.

The format of control reports (i.e., the organization and presentation) has been a highly controversial aspect of the control reporting process, and as shown in Chapter III has drawn much criticism from others. This criticism has mainly come from non-accountants, which provides the setting for the major guideline of this step: the control report must be organized and presented to meet the communication needs of the manager and him alone. The previous guidelines dealing with the manager provide the necessary information about his attitudes, background, etc. to accomplish this.

A note about economy of effort is relevant here. The ideal at this point is to prepare each control report to meet the specific needs of each individual divisional manager and in a sense, tailor made for him. However, given a firm with a large number of managers, it would entail a great deal of effort to produce unique control reports for each. Uniformity in control report formats reduces the cost and time of preparing them considerably. However, uniform formats also means that some communication needs of some managers are not being met. It is suggested that the managerial accountant reach a middle point between these two polar extremes and the suggested

technique is to group divisional managers by their major organizational function or background, such as manufacturing division managers, or production division managers, and then have one control report format to meet the needs of each group. This "group of managers" concept is employed throughout the rest of this discussion on composition.[3]

The control report for each group of managers should be organized and presented to meet the communication needs of each group. Obviously, to fulfill this, the managerial accountant must be aware or become aware of these communication needs. In general, these needs can be presented thusly: match the format and presentation to the estimation of the receiver's personality. Hence, the information generated from the analysis step concerning the receivers to be used. Or, if this information concerning the manager's communication ability, attitudes, knowledge of accounting, and organizational position is not readily available, it is advisable that the accountant seek the information directly from the managers. Rather than wait for trial and error to generate it, it is suggested that

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[3]This concept is employed in the format of control reports to the operating divisions of the aerospace firm consulted in the field of study.

the managerial accountant poll the divisional managers within each group to provide their likes and dislikes and preferences concerning the format of their control reports. Such empirical evidence would provide a solid basis for decisions concerning control report format and would contribute toward the co-operation of accountants and managers and increase the ability of the managerial accountant to serve his management.

An important variable that determines differing communication needs in groups of managers is the difference in backgrounds and experience among them. Not only does this proposition have intuitive appeal, but an accounting officer consulted presented it as a conclusion from his experience:

> "Managers with accounting backgrounds usually prefer reports issued as schedules; those with non-accounting backgrounds usually prefer chart form reports. Sometimes, you have to orient the information to the specific person and what his background is."[4]

The managerial accountant must be aware of the fact that although it is natural for an accountant to present reports as numerical schedules, (and indeed it has become somewhat

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[4]Discussion with the head of the Cost Accounting and Analysis Department of aerospace firm on February 27, 1968.

of a tradition in accounting to do so) other methods exist and can be more successful in terms of making the message easier to understand for managers.

The chart form of report stands as the most promising alternative and can be utilized in a number of different ways. The advantages and disadvantages are as follows according to Li:

> Such reports have the advantage of simplicity. They also permit comparison of expected and actual performance or a cumulative basis, thus facilitating the development of trend lines. On the other hand, because of physical limitations, graphic reports are not designed to handle clearly several types of data in one report. Nor are they equipped to present data with precision.[5]

For those firms using electronic data processing equipment in their control reporting process, no barriers are present to utilization of alternative formats. Numerous software options exist to plot numerical data and print out charts and graphs. In addition, computer output control reports, called burst forms, are often difficult to handle and file because of their size. To solve this problem, other software options exist to reduce the burst forms

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[5]David H. Li, Cost Accounting for Management Applications, (Columbus, Ohio: Charles E. Merrill Books, Inc., 1966), pp. 289-91.

to manageable proportions, usually the standard 8½ x 11 inch size pages.[6]

In addition to these suggestions for alternative formats, it is suggested that the managerial accountant refer to a number of books written on reports, such as Ronello B. Lewis's, Accounting Reports, wherein are offered specific suggestions as to how to add eye appeal to the reports. Once again, when deciding upon new or differing formats, it is the manager's communication needs which are vital to guide the process.

The differing backgrounds of managers within the firm is also the key to understanding their reactions to the terminology used in control reports. It is understandable that a manager with no or little accounting background will have trouble understanding some of the terms that are used. Those who need it can easily be provided with a glossary of such terms. A related solution would be meetings to reach agreement on the terms to be used in reports to groups of managers.

In summary, the composition stage in essence

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[6]Discussion with the head of the Engineering Administration Department of the aerospace firm on January 24, 1968.

requires the accountant to become aware of the communication needs of the various groups of managers using the reports and then attempting to satisfy these needs to be the best of his ability. The general methods suggested and illustrated are steps in the right direction and provide the basis for specific actions within specific communication situations within the firm.

Step 5: Transmission

After composing the message, the next logical step is choosing a channel to be used to deliver it to the intended receiver. Once again, the communication burden of the managerial accountant is lightened somewhat by the nature of his relationship to management within the firm. That is, a formal channel for transmitting control reports usually exists and should be used. As Thayer points out: "To be authoritative, an official message must pass through formal, organizational channels."[7] When a number of formal channels are available, the formal channel chosen should conform to the most direct channel.

The timing of transmission is a vital element in this step and the accountant should seek to have the control

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[7]Thayer, p. 254.

report arrive at its destination when it will receive the most attention and be used. Again, consulting the groups of managers to determine when they would be most receptive to the report is suggested and is the best method of getting the report to them when they most want it, and can use it.

Step 6: Reception

The sixth step requires the accountant to monitor the control report sent to divisional management in cases where he is not the one sending it, i.e., when the authority to prepare and transmit has been delegated to others. This step provides a check that the message is being sent as intended. Copies of the reports should be kept for future reference.

Step 7: Feedback

The last step in the program is that of obtaining feedback from management concerning the accountant's success in attempting to communicate effectively. The feedback phase of the control reporting situation is vague, however, because of the nature of the communication situation and the lack of a precise measure of how the control report exactly affected the manager. It would appear that a manager's increased success in achieving control after

receiving the control report would be the proof that the accountant was successful. However, there can be no precise measure of the relationship between an effective control report and achieving control, since the report is but one factor involved in the control process; that is, the manager's ability to manage, his subordinate's ability, the nature of the resources under his control, the market for the product are but a few of the factors which exert an important influence on the control situation.

However, the accountant can effectively determine whether he has made the control report as effective a communication device as possible and through the responses of management learn of the effectiveness of his efforts.

In the general communication situation, feedback usually occurs naturally as a response to the message. However, within the control reporting process, the accountant must encourage it since communication is but an aspect of the control process and its importance has been hidden. General agreement points to personal meetings, conferences, or discussions with the users of the reports as the vehicle for obtaining feedback.[8]

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[8]C. Babcock, "Accounting is Communication," Co-operative Accountant, (Summer, 1964), pp. 38-39; Editoral

These conferences can provide the accountant with a wealth of information to aid him in his communication efforts. They should be held with the various groups of divisional managers separately. The frequency of such meetings will depend upon the specific situation and the preference of the individuals involved.

The primary function of the conference is to provide the accountant with management's reactions to the suitability of the control reports. Through their response, the accountant will be able to determine what the communication needs of the managers are, how well the control reports currently meet these needs, and the manager's suggestions for increasing the report's ability to meet their needs. The conferences will also provide the accountant with an opportunity to know the managers and give him a valid basis for predicting or estimating their personality. It can be used to educate the managers in accounting matters and increase their ability to understand the accounting process that serves them. It will also give the accountant

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Board, "Communications and the Accountant," Canadian Chartered Accountant, LXXXII (March, 1963), p. 188; Joseph Pelej, "Controller Communication with Top Management," Controller, XXVII (April, 1959), p. 202; and personal interviews with both accounting and management executives of the aerospace firm revealed agreement on this point.

the opportunity to shape or influence the managers attitudes toward the control reporting process.

Whereas the specific format of these meetings will differ from firm to firm, in general it is suggested that each meeting concentrate on a discussion of specific control reports. It is important for the accountant to make management aware that the purpose of the meeting is to increase the accountant's ability to serve them. The proper attitude will prevent the meetings from becoming "gripe sessions." Co-operation toward achieving corporate goals should be the key theme.

It then becomes the accountant's responsibility to use the information provided by the conferences in his communication efforts. Conceivably, the data provided can be used in all of the steps previously mentioned.

The above seven step program is recommended for adoption by managerial accountants to guide their activities toward reaching their goals in the control reporting process. The basis for this recommendation is that these guidelines are based on the guidelines toward achieving effective interpersonal communication and thus apply to the communication aspect of the managerial accounting for control process and are able to eliminate and overcome the

weaknesses in control reports as shown below. The program should be used to modify control reporting systems currently in use and should be used to guide the development and planning of new systems. It is important that all seven steps be used as an entity, since the selective adoption of some steps and rejection of others will not be effective. Each step is interdependent with others and all are complementary toward achieving effective communication. For example, it is easily seen that the arbitrary adoption of only Step 1, description and observation, would only provide the accountant with an accurate description of the communication situation and yet not provide him with the necessary guidance for efficiently functioning within the situation.

Ability to Overcome and/or Eliminate Barriers

It was demonstrated in Chapter III that control reports and the control reporting process are not free from weaknesses that block or impair the effectiveness of the communication stage of managerial accounting. Part of the reason for the existence of these barriers was shown to be a lack of soundly based guidelines available to aid the managerial accountants' communication activities and to eliminate and/or overcome these weaknesses and lead to

effective communication. The following section will demonstrate the ability of the guidelines of this chapter to overcome and eliminate these weaknesses.

The first weakness presented was that of too many reports being prepared and transmitted to management. Through the seventh step, Feedback, the conferences between the managerial accountant and groups of managements would bring this to light and allow both parties to co-operate toward providing management with the proper number of reports, through consolidation of the contents of some reports and possible elimination of others. The probable cause of this weakness is the lack of knowledge of the needs of management and the periodic conferences would clear this up.

The second weakness mentioned in regard to the control reporting system was that of a lack of feedback, consisting of the reaction of management to the effectiveness of control reports in meeting their needs. Obviously, the implementation of the program would overcome this barrier also through step seven, Feedback, and provide the opportunity and setting for the accountant to receive not only management's reactions but also their suggestions as to how to make the control reports more effective.

A lack of co-ordination between the accounting

department and operational division management in the planning and development of new control reporting system was the third weakness. Applying the program to the development of a new control reporting system will overcome this weakness, since at numerous points in the program the accountant and manager are required to co-operate and communicate with each other on various aspects of the system. In fact, a major advantage of the program is that it provides for co-operation between the source and receiver in the communication situation. This feature also will overcome the fourth weakness, a lack of first hand knowledge or contact with the receiver of the communication.

The problem mentioned regarding control reporting systems using electronic data processing equipment can also be overcome through the program. The lack of flexibility can be overcome by knowing beforehand what revisions are necessary in the system, before the system becomes firm and rigid. The use of software options can also eliminate the barriers associated with the machine burst form of control report.

The barrier erected by the managers lack of adequate accounting knowledge will be overcome through the feedback step, the conferences between the accountant and his managers.

The managers will then be informed or briefed on the accounting process used to generate their reports.

Concerning the appearance of the control report itself, the guidelines contained in the composition stage can overcome the barriers associated with the mass of data effect of control reports. These guidelines provide the accountant with the appropriate tools to add to the eye appeal of his reports and to suit them to the specific communication needs of the managers. The guidelines concerning the provision of a glossary of accounting terms will also help eliminate the terminology problem.

The other specific weaknesses presented as related to specific control reports of specific forms can also be overcome through the co-operation and communication between the accountant and divisional management that the program calls for.

In summary, it has been logically shown that the application of the seven step program has the ability to overcome the weaknesses and barriers to the effective utilization of control reports. It must be noted that the utilization of this program at the planning stage of a control reporting system and continually through its early development would have eliminated these problems before

they arise.

Evaluation of Proposed Guidelines

Not only can it be demonstrated that these proposed guidelines are able to eliminate and/or overcome the major weaknesses related to control reporting but through the questionnaire survey the various advantages and disadvantages, both absolute and relative, of the proposed guidelines can also be determined.

Certainly, any proposed solution to a problem should be subject to an evaluation by those involved, and the business firm survey was employed to achieve this evaluation. The respondees were given three set of guidelines, the proposed set and two from the literature and asked to evaluate the sets on the following basis: the managers were asked to indicate the set they personally would prefer the accounting department to follow in their control reports and secondly to indicate the set which they thought would lead to the most effective control reporting system; the managerial accountants were asked to indicate the set they personally chose to follow or would prefer their subordinates to follow in control reporting.

The two other sets given to the respondees were from the literature - one set presented by Heckert and

Willson and consisting of fifteen guidelines and the other from Niswonger and Fess and consisting of six guidelines.[9] Both are representative of the traditional approach to control reporting guidelines, with the Heckert and Willson set being the most comprehensive set of this approach and the Niswonger and Fess set being a somewhat shorter version. The proposed set of guidelines was presented in outline form.

The response of the managers on a personal preference basis is below. A majority of the managers indicated a personal preference for the set of Heckert and Willson (hereafter referred to as Set One) with the proposed guidelines (hereafter referred to as Set Three) chosen second most frequently and the Niswonger and Fess set (hereafter referred to as Set Two) indicated as the least preferred. The actual percentages are as follows:[10]

Guidelines Chosen	Per Cent
Heckert and Willson (Set One)	54%
Proposed (Set Three)	27%
Niswonger and Fess (Set Two)	18%

The managers preference for Set One is explainable. An examination of this set of guidelines reveals the fact that

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[9]See Chapter III pages 96 and 99-100.

[10]See Chapter VI, page 224.

it basically describes desirable characteristics of control reports - that is, an end that management finds desirable. It is submitted a posteriori that the managers failed to distinguish between the end and the means to achieving the end and advocated a set of goals that they felt the managerial accountants should follow in reporting to them, rather than the guidelines which would achieve the goals. The actual reasons given by the managers in support of their choices and presented in Chapter V on pages 225-26 are consistent with this explanation.

This explanation is also supported by the replies to the eleventh question, which asked the managers to indicate which set of guidelines they felt would lead to the most effective control reporting system. The replies were as follows:[11]

Set Chosen	Per Cent
Three	58%
One	25%
Two	17%

The replies to this question are almost the reverse image of the replies to the preceding question concerning the ranking of sets One and Three. In this question, the

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[11] See Chapter VI, page 227.

managers were specifically concerned with means and overwhelmingly chose the set of guidelines based on the interpersonal communications concepts and guidelines as the set which would lead to effective communication of control information. This in combination with the presentation in Chapter III concerning the ability of these guidelines to eliminate and/or overcome the major weaknesses associated with the control reporting process and reports tends to prove the validity of the hypothesis of this study shown in Chapter I.

Illustration 1 on the following page indicates the firm sizes and industries represented by the managers advocating the sets in response to Question 12. As is shown, firms of all sizes were represented in each group.

The reasons for the managers' belief that Set Three would lead to the most effective control reporting system are listed below and at the end of Chapter VI. According to the managers, the reports would be tailored to their needs, there would be opportunities to discuss the reports, the reports would be integrated into the system, and finally, these guidelines would lead to the achievement of the goals presented in Set One.

The managerial accountants' preferences among the

ILLUSTRATION 1

FIRM SIZE AND INDUSTRY OF
MANAGERIAL REPLIES TO QUESTION TWELVE

Set Chosen	Industry	1966 Net Sales
Three	Paper and wood products	700 million
	Aerospace systems	244 million
	Mechanized rubber goods	106 million
	Business machines and computers	2.5 billion
	Automotive	12 billion
	Precision parts and tools	239 million
	Truck and tractor equipment	50 million
One	Steel	1.2 billion
	Paper products	633 million
Two	Ball and roller bearings	241 million
	Chemicals	126 million

Sources: Dun & Bradstreet, 1968 Dun & Bradstreet Million Dollar Directory and Middle Market Directory (New York: Dun & Bradstreet, 1967), and Moddy's Investor Service, Inc., Moddy's Industrial Manual, June, 1967, (New York: Robert H. Messner, 1967).

three sets were tested by the eleventh question of their questionnaire. The first part of this question asked them to examine the three sets of guidelines and indicate which set they would choose to follow or have their subordinates follow in control reporting activities. The results are as follows:

Set Chosen	Per Cent
One	44%
Three	38%
Two	19%

The results show that the accountants most frequently chose Set One with Set Three a close second. In fact, a nearly equal number of accountants choose sets One and Three.

Additional insight into the reasons for the above choices were provided by the responses to the third part of Question Eleven, which asked the accountants to indicate whether or not they would be willing to adopt and implement the set they chose and if so, to indicate what effect or impact this would have on their control reporting system. The responses to this question clearly showed that many accountants chose the set which most nearly resembled the set they were currently following. In fact, all those accountants who chose Set One indicated that they were currently using this set. Hence, there appears to be a strong bias toward Set One in the accountants which adds significance to the relative performance of Set Three.

The reasons given by the accountants in support of their choices provides insight into the relative advantages and disadvantages of the proposed guidelines. A few accountants explained their choice by describing why they did not choose other sets - hence, the relative disadvantages of Set Three were indicated as the following:

(1) Too broad and detailed for a small or medium

sized firm, although perhaps ideally suited for a large firm.

(2) Too formalized.

(3) Too cumbersome.

It appears that the only disadvantages noted arise from the logical comprehensive approach taken toward communication - the same approach that has been called for by the history of trial and error development in this area. The following relative advantages were attributed to Set Three by those accountants choosing it:

(1) It is a comprehensive approach allowing integration of each report into the system.

(2) It insures that the reports fill the receivers needs.

(3) The lines of communication are kept open.

(4) It represents an ideal that should be striven for.

(5) It minimizes the effect of changes in personnel or the reporting system.

(6) It would most accurately and efficiently provide the required and desired information for the user at the proper time.

(7) It provides a basis for controlling the reporting system.

(8) It permits a follow-up to insure that reports are meaningful.

A comparison of the above advantages with those presented by the managers shows a great deal of agreement between the

two groups concerning the relative merit and soundness of the proposed guidelines. Obviously, the advantages outweigh the disadvantages noted.

It is significant to note that of the accountants choosing this set, three stated that they would be willing to adopt and implement it; one accountant claims to be following a set closely resembling it currently (both he and a manager from this firm ranked their current control reports as "Very Effective" in conveying control information); and two would not adopt and implement, one because he lacks the time and manpower currently.

In summary, then, the response of both the managers and managerial accountants concerning the set of guidelines resulting from this research effort indicates not only the ability of these guidelines to lead to the effective communication of control information through the control report and reporting process but also their relative merit and soundness as well as the favorable reaction of the executives toward them.

Summary

The above goals and guidelines of the control reporting process are presented below in summary outline form as the summary of this chapter:

I. Accountant's Goals in Control Reporting to Divisional Management:

A. Main Goal: To shape or influence the behavior of the manager toward decisions leading to financial control of the resources under his command, by changing the cognitive, emotive, and goal structures of his personality through the presentation of factual evidence of his success or failure to achieve control in the past.

B. Secondary Goals: To obtain the manager's interest in and attention toward the report, his acceptance of the validity of its content, and his comprehension of the meaning of the content as efficiently as possible.

II. Program of Guidelines Toward Achieving These Goals:

STEP A: OBSERVATION AND DESCRIPTION

1. Observe and identify the following characteristics of the control reporting communication situation:

   a. The title, frequency of preparation, general format, and content of the control report.

   b. The accounting department member who is responsible for the preparation of the report.

   c. The manager or managers for whom the report is prepared and transmitted.

   d. The specific reason for the report's preparation.

   e. Other personnel who receive a copy of the report.

   f. The actual lines of communication used to deliver the report.

2. Record the above information and keep an up-to-date file of the information.

STEP B: ANALYSIS

1. Subjectively determine the effect of the following elements and their characteristics on the situation:

   a. Concerning the originator of the control report: his knowledge of the communication process and ability as a communicator; his attitudes toward himself, the value of the report, and the managers; knowledge of control accounting; motives for preparing the report; and relationship to management.

   b. Concerning the management: his ability to communicate and knowledge of the communication process; his attitudes toward himself and managerial accounting for control; his knowledge of control accounting; and his relationship to the managerial accounting department.

   c. Concerning the actual lines of communication used: their directness and appropriateness.

   d. Concerning the indirect receivers: their power to influence the control reporting process.

STEP C: SYNTHESIS

1. Determine the specific financial information (actual and budgeted costs) that management needs for control.

STEP D: COMPOSITION

1. Organize the control report content to meet the communication needs of the managers by:

   a. grouping the managers into classes by the nature of their function and background;

   b. determining the communication needs of each group by asking them for their preferences as to control report formats.

c. using their responses to develop one uniform format for each group to satisfy their communication needs.

STEP E: TRANSMISSION

1. Choose the most direct formal channel available to transmit the control report.

2. Consult the groups of managers to determine when they will be most receptive to delivery of the report and attempt to have it arrive at that time.

STEP F: RECEPTION

1. Monitor the report being sent to management to be sure that it is as intended.

STEP G: FEEDBACK

1. Conduct periodic personal meetings between the accounting staff members concerned with the control report and the groups of managers receiving the reports to:

   a. obtain the managers; evaluation of the suitability of their control reports.

   b. educate the groups on the accounting process used to generate their reports.

2. Use the information generated from these meetings to make the necessary modifications in the control reporting process.

The above goals and guidelines are advocated for adoption by those members of the managerial accounting staff concerned with the control reporting process. The guidelines should be adopted as a whole, since they are interdependent and complementary.

CHAPTER VI

ANALYSIS OF QUESTIONNAIRE SURVEY RESPONSES

Introduction

As the title of this chapter states, the purpose is to provide a complete presentation and analysis of the empirical data generated by the business firm questionnaire survey. Much of the results of this research effort and its significance has already been presented in the body of the previous chapters at points where the replies to the questionnaire revealed relevant information or provided insight into the topics being discussed. The present chapter seeks to complement these previous discussions by presenting all of the responses within one chapter.

This chapter also acts as a reference point for previous chapters and acts as supporting detail for some of the general conclusions resulting from the survey and presented in earlier chapters.

It should be noted here that a complete description of the procedure followed in conducting the survey and the general goals of the survey is presented on pages 17

through 20 of the first chapter, "Introduction To The Study" and therefore, will not be repeated here. Copies of the actual cover letters and questionnaire forms used in the survey appear in Appendix B.

The chapter first discusses the over-all response to the questionnaire survey, followed by a presentation and analysis of the responses of the two groups to each question in their questionnaire. Where appropriate, comparisons between the responses to questions of both groups are presented and relationships explored.

Response to the Questionnaires

The over-all response to the survey can be examined from the three following viewpoints: firm, executive (including managerial accountant, and manager), and communication situation. Each basis provides a special insight into the significance of the responses, and is described below.

Firm Responses

The over-all response, on the firm basis is the most significant of all basis, with eighteen firms out of the forty-two contacted represented by replies, yielding an over-all response of 42%.

A complete description of each of the eighteen firms that responded appears in Illustration 1 on the following page. Of the eighteen firms replying, three were unable to complete the questionnaires and returned them with a letter explaining the reason for their being unable to complete it. These letters provided useful information and data and hence, have also been considered as replies.

Except for small concentrations in the paper and wood products and automotive industries, the replies covered a wide range of industries and a wide range of firm sizes, using sales as an indicator of size. As noted in Chapter I, the survey was aimed at getting a response from a wide range of firms in various industries since control reports are a common element of most industries, and this was achieved.

Executive Responses

In terms of responses from individual executives within the firms, 31% of these executives contacted returned a completed questionnaire. In total, eighty-six executives in the forty-two firms should have received a questionnaire forwarded to them from the controller's office.

ILLUSTRATION 1

SELECT CHARACTERISTICS OF FIRMS RESPONDING TO QUESTIONNAIRE

Firm	Industry or Main Product	1966 Sales in Millions	1966 Net Income in Millions
1	Paper and wood products	368	29
2	Paper and wood products	700	39
3	Computers and office machines	871	27
4	Paper products, containers	633	27
5	Steel	1,200	87
6	Specialized mechanized rubber products	106	4
7	Mobile home products	35	1.6
8	Aerospace control and guidance systems	244	8
9	Chemicals	126	8
10	Ball and roller bearings	241	17
11	Printing ink and chemicals	na	na
12	Truck and tractor equipment	50	0.2
13	Steel	97	5
14	Precision parts and tools, packaging	239	38
15	Publishing	50	na
16	Meat and dairy food products	474	(4)
17	Automobile	5,600	189
18	Automobile	12,000	1,000

Sources: Dun & Bradstreet, 1968 Dun & Bradstreet Million Dollar Directory and Middle Market Directory (New York: Dun & Bradstreet, 1967), and Moddy's Investor Service, Inc., Moddy's Industrial Manual, June, 1967, (New York: Robert H. Messner, 1967).

Of these, a total of 27 completed the questionnaires and returned them, yielding the over-all response of 31%.

In terms of the specific positions or functions of the executives contacted, the 27 replies can be subdivided into those from managerial accountants and from managers. The managerial accountants were represented in greater number in the replies, with 16, and the remaining eleven from the managers. The total number of both managerial accountants and managers was 43 each, yielding an overall response of 37% for the managerial accountants and 25% for the managers, as a group.

Communication Situation Response

The main reason for attempting to survey both a manager and a managerial accountant in the same firm who communicate with each other through the control report or control reporting system was to obtain both executives views of this communication between them. It was felt that a comparison of their replies to basically similar questions would provide significant insights into the actual state of communication between them. Of the 43 possible situations in the survey, both parties replied in twelve cases, yielding an over-all response for situation of 28%.

Summary of Responses

The following is a summary of the responses as viewed from each basis:

Basis	Per cent Responding	
Firm	42	
Executives	31	
Managerial accountants		37
Managers		25
Communication situations	28	

The remainder of this chapter will present the responses to the individual questions in each type of questionnaire and will explore and examine the significance and implications of these responses.

Responses to the Managerial Accountant Questionnaire

Question 1:

1. Your official title _____

_____

The first question asked for the official title of the person completing the questionnaire. The replies to this question acted as a check to the belief or assumption that only managerial accountants or those in managerial accounting positions within the firms were completing the questionnaires and that they had been forwarded to the correct positions within the firms. The replies also

provided an indication of the position of the respondees in the management hierarchy. The following are the titles of those accountants who replied to the survey in alphabetical order:[1]

Accounting Manager
Assistant Controller
Assistant Treasurer
Business Manager
Corporate Auditor
Corporate Controller
Division Director of Finance
Division Manager
Division Manager of Controls
Divisional Controller
Manager, Corporate Operations Analysis Department
Manager, Cost Accounting and Analysis Department
Manager, Profit-Analysis and Budgets
Supervisor of Project Cost Control

An examination of these titles clearly indicates that the replies to the managerial accounting questionnaire came from middle management positions. The titles further suggest that the replies came from positions involved in controlling the operations of the firm and hence are qualified to express an educated opinion on the topics surveyed.

Question 2:

2. The approximate number of different responsibility units for which you or your subordinates prepare control reports (the internal accounting statement prepared periodically for a responsibility unit to show the actual costs, planned costs, and difference for the unit over a period of time)

[1]If two or more accountants had the same title, it was not repeated in the list.

The second question was aimed at discovering the importance of the control reporting as an activity in each firm by seeking the approximate number of responsibility units that were reported to. The replies also give an indication of the size of the reporting system.

The responses obtained for this question are as follows, grouped into clusters of five:

Number of Units Reported To	Per Cent
0-5 Units	12
6-10	38
11-15	0
16-20	0
21-25	12
26-30	12
over 30	25

As shown, the most frequent response was in the range of six through ten responsibility units, with the second largest in the "over thirty" category. Of course, the definition of responsibility unit obviously differs from firm to firm and its size correspondingly differs greatly among firms. However, this bi-modal response suggests two basic sized firms in the survey, small and large, in terms of the number of responsibility units reported to.

Question 3:

3. In your opinion, how important is the reporting stage to managerial accounting for control (check one)						
Very Unimportant	Unimportant	Not Very Important	Neutral	Somewhat Important	Very Important	Vital

The third question sought to provide insights into the managerial accountants' evaluation of the importance of control reporting. The semantic differential type question[2] was used to achieve this, giving the accountant seven ranks for indicating his personal view of the importance of control reporting.

As discussed on pages 49 and 50 in Chapter II, the managerial accountants were quite in agreement as to their over-all evaluation of the importance of control reporting. The replies split evenly between rating control reporting as being "Very Important" and "Vital" to managerial accounting for control, as the following summary shows:

0	0	0	0	0	50%	50%
Very Unimportant	Unimportant	Not Very Important	Neutral	Somewhat Important	Very Important	Vital

[2]Charles E. Osgood, George J. Suci, and Percy H. Tannenbaum, The Measurement of Meaning (Urbana: University of Illinois Press, 1957), pp. 18-20.

Question 4:

4. In your opinion, what is the goal or purpose of control reporting

_____

Question four was an open ended essay type seeking to obtain the accountants' opinion as to what the goal or purpose of control reporting should be. Each reply to this question was expressed in the accountant's own words and hence, each was unique. However, all the replies could be grouped into certain goal-categories, as discussed in Chapter II, p. 45.

Below are presented the actual replies to this question:

1. To inform management of the various units which are not operating within the prescribed boundaries of production, costs, and profits.

2. To provide information on costs--performance--inventory levels--profits--budgets--cash flow, etc. for management decisions.

3. To provide a basis for investigation, performance evaluation, and decision making for those responsible to plan and direct organizational activities.

4. To analyze variance from plan and to provide management with sufficient information so that they can better direct their personnel to overcome problem areas.

5. To evaluate the units performance as compared with established objectives and take corrective action to improve.

6. We must know what direction we are going, where the profits and the problems are--to properly provide emphasis and control where most needed.

7. To evaluate and control the performance of the operating unit in attaining profit objectives.

8. To provide the user with accurate, organized, practical, and complete cost data in a way that is beneficial to him in effectively controlling the cost on his individual responsibility.

9. To furnish management with such information concerning their available resources that it serves as a basis for making decisions.

10. To control costs.

11. To be able to spot weaknesses in the operation making responsible parties cognizant of the fact.

12. To plan and supervise the operations and to analyze and act as required when variances in the operational plan occur.

13. Profit-through the control of unit cost or by controlling departmental cost.

14. Basis for diagnosis and treatment.

15. Enable responsible business managers to control expenditures and profits to planned levels.

16. To provide management with cost information upon which they can take action to control costs.

Question 5:

5. In your opinion, how generally effective are your current control reports in conveying control information to the managers that receive them (check one)						
Very Ineffective	Ineffective	Not Very Effective	Neutral	Somewhat Effective	Effective	Very Effective

The goal of the fifth question was to obtain the accountant's evaluation of the effectiveness of his firm's current control reports in conveying control information to management. It was hoped that the responses to this question would indicate the state of effectiveness in the control reporting systems of the firms. Again, the semantic differential type question was used and the accountant was asked to choose one rank for his evaluation.

The total response to this question was as follows:

		12%		19%	50%	19%
Very Ineffective	Ineffective	Not Very Effective	Neutral	Somewhat Effective	Effective	Very Effective

The response shows that approximately 70% of the accountants responding viewed their control reports as being at least "Effective" in conveying control information, with 12% confessing that they felt that their reports were "Not Very Effective" and 19% stating that their reports were only "Somewhat Effective."

Question 6:

Question six had two parts, both of which sought to determine the degree to which certain specified undesirable situations are present in the current control reporting systems of the firms surveyed and also potentially present in other firms. In both questions, the accountant was given a list of eight different situations and first asked to check those that in his opinion currently existed in his firm's control reporting system and then asked to check those situations which he felt had a realistic potential for existing within the control reporting systems of firms in general. The responses were as follows:

Currently Present	Situations	Potentially Present
25%	Too many control reports being prepared and sent to management.	50%
56%	Lack of feedback from the receivers about the report's use.	62%
25%	Lack of co-ordination between the accountants and users in the planning and development of the control reporting system.	75%
12%	Lack of personal contact between the accounting department staff members and the managers who receive the reports.	56%
25%	Lack of flexibility in control reporting system.	56%

50%	Lack of accounting backgrounds in the receivers of the reports.	50%
12%	Terminology problems in the reports.	50%
12%	Receiver dissatisfaction with report formats.	50%
12%	None of the above.	6%

It is interesting to note that the responses for the potential columns in every case are larger than the corresponding entries for the actual columns, indicating that the accountants believe that their individual firms have been able to either overcome or avoid some of these trouble areas that other firms may not.

As the results show, the most frequent situations existing currently are (1) a lack of feedback to the accountant from the managers and (2) a lack of accounting backgrounds in the receivers of the reports. Both situations exist in about half of the firms surveyed, indicating that these situations are somewhat common.

In terms of being potentially present, the agreement among the accountants was very high--on each situation, at least half of the accountants agreed that these situations had a "realistic potential" for existing in other firms. The largest number agreed that a lack of coordination was the most likely to occur in other firms,

with a lack of feedback as the second most likely.

Question 7:

> 7. Are there presently any problems or barriers within the control reporting systems of your firm that in your opinion block the effectiveness of control reports? If yes, please briefly describe them below.
>
> _____

The seventh question asked each managerial accountant to briefly describe any problems or barriers in his firm's control reporting system that he is currently aware of.

The accountants stated that they were aware of the following:

1. None.

2. Not enough immediate action is taken when the reports indicate need for same in particular areas.

3. Reports generally contain too much information; and, therefore, cloud significant things. Additionally, time requirements are such that explanations of problem areas are not complete enough.

4. There are none in our division, however, in my opinion, the biggest block to the effectiveness of control reports is the lack of involvement by top management of control systems set up by accountants for accountants is useless. [sic.]

5. Duplication to some extent of the requested data and lack of feedback to the accountant preparing the report.

6. Communication problems--users of reports are located too far from those preparing reports and able to answer questions about them.

7. Reports are almost a week late by the time they get to the person controlling the cost. Consolidation of all information (accounting actuals and estimates to complete from responsibility areas) for a complete report. [sic.]

8. Our biggest problem with the control reporting system is the availability of programming time for the computer to implement new reporting systems and also in making changes in existing systems to improve their effectiveness.

9. The reports are not issued soon enough after the end of the month being reported.

10. Lack of imagination on the part of accountants and managers. Interested in too much information (either irrelevant or unnecessary).

11. Yes--there is not enough qualified personnel with the time to react to the problems uncovered in the control reports as fast as one would wish.

12. Individual department heads are not fully responsible for control within the cost area.

13. Top management is not receptive to change.

14. The number and frequency of existing reports is too great to allow time for proper analysis.

Question 8:

8. How important are your attitudes or those of your subordinates toward the receivers of the reports in deciding upon the form and content of their control reports (check one please)						
Very Unimportant	Unimportant	Not Very Important	Neutral	Somewhat Important	Important	Very Important

Question eight was asked to test a concept found frequently in the interpersonal communications subject area--that is, the important influence of attitudes in communication situations. The eighth question tested this idea by asking the accountant to rank the importance of his attitudes or those of his subordinates toward the report receivers as a determinant in decisions regarding the form and content of control reports.

As shown below, the replies of the accountants tended to support the emphasis placed on the role of attitudes in interpersonal communications, because 94% of the accountants ranked attitudes as at least "Somewhat Important" and 82% ranked them as at least "Important" as a determinant in decisions about the form and content of control reports. The actual results of this question were as follows:

			6%	12%	38%	44%
Very Unimportant	Unimportant	Not Very Important	Neutral	Somewhat Important	Important	Very Important

Question 9:

The ninth question also sought empirical support for concepts from the communications subject area, regarding the relative importance of the various elements within the control reporting communication situation. The accountant was given a list of the five major important elements within the control reporting communication situation and was asked to rank each in terms of its relative influence on the degree of effective communication achieved in the situation. The results follow:

	Percent Ranking the Element				
Element	1st	2nd	3rd	4th	5th
Form and content of the report	25	38	25	12	0
Lines used to transmit report	6	12	25	25	31
Person preparing the report	6	12	31	31	19
Direct receiver of report	50	25	12	12	0
Indirect receivers of the report	12	12	6	19	50

The above gives an indication of what the managerial accountants consider to be the most important elements within the control reporting situation. The results yield the following over-all ranking of the elements in the order of their importance, ranked according to the frequency of responses:

(1) the direct receivers, that is the managers who receive the reports

(2) the form and content of the report itself

(3) the person responsible for preparing the report

(4) the lines of communication used to transmit the report

(5) the indirect receivers, that is the managers who receive the reports and do not directly use the information in the report.

Question 10:

10. Are you or your subordinates currently following any formal or informal guidelines for determining the form and content of control reports? If yes, please briefly describe them below _____

The tenth question sought to determine what, if any, guidelines for determining the form and content of control reports are currently in use in the firms contacted. Each accountant was asked if he or his subordinates were using any such guidelines and if so, to please briefly summarize or describe them. The following are the actual responses to this question:

1. Sales and profits by customers and actual and budgeted expenses are listed on reports prepared by IBM machines. Variances and abnormal conditions are explained by written report.

2. Home office prescribes standard forms and procedures for reporting to them. We use a variation of our own for internal reporting consistent with accounting practices.

3. In general, the guidelines shown in set one are fundamental to our control reports. They are informal rather than written.

4. The formal content of the control reports is determined at the division level and all of the plants prepare according to the format.

5. What executive management feels is necessary for them to effectively manage the operations.

6. Expenses reported by location shown by expense category. Profit and loss by department and total division shown to net before tax by sales. Informal analysis and trend reporting, exception reporting.

7. As new reports are generated, a representative from the areas involved attend the necessary series of meetings to insure that the information contained in the report is suitable to their needs.

8. Generally, our guidelines are very informal. The only formality involved is fitting them into computer programming formats.

9. Each report is designed with its specific purpose in mind and is reviewed with the receivers of the report before the form and content are finalized.

10. Discussed with report receivers what they feel they need.

11. Yes--method used in preparing report covered by detailed instruction and made part of the controller's manual.

12. Emphasis is being placed on performance in the forecast period where action can be taken to correct unfavorable variances.

13. Form and content is continually reviewed to determine if current management needs are being met.

It must also be noted that one accountant replied that his firm did indeed have formal guidelines but neglected to summarize and present them and that two accountants replied that their firm did not use any guidelines in determining the form and content of control reports.

Question 11:

Question eleven is really a three part question, each part dealing with the accountants' preferences among a group of three sets of guidelines suggested for use in the control reporting activities of managerial accounting. Two of the sets, Sets 1 and 2 were advocated by the literature, whereas Set 3 was generated by this present research effort. The primary purpose of this question was to obtain the accountant's evaluation of each set and the relative value of each set.

> 11. Please examine the three sets of summarized guidelines for control reporting shown on the following two pages. Which set would you choose to follow or have your subordinates follow in control reporting?
>
> Set Number _____

The first part of the question asked the accountants to examine the three sets and choose one set that he himself would choose to follow or have his subordinates follow in

control reporting activities. In summary, the results of this question are as follows:

Set Number	Per Cent
1	44
2	19
3	38

As shown, Set 1 was chosen by the accountants most frequently, with Set 3 ranking second. In fact, both sets almost received the same percentage.

The accountants were also asked to support their choice or give more detail on it by telling why they chose the set they did. It was hoped that this question would provide insights into the advantages and disadvantages of the various sets. Below are the reasons given in support of the choices made, grouped by set:

Reasons Given for Choosing Set 1

1. It is a practical guideline which covers all the essentials of a good reporting system.

2. It is comprehensive and practical.

3. Sets 2 and 3 seem to be extremes of Set 1. Set 2 is too limited and Set 3 is too broad. Set 3 could perhaps be ideally suited for a very large corporation, but for medium and small corporations, it is just too detailed and broad.

4. It is most practical. No consideration given to value of report vs. value received.

5. I would choose Set No. 1 because it covers most of the guidelines that I would consider necessary for implementing a control reporting program and get it going in a short time. Set 2 is too brief and general, Set No. 3 is too formalized and there would be a risk of getting bogged down in preparation for instituting the system.

6. This set is comprehensive, yet does not entail additional record keeping of the reports which may prove to be a cost exceeding the value derived. A periodic review of reports could eliminate those no longer used thus maintaining only current reports.

7. This seems to describe our present system which appears to be working well.

Reasons Given for Choosing Set 2

1. Gives them broad parameters to utilize their technical competence, creativity and flexibility.

2. Most direct approach--Set one is ambiguous. Set three much too cumbersome.

3. Control must follow the organizational structure of corporation.

Reasons Given for Choosing Set 3

1. It is the most comprehensive approach. It includes integration of any specific report with the entire reporting system and includes follow up to insure the report fills the need for which it was intended.

2. The lines of communication are open. The person receiving the report plays a major role in its design and revisions. The pre-set guidelines which enable the lines of communication to remain open and which provide for a smooth transition in case either of the parties involved are relieved of their particular responsibility.

3. Most accurately and efficiently provides for delivery of the required and desired information to the proper party at the proper time. Actually would prove to be most demanding and most costly--an ideal that probably cannot be reached, but should be striven for.

4. Guidelines are nearer to my own concept of what the guidelines should be than those outlined in one or two.

5. This set provides a basis for setting up and controlling the reporting system. It would need to be supplemented by the generalities included in Set No. 1 and with which we generally would agree.

6. It seems to identify the reports and control the contents for usefulness to those receiving them. Provides for changes when necessary. Permits followup to insure reports are meaningful and are being used for purposes intended. Provides opportunity for communication with managers etc. to get reactions and comments on effectiveness of reports.

Would you be willing to adopt and implement the set of guidelines you chose?

Yes _____ No _____

If yes, what impact would this have on your current control reports and current control reporting system. Briefly describe, please

_____

The next two questions dealt with the strength of the accountants' advocacy of the guidelines they chose. The first of these two questions asked if they would be

willing to adopt and implement the set of guidelines chosen. The results of this question are significant: 81% stated that they would. Their reply to this was further explored and amplified by the next question, which asked them to briefly describe the effect or impact of actually adopting the guidelines they chose on their current control reporting system. In response, 56% of the accountants replied that the adoption of the guidelines they chose would have no effect on their current control reporting system. In fact, the following breakdown shows the percentage of the group advocating each set of guidelines which stated that the adoption of the guidelines would have no effect on their cost control reporting system:

Set Number	Percentage
1	44
2	6
3	6

Most of those who showed no change frankly admitted that they chose the set of guidelines that most nearly resembled their current guidelines or philosophy. In fact, all the accountants who chose Set 1 stated that they are currently using this set in their control reporting systems.

The responses indicating that an impact would result from the adoption of the guidelines chosen are shown

below. Approximately 44% of the accountants stated that an impact would result.

The Impact of Adopting and Implementing Set No. 2

1. Would result in a major overhaul of an old antiquated system.

The Impact of Adopting Set No. 3

1. More communication. Closer relationship between preparer and user. Expansion of guidelines.
2. Would require more time, more personnel in accounting than now provided or probably acceptable to top management.
3. This approach would formalize and recognize our reporting system substantially more than has been done to date. It would also provide system controls which are, of course, necessary.

Responses To The Divisional Manager Questionnaire

Since the questionnaire sought to compare views of the two groups involved in the control reporting communication situation on the same basic issues, most of the questions asked of the managerial accountants were also asked of the managers, hence the previous presentations of the questions and discussions of the goal of each question asked to the managerial accountants also apply here and need not be repeated. However, one question asked of the managers was not included in the accountants' questionnaire and will be discussed in full, both its goals and the

replies obtained.

Below are both the responses from the managers in reply to the questionnaire survey and an analysis of the significance of and the conclusions that can be drawn from these responses.

Question 1:

The following are the titles of the managers who replied (many of the managers had the same title and it was not repeated):

(1) Division Vice President and General Manager
(2) General Divisional Manager
(3) Manager of XYZ Division
(4) Marketing Manager
(5) Plant Manager
(6) Vice President of Operations, XYZ Division

As the titles indicate, the managers were basically at the plant or division responsibility level and their positions correspond quite closely to the positions of the accountant who replied (i.e., middle management).

Question 2:

A summary of the number of different control reports received by the managers is presented below in groups of five:

Types of Reports Received	Per Cent
1-5	36
6-10	9
11-15	27
16-20	0
21-25	18
26-30	0
over 30	9

Again closely resembling the replies from the accountants, the summary shows that the manager replies also fall into two general categories, small and large, in terms of the number of differing control reports received, with 72% receiving from 1 to 15 types of control reports, and the remaining 27% receiving 21 to over 30.

Question 3:

The managers' response to the third question, shown below, reveals his view of the general importance of the control report as a determinant of the degree of control achieved over his responsibility unit. The responses provide insight into the actual role and importance of the control report, according to the men who actually use them. As shown, 81% of the managers considered the report as at least "Very Important" as a determinant with 36% declaring that the report is "Vital" to their success at achieving control. The remaining 10% not shown is accounted for by responses indicating that the importance of the control report varied over the whole range.

9%					45%	36%
Very Unimportant	Unimportant	Not Very Important	Neutral	Somewhat Important	Very Important	Vital

It should be noted that the response indicating that control reports had little influence over the degree of control achieved also indicated later in the response to the questionnaire that the control reports in that particular case are used to indicate the percentage of base profit achieved on orders and hence does not exactly correspond to the type of control reports received by the other managers.

Question 4:

The managers' opinions as to what the goal and/or purpose of control reports should be are as follows:

1. To provide necessary information for all areas of production--financial-sales-personnel, etc. to be used in evaluating and controlling the different areas of operations under my supervision.

2. Reports should isolate important performance and unusual events. Exceptions from norm should be immediately obvious. Explanations of deviations should be submitted as part of the report.

3. Show performance, by individual responsibility, compared to pre-planned goals and in trend format.

4. To indicate percentage base profit on individual orders.

5. Keeping current--point out trends-wide variances (up or down). Point out areas of special concern.

6. Indicate deviations from normal or plan, and particularly forecast expected future deviations such that effective actions can be taken before or in advance of the occurrence.

7. To provide factual, up-to-the-minute data for a specific period which will tell me whether the operation is under control.

8. To bring to the manager's attention those areas that are substantially varying from plan.

9. Concise reports--easily readable with important items--good or bad high-lighted.

10. As the term indicates-for control purposes. As an indicator when trends are developing. The basis for taking action.

11. The reporting system should show our plan to meet objectives, performance against the plan, and highlight areas where we appear to be having difficulty.

Question 5:

The following summary shows the managers evaluation of their control reports success in conveying control information:

Very Ineffective	Ineffective	Not Very Effective	Neutral	27% Somewhat Effective	54% Effective	9% Very Effective

As shown, approximately 63% ranked their reports as at least "Effective" with only 9% declaring that their reports were "Very Effective" in conveying control information.

On the other hand, 27% report that their reports are only "Somewhat Effective". The missing 10% again represents responses indicating that their control reports varied across the whole range.

A comparison with the replies of the accountants on this same topic indicates that both groups' views are basically the same on the general effectiveness of their control reports.

Questions 6 and 7:

The managers' perception of the degree to which certain undesirable situations currently exist within their control reporting systems and their potential to exist within control reporting systems is as follows:

Currently Present	Situations	Potentially Present
54%	Too many control reports being sent to management	72
45	Lack of feedback from receivers about report's use	45
36	Lack of co-ordination between the accountants and users in the planning and development of the control reporting system.	72
9	Lack of personal contract between the accounting department staff members who receive the reports.	45

54	Lack of flexibility in the control reporting system.	72
45	Lack of accounting backgrounds in the managers.	63
36	Terminology problems in the reports.	45
18	Receiver dissatisfaction with control report formats.	36

By far the most prevalent situations currently existing in the control reporting systems, according to the manager responses, are (1) too many control reports, and (2) a lack of flexibility in the system, both of which ranked approximately second in terms of the accountants replies to the same question.

The managers also consistently replied that these same two situations, in addition to a lack of co-operation between accountants and managers in the design and development of the system, had the greatest realistic potential for existing in other control reporting systems.

Question 8:

The following are the managers views of problems or barriers currently existing within the control reporting systems of their firms and blocking the effectiveness of control reports:

1. Lack of follow-up action for immediate needs as dictated by the reports.

2. Control reports are included with a normal monthly financial statement. Corporate time reporting and the informational needs for consolidation purposes destroy some of the effectiveness as a control tool. For example: The reports are required on such a short schedule that explanations of deviations cannot adequately be prepared and are submitted subsequent to the report itself.

3. In spite of training programs, there still exists a lack of understanding of the basic system which results in the system being less effective than it could be.

4. Accounting reports to corporate controller. All other staff functions report to manager. I think accounting should also.

5. Multi-departmental, sales departments, and multiple plant production facilities requiring allocation of expenses which can be questioned--thus the report can also be questioned.

6. All the items listed in Question 7, especially the last item, "Receiver dissatisfaction with control report formats."

7. Reports often contain retroactive adjustments which are only explained after detailed checking of the data.

8. No answer given.

9. Use of computer renders system too rigid in reporting.

10. Changes in budget distributions and allocations from previous accounting period has created questions as to figure correctness and problem of comparisons.

11. For the most part, we do not have a significant problem. Our current inventory control reporting system, however, is not very effective. It

is not flexible enough to accommodate the many different types of business within our company.

Question 9:

The relative ranking of the various elements within the control reporting situation, according to the managers, are as follows:

	Percent Ranking the Element				
Element	1st	2nd	3rd	4th	5th
Form and content of the report	45	36	18	0	0
Lines used to transmit report	9	0	18	27	45
Person preparing the report	9	27	9	36	18
Direct receiver of report	18	27	36	18	0
Indirect receivers of report	18	9	18	18	36

As seen above, the managers replies in total were less precise and definite in ranking the elements, with no over-all order of the elements determinable, in terms of relative influence on the over-all effectiveness of the control report. It is clear from the results, however, that the form and content of the reports is most important, being ranked first and second most frequently. It is also clear that the lines used to communicate the reports is least influential in the manager's opinion, and that they rank themselves as being the third most influential element in the situation.

Question 10:

In total, the managers personal preference among

the three sets of guidelines is as follows:

Set Number	Per Cent
1	54
2	18
3	27

Again corresponding in general to the replies from the accountants, Set 1 proved to be the set that most of the managers would want the managerial accounting department to follow when preparing their control reports. Below are the various reasons given in explanation of their choices:

Reasons Given for Choosing Set 1

1. It deals with presentation which is essential to good reporting--simple, accurate, timely, useful--these are the basic requirements.

2. It adequately describes my needs in control reports.

3. Except for item 12. Set 2 too loose, set 3 too detailed.

4. Represents combination most helpful to me.

5. Set 2 is too rough. Set 3 carries "Theory Y" to an extreme.

6. Because it emphasizes timeliness, simplicity, accuracy, principle of exception, standardization, usefulness, cost of preparation and above all the design should reflect the viewpoint of the executive who must conserve his time by not having complicated meaningless reports.

Reasons Given for Choosing Set 2

1. The principle of exception should be followed. This eliminates a lot of excess paperflow and gets to the heart of the problem.

2. No reason advanced.

Reasons Given for Choosing Set 3

1. This set of guidelines was selected because it offers a more complete approach to establishment of a control reporting system. The principles outlined in Set No. 1 are of value after the system has been defined but only at that time. The outlines in Set No. 2 are incomplete.

2. Receiver of report should have say in what information he feels he needs. Meetings between maker and receiver will make certain both know what report contains--and if proper information not being supplied it can be altered.

3. Reports would be tailored to needs.

Question 11:

11. In your opinion, which set would lead to the most effective control reporting system?

Set Number _____

The eleventh question appeared only in the managers' questionnaire and asked each to indicate the set of guidelines which he thought would lead to the most effective control reporting system. The goal was to see if there was any difference between the manager's personal preferences as expressed in Question 10 and his evaluation

of the potential of the three sets. The summary results were as follows:

Set Number	Per Cent
1	25
2	17
3	58

The managers most frequently selected Set 3, resulting from this present study, as the one that would lead to the most effective control reporting system.

This reveals an interesting change in managements' views. A comparison of the summary replies from Questions 10 and 11 shows that the managers as a whole, while personally preferring Set 1 in Question 10 indicate that Set 3 would lead to the most effective control reporting system in Question 11. The individual replies given to this question are below, with the set number that each choose in Question 10 indicated in parenthesis to show which had switched from Question 10 to 11:

Reasons Given for Choosing Set 1

1. Set one would minimize the amount of information while optimizing the value and use of the content. (Set 1).
2. No reason given. (Set 1).

Reasons Given for Choosing Set 2

1. Because it reports exceptions to planned performance. (Set 2).
2. No reason given. (Set 2).

Reasons Given for Choosing Set 3

1. Reports tailored to a managers needs will be the most effective in helping him maintain control. (Set 3).

2. More clearly defined--less chance of misunderstanding. More opportunity to discuss changing report as executives dictate. (Set 3).

3. Because these guidelines recognize the entire need situation within the operating unit and permit development of a complete system of reporting which is integrated without duplication. (Set 3).

4. Specific guidelines and goals set forth. (Set 1).

5. If started from the beginning, Set 3 is more detailed in the fundamentals. Our financial people follow most of those guidelines as a matter of course. (Set 1).

6. Provides the basis for an examination of your reporting system. An analysis of your reporting system follow the Set 3 guidelines could result in developing a program which met the requirements established in Set 1. (Set 1).

One manager indicated that he would choose a combination of Sets 1 and 3, giving the following reason:

> A combination of these two would provide for executive needs and supervisory personnel. The requirements are different and varied and need different reports to enable everyone to do their job.

APPENDIX A

PERSONAL INTERVIEW OUTLINE

The following outline was used to guide the personal interviews with the executives of the aerospace firm used as a case study:

I. Nature of the managerial accounting for control system and its communication aspects:
   A. Inputs into the control system
      1. Source of inputs
      2. Form of inputs
      3. Purpose of inputs
      4. Problems with inputs
   B. Processing of inputs
      1. Nature of processing
      2. Purpose of processing
   C. Output of system
      1. Lines of communication
      2. Originator of report
      3. Originator's motives for communicating
      4. Direct intended receiver
      5. Originator's predictions about direct intended receiver
         a. cognitive structure
         b. emotive structure
         c. goal structure
      6. Most probable indirect receivers and their effect on the communication situation
      7. Relation between originator and intended direct receiver at time of transmission
      8. Other forces operating in the situation
      9. Change desired in receiver and undesired changes possible
      10. Form of communication and how determined
      11. Problems encountered in communicating
   D. Feedback on communication
      1. How accomplished
      2. How frequently does it occur
      3. Importance attached to feedback

II. Goal of managerial accounting for control communication

III. Important aspects of communication process that help or hinder

IV. Suggestions to make communication more effective

APPENDIX B

BUSINESS FIRM SURVEY

SURVEY SAMPLE

The questionnaire packets were sent to the following firms (those marked with an asterisk replied to the questionnaire):

	Industry or Major Product	1966++ Sales	1966 Net++ Income
1.	Paper and wood products*	368	29
2.	Paper and wood products*	700	39
3.	Paper products	622	39
4.	Farm machinery, trucks, equipment	2,500	110
5.	Kitchen equipment	142	12
6.	Business machines and computers*	871	27
7.	Business forms and systems	29	2
8.	Paper products*	633	27
9.	Business forms and systems	84	5
10.	Steel*	1,200	87
11.	Specialized mechanized rubber products*	106	4
12.	Steel, iron, aluminum and manganese products	70	5
13.	Measuring instruments, precision parts	19	2
14.	Corrosive resisting equipment	31	3
15.	Mobile home products*	35	2
16.	Aerospace flight control and guidance systems*	244	8
17.	Motor vehicle bodies and parts	390	7
18.	Milk and food products	2,200	73
19.	Fastners, rivets	NA	NA
20.	Chemicals*	126	8
21.	Automobile gaskets	225	5
22.	Ball and roller bearings*	241	17
23.	Printing ink and chemicals*	NA	NA
24.	Truck and tractor equipment*	50	.2
25.	Leaf springs, steel doors	38	.3
26.	Carburetors, governors, fuel pumps	40	NA
27.	Milk and dairy food products	20	NA
28.	Rubber products	7	NA

29.	Metal stamping, office furniture	133	6
30.	Steel*	97	5
31.	Precision parts and tools*	239	38
32.	Ceramics, glass, and chemicals	112	5
33.	Business machines, forms, and systems	489	31
34.	Printing and photo engraving	NA	NA
35.	Consulting and publishing*	50	NA
36.	Engineering	13	NA
37.	Meat and dairy products*	474	(4)
38.	Hoses, clamps for industry	112	6
39.	Flexible packaging	171	7
40.	Automotive*	5,600	189
41.	Automotive	20,000	1,800
42.	Automotive*	12,000	1,000

++ in millions of dollars

Sources: Dun & Bradstreet, 1968 Dun & Bradstreet Million Dollar Directory and Middle Market Directory (New York: Dun & Bradstreet, 1967), and Moddy's Investor Service, Inc., Moddy's Industrial Manual, June, 1967, (New York: Robert H. Messner, 1967).

APPENDIX B

QUESTIONNAIRE COVER LETTER

July 1, 1968

Dear Mr.

Control reporting has long been recognized as one of the most important activities of the managerial accountant. And yet, in recent years articles in the financial area have charged that this area needs strengthening. The need appears to be for a sound set of guidelines to guide the accountant in his decisions about the form and content of control reports.

As a Ph.D. candidate in accounting at Michigan State University, I have chosen to provide these guidelines, both out of a personal interest and to meet the dissertation requirements of the degree. To give my study practical significance, I need empirical data and you can be of great assistance to me.

Enclosed are two envelopes, each containing a questionnaire, one for a managerial accountant and one for a divisional manager. The questionnaires are quite short, containing only a dozen questions requiring the respondee's opinions. The envelope marked "managerial accountant" is for a member of the managerial accounting staff who has authority over the form and content of the control reports of your firm. The envelope marked "divisional manager" is for the manager of a responsibility unit who receives such reports.

Not having information on the internal structure of your firm, may I ask you to forward the envelopes to the appropriate personnel within your firm? Each envelope contains a cover letter similar to this to aid the person selected to respond.

Your aid in this dissertation effort would be greatly appreciated. Of course, complete anonymity will be maintained in the discussion of the results of this survey.

Thank you for your co-operation.

Respectfully yours,

Thomas G. Evans

Encl-2

APPENDIX B

COVER LETTER FOR MANAGERIAL ACCOUNTANT QUESTIONNAIRE

July 1, 1968

Dear Sir:

Control reporting has long been recognized as one of the most important activities of the managerial accountant. And yet, in recent years articles in the financial literature have charged that this area needs strengthening. The need appears to be for a sound set of guidelines to guide the accountant in his decisions about the form and content of control reports.

As a Ph.D. candidate in accounting at Michigan State University, I have chosen to provide these guidelines, both out of a personal interest and to meet the dissertation requirements of the degree. This letter and the enclosed questionnaire have been forwarded to you from the controller's office to ask your aid in my study, to give it practical significance.

Having had personal experience in public accounting and industry, I fully realize the important demands upon your time. Hence, the questionnaire is quite short, containing only a dozen questions requiring your opinions mainly. Your opinions are valuable to my study and should you wish to expand your reply to any question or add supplementary information, your including them in a letter to me would be welcomed.

Your aid in this dissertation effort would be greatly appreciated. Of course, complete anonymity will be maintained in the discussion of the results of this survey.

Thank you for your co-operation.

Respectfully yours,

Thomas G. Evans

Thomas G. Evans

APPENDIX B

QUESTIONNAIRE FOR MANAGERIAL ACCOUNTANT

1. Your official title_____

_____

2. The approximate number of different responsibility units for which you or your subordinates prepare control reports (the internal accounting statement prepared periodically for a responsibility unit to show the actual costs, planned costs, and difference for the unit over a period of time)

_____

3. In your opinion, how important is the reporting stage to managerial accounting for control (check one)

Very Unimportant	Unimportant	Not Very important	Neutral	Somewhat important	Very important	Vital

4. In your opinion, what is the goal or purpose of control reporting

_____

_____

_____

5. In your opinion, how generally effective are your current control reports in conveying control information to the managers that receive them (check one)

Very Uneffective	Uneffective	Not Very Effective	Neutral	Somewhat Effective	Effective	Very Effective

6. In general, do any of the following situations exist in the control reporting systems of your firm (mark with a check, please)

_____Too many control reports being prepared and sent to management.

_____Lack of feedback from the receivers about the report's use.

_____Lack of co-ordination between the accountants and users in the planning and development of the control reporting system.

_____Lack of personal contact between the accounting department staff members and the managers who receive the reports.

_____Lack of flexibility in control reporting system.

_____Lack of accounting backgrounds in the receivers of the reports.

_____Terminology problems in the reports.

_____Receiver dissatisfaction with control report formats.

In your opinion, which of the following have a realistic potential for existing within control reporting systems (mark with a check, please)

_____Too many control reports being prepared and sent to management.

_____Lack of feedback from the receivers about the report's use.

_____Lack of co-ordination between the accountants and users in the planning and development of the control reporting system.

_____Lack of personal contact between the accounting department staff members and the managers who receive the reports.

_____Lack of flexibility in control reporting system.

_____Lack of accounting backgrounds in the receivers of the reports.

_____Terminology problems in the reports.

_____Receiver dissatisfaction with control report formats.

7. Are there presently any problems or barriers within the control reporting system of your firm that in your opinion block the effectiveness of control reports? If yes, please briefly describe them below

_____

_____

_____

_____

8. How important are your attitudes or those of your subordinates toward the receivers of the reports in deciding upon the form and content of their control reports (check one please)

Very Unimportant	Unimportant	Not Very Important	Neutral	Somewhat Important	Important	Very Important

9. Please rank the following elements in terms of their relative influence on the overall effectiveness of the control report (i.e. the element having the most influence, give the highest rank; that element having the second most influence rank second, etc.)

Element	Rank
The form and content of the report itself	____
The lines of communication used to transmit the report	____
The person responsible for preparing the report	____
The managers who receive the report	____
The managers who receive the report and do not directly use the information within the report	____

10. Are you or your subordinates currently following any formal or informal guidelines for determining the form and content of control reports? If yes, please briefly describe them below

_____

_____

_____

11. Please examine the three sets of summarized guidelines for control reporting shown on the following two pages. Which set would you choose to follow or have your subordinates follow in control reporting?

Set Number _____

Why_____

_____

_____

_____

_____

_____

Would you be willing to adopt and implement the set of guidelines you chose?

Yes _____ No _____

If yes, what impact would this have on your current control reports and current control reporting system. Briefly describe, please

_____

_____

_____

_____

_____

12. Would you like a copy of the results of this survey sent to you? If yes, please give me your mailing address below

_____

_____

_____

SETS OF GUIDELINES

Set One

1. The reports should contain only essential facts.
2. Reports should be simple and clear.
3. Reports should be expressed in language and terms familiar to the executive who will use them.
4. Information should be presented in logical sequence.
5. Reports must be accurate.
6. Reports should reveal significant trends and relationships.
7. The form of presentation should be suited to the executive who will use it.
8. Reports should be timely.
9. Reports should be either self explanatory or interpreted.
10. In general, the principle of 'exception' should be followed.
11. Reports should be standardized whenever possible.
12. The report design should reflect the viewpoint of the executive.
13. Reports must be useful.
14. The cost of report preparation should be considered.
15. The care taken in preparing a report should be commensurate with it's use.

Set Two

1. The organizational structure and chain of responsibility of the enterprise should be observed.
2. Irrelevant and immaterial data should be excluded.
3. The data should be sufficiently accurate for the purpose.
4. Terminology should be sufficiently accurate for the purpose.
5. Comparative data should be used to develop significant trends and relationships.
6. Reports should be timely.

Set Three

1. Examine the whole control reporting system and divide it up into separate communication situations by the

nature of the control report (i.e. detailed or summarized data) and the frequency of preparation (i.e. weekly, monthly, semi-annually).

2. For each such situation, follow the following program:
   1. Observe and identify the following elements:
      a) the title, frequency of preparation, general format, and general content of the control report;
      b) the person(s) responsible for the preparation of the report;
      c) the manager(s) for whom the report is prepared and sent;
      d) the specific reasons for the report's preparation;
      e) other personnel who also receive a copy of the report;
      f) the actual lines of communication used to transmit the report.
   2. Record the above information and keep a file of it.
   3. Subjectively determine the effect of the following characteristics of the above elements on the situation:
      a) the control report originator's knowledge of the communication process and ability as a communicator; his attitudes toward himself, the value of the report, and the receivers of the reports; his knowledge of control accounting; his motives for preparing the report; and his relationship to the receivers.
      b) the receiver's ability to communicate and knowledge of the communication process; their attitudes toward themselves and managerial accounting for control; their knowledge of accounting for control; and their relationship to the managerial accounting department.
      c) the directness and appropriateness of the actual lines of communication used in the situation.
      d) the power of the indirect receivers to influence the situation.
   4. Determine the specific financial information (actual and planned costs) that the managers need for control by asking them for their needs and preferences.

5. Organize the control report content to meet the communication needs of the managers by:
   a) grouping the managers into general classes by the nature of their functions and backgrounds;
   b) determining the communication needs of each class by asking them for their preferences as to control report format;
   c) using their responses to develop one uniform format for each class.
6. Choose the most direct formal channel available to transmit the report.
7. Consult the classes of managers to determine when they will be most receptive to delivery of the report and attempt to have it arrive at that time.
8. Monitor the report being sent to insure that it is as intended.
9. Conduct periodic personal meetings between the accounting staff members concerned with the control report and the classes of managers receiving the report to:
   a) obtain the manager's evaluation of the suitability of their reports;
   b) educate the groups on the accounting process used to generate their control reports.
10. Use the information generated from these meetings to make the necessary modifications in the control reporting process.

APPENDIX B

COVER LETTER FOR DIVISIONAL MANAGER QUESTIONNAIRE

July 1, 1968

Dear Sir:

Control reports have long been recognized as a major means of conveying financial information to the operating management of business firms. And yet, in recent years articles in the financial literature have charged that control reports may not be meeting the needs of these managers and hence, need improvement in their form and content.

As a Ph.D. candidate at Michigan State University, I have chosen to develop a set of guidelines for managerial accountants to follow that would increase the effectiveness of control reports, both out of a personal interest and to meet the dissertation requirements of the degree. This letter and the enclosed questionnaire have been forwarded to you from the controller's office to ask your aid in my study, to give it practical significance.

Having had personal experience in public accounting and industry, I fully realize the important demands upon your time. Hence, the questionnaire is quite short, containing only a dozen questions requiring your opinions mainly. Your opinions are valuable to my study and should you wish to expand your reply to any question or add supplementary information, your including them in a letter to me would be welcomed.

Your aid in this dissertation effort would be greatly appreciated. Of course, complete anonymity will be maintained in the discussion of the results of this survey.

Thank you for your co-operation.

Respectfully yours,

Thomas G. Evans

Thomas G. Evans

APPENDIX B

QUESTIONNAIRE FOR DIVISIONAL MANAGER

1. Your official title _____

_____

2. The approximate number of different types of control reports (the internal accounting statement prepared periodically for a responsibility unit to show the actual costs, planned costs, and difference for the unit over a period of time) which you receive

_____

3. In your opinion, how important are control reports in determining the degree of control you achieve over your responsibility unit (check one please)

Very Unimportant	Unimportant	Not Very Important	Neutral	Somewhat Important	Very Important	Vital
_____	_____	_____	_____	_____	_____	_____

4. In your opinion, what should be the goal or purpose of control reporting

_____

_____

_____

5. In your opinion, how effective are the control reports you receive in conveying control information to you (check one, please)

Very Ineffective	Ineffective	Not Very Effective	Neutral	Somewhat Effective	Effective	Very Effective
_____	_____	_____	_____	_____	_____	_____

6. In general, do any of the following situations exist in the control reporting system of your firm (mark with a check, please)

_____Too many control reports being prepared and sent to management.

_____Lack of feedback from the receivers about the report's use.

_____Lack of co-ordination between the accountants and users in the planning and development of the control reporting system.

_____Lack of personal contact between the accounting department staff members and the managers who receive the reports.

_____Lack of flexibility in the control reporting system.

_____Lack of accounting backgrounds in the receivers of the reports.

_____Terminology problems in the reports.

_____Receiver dissatisfaction with control report formats.

7. In your opinion, which of the following have a realistic potential for existing within control reporting systems (mark with a check, please)

_____Too many control reports being prepared and sent to management.

_____Lack of feedback from the receivers about the report's use.

_____Lack of co-ordination between the accountants and users in the planning and development of the control reporting system.

_____Lack of personal contact between the accounting department staff members and the managers who receive the reports.

_____Lack of flexibility in the control reporting system.

_____Lack of accounting backgrounds in the receivers of the reports.

_____Terminology problems in the reports.

_____Receiver dissatisfaction with control report formats.

8. In your opinion, are there presently any problems or barriers within the control reporting system of your firm that block the effectiveness of control reports? If so, please briefly describe them below

_____

_____

_____

_____

9. Please rank the following elements in terms of their relative influence on the overall effectiveness of the control report (i.e. the element having the most influence, give the highest rank; that element having the second most influence rank second, etc.)

Element	Rank
The form and content of the report itself	____
The lines of communication used to transmit the report	____
The person responsible for preparing the report	____
The managers who receive the report	____
The managers who receive the report and do not directly use the information within the report	____

10. Please examine the three sets of summarized guidelines for control reporting shown on the following two pages. Which set would you prefer to have the accounting department follow in their control reporting to you.

Set Number _____

Why_____

_____

11. In your opinion, which set would lead to the most effective control reporting system?

Set Number _____

Why_____

12. Would you like a copy of the results of this survey sent to you? If yes, please give me your mailing address below

SETS OF GUIDELINES

Set One

1. The reports should contain only essential facts.
2. Reports should be simple and clear.
3. Reports should be expressed in language and terms familiar to the executive who will use them.
4. Information should be presented in logical sequence.
5. Reports must be accurate.
6. Reports should reveal significant trends and relationships.
7. The form of presentation should be suited to the executive who will use it.
8. Reports should be timely.
9. Reports should be either self explanatory or interpreted.
10. In general, the principle of 'exception' should be followed.
11. Reports should be standardized whenever possible.
12. The report design should reflect the viewpoint of the executive.
13. Reports must be useful.
14. The cost of report preparation should be considered.
15. The care taken in preparing a report should be commensurate with it's use.

Set Two

1. The organizational structure and chain of responsibility of the enterprise should be observed.
2. Irrelevant and immaterial data should be excluded.
3. The data should be sufficiently accurate for the purpose.
4. Terminology should be sufficiently accurate for the purpose.
5. Comparative data should be used to develop significant trends and relationships.
6. Reports should be timely.

Set Three

1. Examine the whole control reporting system and divide it up into separate communication situations by the

nature of the control report (i.e. detailed or summarized data) and the frequency of preparation (i.e. weekly, monthly, semi-annually).

2. For each such situation, follow the following program:
   1. Observe and identify the following elements:
      a) the title, frequency of preparation, general format, and general content of the control report;
      b) the person(s) responsible for the preparation of the report;
      c) the manager(s) for whom the report is prepared and sent;
      d) the specific reasons for the report's preparation;
      e) other personnel who also receive a copy of the report;
      f) the actual lines of communication used to transmit the report.
   2. Record the above information and keep a file of it.
   3. Subjectively determine the effect of the following characteristics of the above elements on the situation:
      a) the control report originator's knowledge of the communication process and ability as a communicator; his attitudes toward himself, the value of the report, and the receivers of the reports; his knowledge of control accounting; his motives for preparing the report; and his relationship to the receivers.
      b) the receiver's ability to communicate and knowledge of the communication process; their attitudes toward themselves and managerial accounting for control; their knowledge of accounting for control; and their relationship to the managerial accounting department.
      c) the directness and appropriateness of the actual lines of communication used in the situation.
      d) the power of the indirect receivers to influence the situation.
   4. Determine the specific financial information (actual and planned costs) that the managers need for control by asking them for their needs and preferences.

5. Organize the control report content to meet the communication needs of the managers by:
   a) grouping the managers into general classes by the nature of their functions and backgrounds;
   b) determining the communication needs of each class by asking them for their preferences as to control report format;
   c) using their responses to develop one uniform format for each class.
6. Choose the most direct formal channel available to transmit the report.
7. Consult the classes of managers to determine when they will be most receptive to delivery of the report and attempt to have it arrive at that time.
8. Monitor the report being sent to insure that it is as intended.
9. Conduct periodic personal meetings between the accounting staff members concerned with the control report and the classes of managers receiving the report to:
   a) obtain the manager's evaluation of the suitability of their reports;
   b) educate the groups on the accounting process used to generate their control reports.
10. Use the information generated from these meetings to make the necessary modifications in the control reporting process.

APPENDIX B

COVER LETTER FOR RESPONSE SUMMARY

November 1, 1968

Dear Sir:

Thank you very much for participating in my questionnaire survey this past summer. The over-all response to the survey was good, with 31% of the eighty-six executives responding. Much useful data for my dissertation was generated.

Attached is a summary of the responses, as I promised. Since both managers and managerial accountants were contacted, separate summaries are provided for the responses of each. If you have any questions or comments on the summaries, do not hesitate in contacting me.

Thank you again for your participation.

Very truly yours,

Thomas G. Evans

Thomas G. Evans
Instructor

SUMMARY OF RESPONSES

TO

QUESTIONNAIRE SURVEY

Summer, 1968

Thomas G. Evans, Instructor
Accountancy Department
Wright State University
Dayton, Ohio

SUMMARY OF MANAGERIAL ACCOUNTANT RESPONSES

(1) The number of different responsibility units that each managerial accountant reported to:

12%	38%	none	none	12%	12%	25%
0-5	6-10	11-15	16-20	21-25	26-30	over 30

(2) The importance of the reporting stage to managerial accounting for control, as described by the accountants:

					50%	50%
Very Un-important	Un-important	Not Very Important	Neutral	Somewhat Important	Very Important	Vital

(3) The general effectiveness of current control reports in conveying control information to management, as evaluated by the accountants:

		12%		19%	50%	50%
Very Un-effective	Un-effective	Not Very Effective	Neutral	Somewhat Effective	Effective	Very Effective

(4) Situations currently existing in control reporting systems as reported by the accountants:

Too many reports prepared	25%
Lack of feedback from receivers	56
Lack of co-ordination in design of system	25
Lack of personal contact between accountants and users	12
Lack of flexibility in reports	25
Lack of accounting backgrounds in receivers	50
Terminology problems in reports	12
Manager dis-satisfaction with report formats	12

(5) Some barriers to the effectiveness of control reporting in their firms according to the accountants:

Failure of management to take action when required.
Management desires too much and/or irrelevant information.
Receivers of reports are located far from accountants.
Top management is not receptive to change.
Late reports.
Duplication among the contents of reports.

SUMMARY OF MANAGER RESPONSES

(1) The number of different types of control reports received by the managers:

0-5	6-10	11-15	16-20	21-25	26-30	over 30
36%	9%	27%		18%		9%

(2) The importance of control reports in determining the degree of control achieved over their responsibility units:

Very Unimportant	Unimportant	Not Very Important	Neutral	Somewhat Important	Very Important	Vital
9%			9%		45%	36%

(3) The general effectiveness of current control reports received by the managers in conveying control information:

Very Uneffective	Uneffective	Not Very Effective	Neutral	Somewhat Effective	Effective	Very Effective
			9%	27%	54%	9%

(4) Situations currently existing in control reporting systems as reported by the managers:

Too many reports prepared	54%
Lack of feedback from receivers	45
Lack of co-ordination in design of system	36
Lack of personal contact between accountants and users	9
Lack of flexibility in reports	54
Lack of accounting backgrounds in receivers	45
Terminology problems in reports	36
Manager dis-satisfaction with report formats	18

(5) Some barriers to the effectiveness of control reporting in their firms according to the managers:

Lack of follow-up action on the control reports.
Arbitrary allocation of fixed costs in reports.
Lack of understanding of the accounting systems.
Use of electronic data processing equipment makes system rigid.
Accountants don't report directly to managers.
Confusing accounting adjustments in reports.

APPENDIX C

ACCOUNTING FIRM SURVEY

August 12, 1968

Dear Mr.

It was a pleasure speaking to you on Friday and I'd like to thank you again for agreeing to complete my questionnaire and thus assist me in completing my doctoral dissertation.

The formal title of my dissertation is "An Approach Toward The Effective Communication of Internal Accounting Information for Control." My main objective is to suggest methods of improving the internal communication of accounting information for control.

The enclosed questionnaire is a very important part of my research and I would certainly appreciate your completing it and returning it in the enclosed pre-stamped envelope. The questionnaire seeks mainly your opinions and judgments concerning the control reporting process. Of course, complete anonymity will be maintained in the discussion of the results of my survey.

If you have any questions or comments on the areas covered by the questionnaire, please do not hesitate to contact me here at Wright State. My phone extension is 574.

Thank you again for your co-operation.

Very truly yours,

Thomas G. Evans

Thomas G. Evans
Instructor

Encl.

CERTIFIED PUBLIC ACCOUNTANT QUESTIONNAIRE

1. Your official title, please_____

_____

2. Based upon your experiences and professional judgment, in general how effective in conveying control information are the control reports (the internal accounting statement prepared periodically for a responsibility unit to show the actual cost planned cost and the difference for the unit over a period of time) and control reporting systems of your clients:

Very Ineffective	Ineffective	Not Very Effective	Neutral	Somewhat Effective	Effective	Very Effective

3. In general, have you observed or know about any of the following problem situations existing in the control reporting systems of your clients (mark with a check, please):

_____Too many control reports being prepared and sent to management.

_____Lack of feedback from the receivers about the report's use.

_____A lack of co-ordination between the accountants and the managers in the planning and development of the control reporting system.

_____A lack of personal contact between the accounting department staff members and the managers who receive the reports.

_____A lack of flexibility in the control reporting system.

_____A lack of accounting backgrounds in the receivers of the reports.

_____Terminology problems in the control reports.

_____Receiver dissatisfaction with the format of the reports.

4. Are there any additional problem situations that you have observed or know about in client control reporting systems. If so, please briefly describe them below.

_____

_____

5. In your professional opinion, how important to successful control reporting is a sound set of guidelines for the managerial accountant to follow:

Very Unimportant	Unimportant	Not Very Important	Neutral	Somewhat Important	Important	Very Important

6. Please examine the set of guidelines on the following two pages. They have been prepared to guide the managerial accountant as he communicates through control reports. Please critically evaluate these guidelines on the following points:

   1) In your professional opinion, could these guidelines, if followed, achieve the effective communication of control information?

   2) Would you recommend their adoption by business firms?

      Why?

   3) In your judgment, what are the major strengths and weaknesses of these guidelines?

4) In your opinion, how many of your clients are currently following these guidelines or guidelines very similar in nature:

CONTROL REPORTING GUIDELINES

1. Examine the whole control reporting system and divide it up into separate communication situations by the nature of the control report (i.e. detailed or summarized data) and the frequency of preparation (i.e. weekly, monthly, semi-annually).

2. For each situation, follow the following program:

   1. Observe and identify the following elements:
      a) the title, frequency of preparation, general format, and general content of the control report;
      b) the person(s) responsible for the preparation of the report;
      c) the manager(s) for whom the report is prepared and sent;
      d) the specific reasons for the report's preparation;
      e) other personnel who also receive a copy of the report;
      f) the actual lines of communication used to transmit the report.

   2. Record the above information and keep a file of it.

   3. Subjectively determine the effect of the following characteristics of the above elements on the situation:
      a) the control report originator's knowledge of the communication process and ability as a communicator; his attitudes toward himself, the value of the report, and the receivers of the reports; his knowledge of control accounting; his motives for preparing the report; and his relationship to the receivers.
      b) the receiver's ability to communicate and knowledge of the communication process; their attitudes toward themselves and managerial accounting for control; their knowledge of accounting for control; and their relationship to the managerial accounting department.

c) the directness and appropriateness of the actual lines of communication used in the situation.
d) the power of the indirect receivers to influence the situation.

4. Determine the specific financial information (actual and planned costs) that the managers need for control by asking them for their needs and preferences.

5. Organize the control report content to meet the communication needs of the managers by:
a) grouping the managers into general classes by the nature of their functions and backgrounds;
b) determining the communication needs of each class by asking them for their preferences as to control report format;
c) using their responses to develop one uniform format for each class.

6. Choose the most direct formal channel available to transmit the report.

7. Consult the classes of managers to determine when they will be most receptive to delivery of the report and attempt to have it arrive at that time.

8. Monitor the report being sent to insure that it is as intended.

9. Conduct periodic personal meetings between the accounting staff members concerned with the control report and the classes of managers receiving the report to:
a) obtain the manager's evaluation of the suitability of their reports;
b) educate the groups on the accounting process used to generate their control reports.

10. Use the information generated from these meetings to make the necessary modifications in the control reporting process.

APPENDIX D

ORGANIZATION OF THE CONTROLLER'S DEPARTMENT

According to the Financial Executives Institute,[1] the organization chart appearing on the following page, represents the organizational structure for a modern controller's department. It would result from a firm's utilizing the most modern methods and following the major trends in financial organization. The various letters on the chart are coded to descriptions of the functions of the positions, which appear below.

Position A: Manager of Financial Analysis Functions

1. Appraises proposed plans for capital expenditures and advises as to their financial desirability.

2. Appraises the financial results of operations.

3. Supplies financial service and assistance required by the president, and by vice presidents and department managers who are not in an operating division.

4. Develops and recommends policies and procedures that will govern the extent to which the enterprise divulges cost and price information to contractors or agencies of the Federal Government, and provides general financial assistance, when requested by persons dealing with these outside agencies.

5. In accordance with approved policies, establishes the prices at which one division will transfer products to another division, subject to the authority of the

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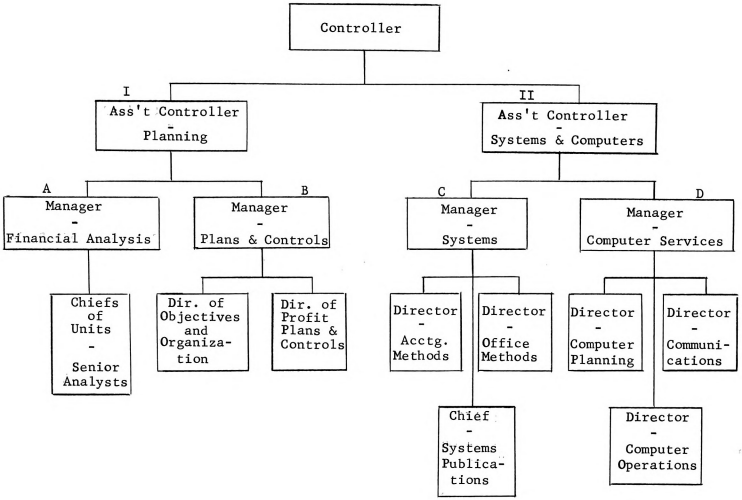
[1]Financial Executive Research Foundation, "Developments in Financial Organization 1915-1965," Special Supplement to the Financial Executive, September, 1965 (New York: Financial Executive Research Foundation, 1965), pp. 14 and 17-19.


Controller
I
Ass't Controller - Planning
II
Ass't Controller - Systems & Computers
A
Manager - Financial Analysis
B
Manager - Plans & Controls
C
Manager - Systems
D
Manager - Computer Services
Chiefs of Units - Senior Analysts
Dir. of Objectives and Organiza-tion
Dir. of Profit Plans & Controls
Director - Acctg. Methods
Director - Office Methods
Director - Computer Planning
Director - Communi-cations
Chief - Systems Publica-tions
Director - Computer Operations

division general managers to establish such prices by agreement.

6. Identifies the trends of sales, costs, and expenses and appraises the significance thereof.

7. Establishes a plan for identification or products whose earnings have dropped below the rate of return on investment set as the objective of the enterprise and makes special studies concerning the future earnings of these products on request.

8. On request, provides services of financial analysis to department heads or to division controllers.

9. Supervises his staff.

Position B: Manager of Plans and Controls Functions

1. Supervises the work of the units under his responsibility.

2. Consults with heads of other responsibilities with respect to the development of plans and controls.

3. Observes the manner of preparing long term plans and proposes improvements to make these plans more useful.

4. Coordinates the activities of his two unit directors with the manager of systems with respect to the preparation of that part of systems' publications dealing with preparation of long term plans, profit plans, and budgets.

5. Coordinates the activities of his two unit directors concerned with the development of plans for information systems and forms for accounting statements of transactions of the various divisions and departments of the enterprise.

6. Provides the assistant controller for systems and computers with the data needed to establish and maintain an information system and forms for accounting statements of the transactions of divisions and departments.

Position C: Manager of Systems Functions

1. Determines the most effective methods to reduce the cost of accounting, office work, and paper work, wherever performed; develops uniform methods to the extent that it is economically desirable.

2. Supervises the work of the units under his responsibility.

Position D: Manager of Computer Services Functions

1. Provides services of computers and communications for various prescribed purposes.

2. Confers with manager of systems and with division and functional controllers and arranges for programming of computer operations wherever it is agreed that computers should be used.

3. Coordinates the use of communications with computers to facilitate organization plans for centralization of computer services with decentralization of responsibility, and to permit gathering of information at all locations in the enterprise.

4. Studies operations to determine where computers and communications can be used economically.

5. Supervises the work of the units under his responsibility.

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