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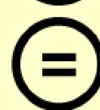

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Some Thoughts on Marketing Controllership

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SOME THOUGHTS ON MARKETING CONTROLLERSHIP

Introduction

"It is paradoxical that while many of the most significant financial and accounting activities within any company start with the forecasts of market opportunities, sales volumes, prices and anticipated revenues, the explicit role of accounting and finance in the control of the marketing function itself has been neglected." (Anthony Hopwood in Vernon (1976: p.227).)

Whilst there is an increasing trend towards an interdisciplinary approach to managerial problem-solving, there still appears to be an absence of mutual understanding between marketing and control people due to (in Boulding's terms) 'specialised ears' and 'generalised deafness'.

In 1970 Bain noted that:

> "A profit wall has two sides: on one side is the accountant, on the other the marketing man (sic), and their views of the wall may be quite different. I believe that the accountant should go to the other side of the wall to view the problems from there."

More recently letters to the Editor of *The Times* have suggested that the gap is still present. For example, on 27 March 1996 Mr Noel Gee wrote to comment that press coverage at times when companies' results are being announced typically includes a picture of the chief executive accompanied by the finance director, and he queried whether it would not be more appropriate for the marketing director to be included since "…. he (sic) generates the company income: the finance man (sic) only has to count it." This generated a response from Mary Anderson in a letter published on 29 March 1996 in which she offered the view that "The finance director controls the company income: market men (sic) spend it." Even more recently it has been noted that "… business schools are promoting MBA courses as an ideal way for accountants to broaden their commercial understanding, because an MBA course brings them into close contact with other business disciplines and ideas." (Loxton, 1999: p.12). However, in this same article an accountant who had undertaken an MBA was quoted as saying that "… there is no doubt that finance is the core of business" which seems to

reflect a continuing functional fixation despite the supposed benefits of an MBA. One might be forgiven for thinking that some cognisance would have been taken of the positioning of market offerings and the meeting of customers' requirements as being at the core of business.

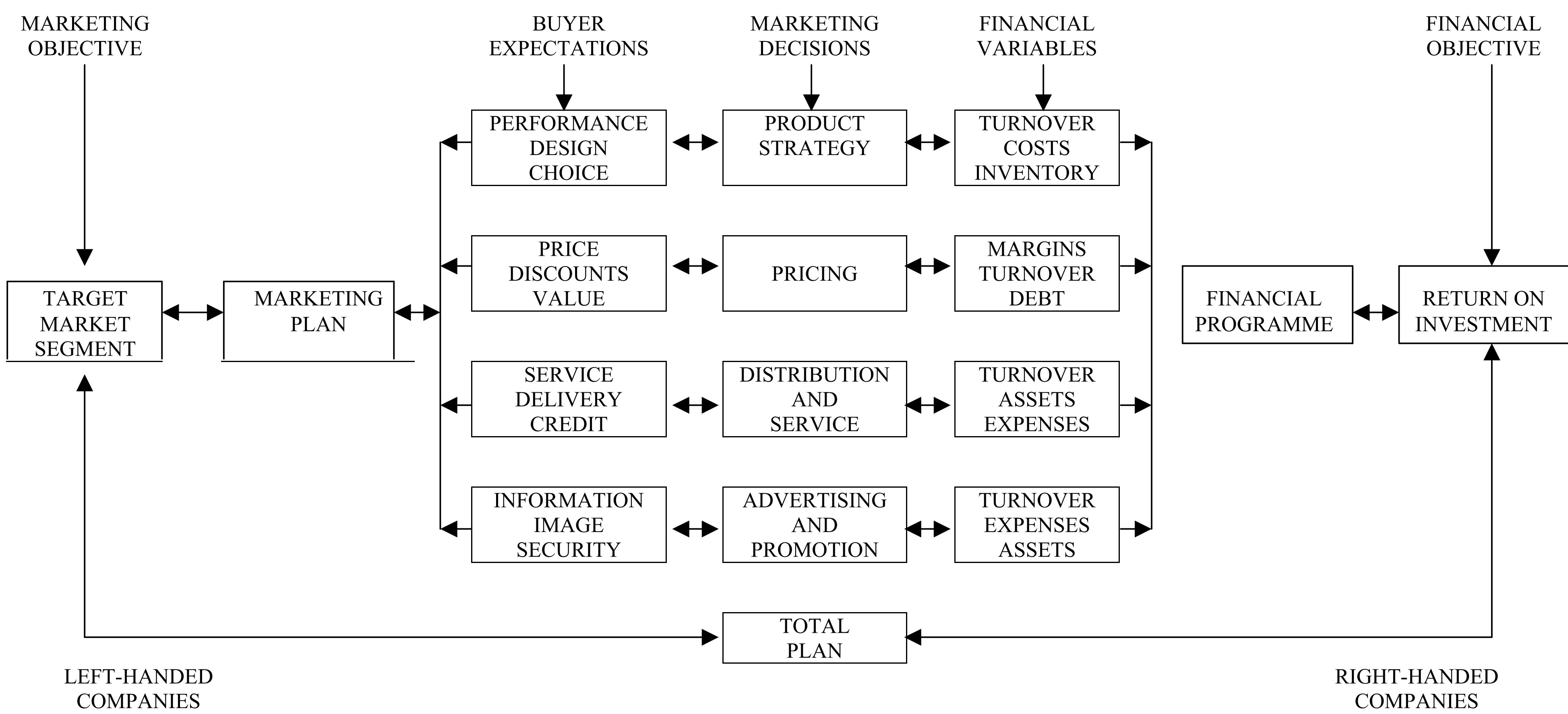
The issue of customer orientation has been discussed by Doyle (1994, pp.7-9) in terms of what he refers to as *left-handed* and *right-handed* organizations. For many senior managers, he argues, the principal business objectives are profitability growth and shareholder value. There is, however, a danger in these, he suggests, in that they ignore the customer even though:

> "satisfied customers are the source of all profits and shareholder value. Customers can choose from whom they buy, and unless the firm satisfies them at least as well as competitors, sales and profits will quickly erode. Customer satisfaction should therefore be a prime objective and measure of the performance of managers" (op. cit., p.7).

This leads Doyle to highlight the differences between the two types of organization. In the case of right-handed or financially-driven organizations, he suggests that the key planning mechanism is the financial plan or budget, with costs, expenses, debt and assets - and the elements of the marketing mix - all being controlled in order to achieve financial goals; this is illustrated in Figure 1. The consequence of this is that when sales begin to slip there is a tendency to cut back on areas such as advertising and R & D in order to maintain or boost profits.

By contrast, left-handed or market-driven organizations have as their primary focus the objective of satisfying customers. This involves defining and understanding market segments and then managing the marketing mix in such a way that customers' expectations are fully met or exceeded. The differences between the two approaches, Doyle argues, is that 'Business decisions flow back from an understanding of customers rather than from a financial requirement' (op. cit., p.9).

Figure 1 - Integrating marketing and financial strategies



The Nature of Marketing

What is marketing? Many definitions exist with differing emphases on the process of marketing, the functional activities that constitute marketing, and the orientation (or philosophy) of marketing. For example, the Chartered Institute of Marketing defines it as follows:

Marketing is the management process for identifying, anticipating, and satisfying customer requirements profitably.

A slightly longer but conceptually similar definition of marketing was proposed by the American Marketing Association (AMA) in 1985:

> "Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives."

Although this definition, or variations of it, has been used by a variety of writers (see, for example, McCarthy and Perreault, 1990; Kotler, 1991; and Dibb, *et al.,* 1991), Littler and Wilson (1995, p.1) have pointed to the way in which 'its adequacy is beginning to be questioned in some European textbooks (e.g. Foxall, 1984; Baker (ed), 1997). It could be said that the AMA definition is more of a list than a definition and is therefore clumsy and inconvenient to use; that it cannot ever be comprehensive; and that it fails to provide a demarcation as to what necessarily is or is not *marketing*'.

They go on to suggest that the AMA definition presents marketing as a *functional* process conducted by the organization's marketing department, whereas the general thrust of the more recent literature on marketing theory is that marketing is increasingly being conceptualized as an organizational philosophy or 'an approach to doing business'. This strategic as opposed to a functional approach to marketing is captured both by McDonald:

> "Marketing is a management process whereby the resources of the whole organization are utilised to satisfy the needs of selected customer groups in order to achieve the

> objectives of both parties. Marketing, then, is first and foremost an attitude of mind rather than a series of functional activities." (McDonald, 1989, p.8)

and by Drucker (1973) who put forward a definition of marketing orientation:

> "Marketing is so basic that it cannot be considered a separate function on a par with others such as manufacturing or personnel. It is first a central dimension of the entire business. It is the whole business seen from the point of view of its final result, that is, from the customers' point of view."

A significant shift in emphasis since Drucker wrote this is to be found in the importance that is now attached to *competitive position* in a changing world. Thus the marketing concept is that managerial orientation which recognizes that success primarily depends upon identifying changing customer wants and developing products and services which match these better than those of competitors (Doyle, 1987; see also Wilson & Fook, 1990).

The contrasting emphases on customers and competitors can be highlighted as in Figure 2. If an enterprise is managed a little better than customers expect, and if this is done in a slightly better way than competitors can manage, then the enterprise should be successful.

Within Figure 2 the customer-oriented and competitor-centred categories speak for themselves. The self-centred category is characterized by an introspective orientation that focuses on year-on-year improvements in key operating ratios, or on improvements in sales volume without making direct comparisons with competitors. Such an orientation is potentially disastrous when viewed in strategic terms. At the opposition extreme is a market-driven approach to marketing which seeks to balance a responsiveness to customers' requirements on the one hand with direct competitor comparisons on the other.

Figure 2 - Customer and competitor orientations

		Competitor emphasis	
		Minor	Major
Customer emphasis	Minor	Self-centred	Competitor-centred
	Major	Customer-oriented	Market-driven

Source: Adapted from Day (1990), p.126

A Historical Perspective

It is only relatively recently that marketing orientation has been more widely accepted. To understand why this acceptance is so recent and, consequently, the nature of the accounting problems associated with it, it may be helpful to examine the origins of the marketing concept. (See Figure 3).

Figure 3 - Sales and marketing orientations compared

	Focus	*Means*	*End*
Sales concept	Products	Selling and promoting	Profits through sales volume and cost control
Marketing concept	Customers' needs	Integrated marketing	Profits through customer satisfaction

It has been possible in reviewing developments over the past 90 years or so to identify three broad eras culminating in what we know today as the *marketing era* (see Harrison, 1978). (In considering these eras it must be emphasised that the dates are very approximate and that they correspond roughly to the practices of the more progressive business firms. It should not be assumed that the periods referred to are tightly defined or that the practices of all firms - or even of the average firm - are being described.)

From late in the last century until about 1930, firms were commonly seen as being established to produce goods with cost accounting developing purely to meet the needs of production management. Even the *Encyclopaedia of Accounting* at the time defined costing thus: ‘systematic records of those transactions which relate to manufacturing and are distinct from those accounts dealing with purely commercial, trading or financial affairs. They are closely interwoven with questions of practical factory and workshop administration’ (Lisle, 1903).

Marketing was not seen as important and any separation of marketing costs from production costs was to enable a better analysis to be made of production itself. It was not thought to be relevant for the cost accountant to concern himself with costs such as ‘… discounts on sales interest and all distribution expenses’. These costs were classified on a natural expense basis (e.g. all salaries - as ‘natural’ expenses - would be aggregated rather than being analysed over departments as ‘functional’ expenses and so forth), which seemed enough to facilitate the book-keeping and even the phrase ‘marketing cost’ was little used, ‘selling’ or ‘distribution’ expenses being preferred.

This ill-distinction highlighted the lack of understanding of the marketing function on the part of cost accountants. However, from around 1930 there were many new inventions, more consumer-oriented products and a far more competitive environment - bringing about a shift in emphasis to the *sales era*.

The first application of cost accounting to marketing activities became apparent in the post-1930 sales era, although the time devoted to this application was minimal. Nevertheless, there was some realisation of the problems involved in determining and controlling marketing costs. Financial analysis for marketing (as for any other function) involves the *functional* classification of marketing costs and their allocation to marketing segments, so determining

the costs of the elements within the relevant functions. But the emphasis was on the control of the costs of marketing activities (and the underlying financial analyses) as management was still looking toward profit through *cost control* rather than attempting to identify new profit opportunities (i.e. the emphasis was still on 'after-sale' rather than 'before-sale' activities).

The accountant was still dominated by attitudes formed in the production era. A sharp contrast between accountants' introspection (as shown by a frequently encountered pre-occupation with the costs of physical activities *within* the company) and the marketer's concern with the diagnosis of environmental opportunities (from which the success of an enterprise comes) has been made by a number of writers, such as Simmonds (1970), and Wilson (1975, 1979, 1981).

Various studies have highlighted the fact that there appeared to be a misdirection of marketing effort, due mainly to a lack of knowledge of the interaction of the firm's products and markets. (The work of Sevin in the 1940s was significant in this context - see his 1965 summary. A basic 'unknown' was related to segments, i.e. to the sub-markets made up of consumers with common characteristics who demanded product lines for similar reasons and who could thus be appealed to in a differentiated way from those in other segments. Nothing was known of the costs or revenues - and hence profits - of servicing different segments.) However, the nature of the business, the markets, the customers and channels of distribution were being investigated for the first time during the sales era, although the time devoted to marketing planning and control was seemingly negligible compared with that spent on production management.

The change from the sales era has brought us into the period denoted as the *marketing era*, reflecting the emergence and adoption of *the marketing concept*, apparent from 1950. Kotler (1967) defined this as 'a customer orientation backed by integrated marketing aimed at generating customer satisfaction as a key to satisfying organisational goals'. Marketing was thereby placed at the beginning of the business process, determining which products were needed, at what prices and how they were to be promoted and distributed. Figure 3 shows how it contrasts with the sales concept.

There was an increased emphasis on reporting and on the analysis of information to aid marketing management in planning and control. The opportunity had arisen for the closer involvement of the accountant in helping solve problems in the marketing function.

A societal model?

Societies have become more affluent and selective; consequently consumers have become more aware of the variety of attributes of products - such as nutrition, safety and reliability (i.e. there is more a need for *quality* and not just quantity). Consumers are becoming more socially responsible and aware of the effects of their own consumption on the environment and on other people. If one wishes to see the overall societal impact of the marketing era then all the costs (financial and human) and benefits (also of all types) for all consumers - and those affected by consumption - over the whole of each product's life cycle have to be considered.

More demands have been placed on business by society over the last 50 years. Latterly, precepts for a 'new' marketing concept have been developed - originating from four categories of persons distinguished by Blau and Scott (1962) and later developed by Zenisek (1977) into a 'societal model'.

Originally the firm came into existence because the owners committed their own capital resources and the organisation provided them with profits (or losses) because they were the decision-makers and the risk-takers. Between about 1900 and 1945 employees assumed greater importance, in that employee welfare was seen to be of comparable importance to owner managers as were their short-run profit objectives.

After the Second World War the relationship of the firm to its environment (in particular, to customers, creditors and suppliers) became more obviously important and this may have led to the development of the marketing concept as we now know it. Previously, the customers, suppliers, etc. had been rather neglected.

Now the firm would seem to have a relationship to society in general, the emphasis being more on *satisfactory* profits as opposed to profit maximisation and on the satisfying of more psychological and social (rather than merely physical) human wants. This was shown in the

adaptation of organisations to the demands placed on them by their relationships with their environments.

A new marketing concept would need to take account of long-run social welfare and this can only come about if the firm realises that social values and expectations are changing. Social responsibility *does* exist as firms *do* recognise their obligations to society. The contemporary marketing concept mentioned earlier may therefore be inconsistent with the current values of society *as a whole*.

Marketing outputs for the satisfaction of individuals' wants become inputs into the larger social system, thus affecting society's welfare. Ultimately, of course, if consumption is promoted to the limit there will be a strain on resources and on the environment's capacity to cope.

When an individual realises that a purchase has benefits for society, societal (as opposed to social) satisfaction will occur. It is conceivable that the consumer will ignore this because social (i.e. relating to colleagues, friends and relatives) satisfaction is more immediately important to him/her. But any new marketing concept as we now know it, must reflect the needs of the public at large or the aggregate of consumers. An extra precept, therefore, could be 'the offering of products and services to be consistent with the welfare of the public at large.'

There are difficulties inherent in such an approach however. Is it possible to measure the 'quality of life'? (Attempts have been made in the USA, most notably by the late Raymond Bauer of Harvard Business School.) It is dubious that it would ever be likely, so a new concept concentrating on societal needs in addition to those of the immediate segment under consideration remains to be developed.

<u>Problems at the interface</u>

Having thus far traced the development of the contemporary marketing concept it is pertinent to present an outline of the marketing problems associated with it.

Marketing has many elements included in the marketing mix comprising product, promotion, price and physical distribution but increasingly seen to also include people, physical evidence and process management. Whereas order-filling activities such as warehousing, transportation and materials handling have warranted substantial attention, perhaps because of their more systematic nature, order-getting activities (i.e. the problems of stimulating demand by advertising, selling and pricing in a way which attracts customers) are a relatively deficient area in marketing cost analysis and have the following related problems:

(i) determining the objectives of advertising, sales promotion, personal selling (and pricing);
(ii) determining the promotion budget;
(iii) decisions relating to the allocation of the total marketing effort among varying marketing activities;
(iv) assessing the effectiveness of marketing effort;
(v) identifying profitable/unprofitable marketing segments;
(vi) decisions relating to where and when a change in marketing effort is required;
(vii) identifying methods by which segment efficiency may be increased.

Such an emphasis appears to have encountered various accounting problems. A major one is found in the idea of there being a 'cultural lag' between the two disciplines (i.e. accounting and marketing). There are many definitions of 'culture' but, broadly speaking, it refers to the learned patterns of behaviour and symbolism which are passed from generation to generation and which represent the total of values which characterise society (and the behaviour of individuals within it). One can also characterise the behaviour of members of different professional groupings in accordance with cultural criteria. The values, etc., that accountants espouse as a consequence of their training - which is a process of socialisation and, in a sense, indoctrination - are the cultural signs of accountants which distinguish them from, say, marketers, who espouse different values.

Field and Gabhart (1971) identified a cultural lag between accounting and other disciplines in that there appears to be a resistance (on the part of accounting) to change and a failure to take a more sophisticated view, especially in costing and valuation.

Briefly, cultural lag occurs when one element of culture changes more rapidly than another. In business and professional fields this occurs when knowledge developed in one field takes several years to filter down to affect practice. Alternatively, knowledge which is available in a particular field may not be applied to or integrated with functionally-related theory and practice in a neighbouring discipline where some elements are interdependent. The latter has occurred in the case of accounting.

At first sight accounting and marketing may appear completely distinct but perhaps, on closer scrutiny, they are inseparable. Conversely, Simmonds (1970) sees marketing as a *part* of management thinking concerned with making decisions against a market place. Management accounting is also fundamental to management decisions in providing some of the necessary information. He holds that both fields are defined and therefore justified by their contribution to the management task. The management objective at any particular time determines the contribution which is needed from each. Given this argument, however, he feels that a *general* business training is needed and that the professions of accounting and marketing cannot, in the interests of organisation, be kept apart because then they would become less relevant. He sees the need for accountants to join with other professions for sounder decision-making.

For efficient marketing there is a need for salient data and, as much of this is only available from accounting, Field and Gabhart understandably express concern about their being 'as non-integrated as cats and dogs.'

Why, then, is this interface not sufficiently well developed? Harrison (1978), in a study conducted in Australia, identified certain restrictive factors (which have also been suggested by others).

First, accountants lack the knowledge and understanding of the information requirements necessary for the marketing function. Second, reinforcing the cultural lag, accountants do not accept marketing as a distinct and separate managerial function. This seemingly blind attitude was found in a survey reported by Williamson (1979) to be well ingrained and is an appalling indication of the failure of accountants to see the real essence of business activity (i.e. product-market interactions) and of their misplaced arrogance in looking down on a group the purpose and function of which they so clearly misunderstand. Lastly,

organisational design may impede adequate communications between functions. This could (and does) happen to such an extent that the accounting and marketing departments may be geographically diverse from one another, although marketing *activities* are geographically diverse in any event.

A long-established organisational design could also hinder a new pattern of resource allocation. It may be such that available resources are channelled towards the order-filling production and distribution functions rather than to the order-getting processes such as advertising, sales promotion and selling. Allocating to the former in preference to the latter is tantamount to saying that a firm can sell what it can make - the old sales concept - rather than the marketing concept of making what the consumers want. Sales volume is the dependent variable and order-getting costs constitute the independent variable although, as will be seen later, such a causal relationship may not be exactly linear.

The accountant has been so conditioned by historical precedents that he is unable to cope with the information requirements of firms operating in the modern marketing era.

As a fairly broad perspective has been taken so far of the accounting/marketing interface, some of the more specific accounting issues should perhaps be highlighted to emphasise particular deficiencies.

Schiff and Mellman (1962), in an early empirical study, noted deficiencies of the accounting function in supplying marketing with sufficient information in certain areas, such as:

(a) lack of effective financial analyses of customers, channels of distribution and salesmen;
(b) an over-emphasis on net-profit based reporting (or the full cost allocation approach);
(c) inadequacies in marketing cost classification (e.g. little distinction was made between fixed and variable costs or between controllable and non-controllable costs);
(d) return on investment was rarely used; and
(e) there was a general lack of integration between the accounting and marketing functions.

Goodman (1970) in a later study found that accounting did not appear to have made much progress in satisfying the needs of marketing planning. These areas of failure he saw as being:

(a) non-use of sufficient return-on-investment criteria;
(b) insistence on using the traditional full-costing for decision analyses;
(c) inability to separate the reporting obligation of accounting from the service function;
(d) imperfect understanding of the market concept;
(e) lack of minimum acceptable goal criteria; and
(f) disregard for the implications of working capital.

There would appear to be no fundamental reason why an accountant could not take an 'inside looking in' view as well as an 'outside-looking in' position but this tends not to be followed through.

Just as it is possible to measure productivity, for example, in a manufacturing context, so it is possible to measure the productivity of marketing activities. Sevin (1965) defined this latter concept as being the ratio of the effect produced to the effort expended or the ratio of sales revenue or net profits to the marketing costs for a specific segment.

The wide variety of courses of action available to a firm and the uncertainty prevailing means we have limited foresight. As each product in each market requires a different type of marketing effort it is extremely difficult to ascertain the effort that is devoted to one product and, consequently, it is a major problem to assess how sales volume or net profit might change with changes in the total level of composition of that effort.

$$\text{Productivity} = \frac{\text{Output}}{\text{Input}}$$

therefore

$$\text{Marketing productivity} = \frac{\text{Sales revenue or net profit for specific segment}}{\text{Marketing costs (or total marketing effort for segment)}}$$

Further information may be required to prevent errors occurring in the size of the marketing budget for a single product: spending too much may lead to diminishing returns while spending too little may give rise to a need for spending more to gain increasing returns. Information may be needed on the marketing mix, which may be inefficient, or on the marketing effort, which may be grossly misallocated. It could be that the same total effort, allocated differently, could increase total sales revenue or net profits, thus reflecting increased productivity.

Before marketing productivity can be increased it is necessary to be able to match marketing costs and sales revenues in the various segments of the business subsequently to discover unprofitable segments and to attempt to anticipate what might happen to sales revenue and/or profit if marketing effort were shifted from one unprofitable segment to another. It is interesting to note that the effectiveness of marketing outlay may be considered to be synonymous with the 'quality' of the expenditure and ultimately the 'quality' and *not* 'quantity' of profits.

Rather than relying on the historical information which is so often available, it may be feasible to conduct *marketing experiments* to consider various patterns of expenditure and their effectiveness: i.e. to have a greater awareness of the consequences of directing particular efforts to particular segments. The consequences are ultimately reflected in profitability.

In an experiment an attempt is made to identify the major (independent) variables (or factors) which affect a particular (dependent) variable and then to manipulate them in order to isolate their effects. (As a simple example one can put forward a model showing the relationship between cost, revenue and profit - profit depends on the magnitude and interaction of the flows of cost and revenue, which in turn depend on the behaviour of activities/variables giving rise to cost and revenue flows. By changing the value of input variables one can experiment to discover the impact on output values, i.e. profit.) Of course the results will be nowhere near as accurate as those which a scientist in a laboratory might hope to achieve but at least more confidence may be placed in conclusions which might be drawn on the basis of experiments than could be placed in historical data.

There are, however, various limitations and restrictions which should be borne in mind when setting up a marketing experiment. Those most likely to occur are:

(a) difficulty in planning and executing an experiment within the time and budget constraints;

(b) there is an immense number of variables *beyond* control (consider the environment of just one company and its customers: it would be difficult to assess - let alone influence - all those forces which affect sales revenue and profit response);

(c) variability of sales revenue between experimental units (e.g. test markets) which receive identical treatments is often large by comparison with the responses to marketing action that are being measured by the experiments;

(d) it is very difficult, if not impossible, to prevent contamination of the 'control units' by the context units (consider, for example, the effect of word-of-mouth communication);

(e) it is also difficult to make marketing experiments sufficiently realistic to be useful; it is necessary, therefore, to compare the responses of several alternatives in such a way that nothing in the experimental procedure itself will favour or 'bias' one or more of the alternatives over the others.

Despite such difficulties experiments can provide valuable guidance. Experimentation is an attempt to establish casual relationships and although it is easy to do this in production (for example, *x* more pounds of raw material together with associated labour and the effort represented by indirect costs will produce *y* more finished articles), it is less easy in marketing to say that £*x* more spent on advertising will product £*y* more sales revenue (i.e. that the relationship is linear). Indeed, advertising need not necessarily produce a current sale, it may only *inform* a person, with that information being stored for future reference and the purchase of a particular product being made several months after the original stimulus was perceived. (It is significant to note the distinction between *informative* and *persuasive* advertising. The accounting profession seems to have an aversion to both forms, yet if one sees 'professionalism' in terms of, *inter alia*, helping to solve clients' - and potential clients' - problems, then those people need to be informed of where to go for advice. To fail to inform is, at least in one sense, to fail to be professional.)

This idea of lagged effects leads to a further extension of the role the management accountant could play in marketing cost analysis. Throughout this paper stress has been laid on the persuasive influence of marketing and it is important to recognise the need for investment

expenditure in marketing, i.e. to finance a marketing capacity as well as a manufacturing capacity.

Marketing expenditure builds goodwill in many forms. Advertising, sales promotion and personal-selling expenditure are used to create such things as company image, product image, brand loyalty and consumer franchise, all of which are important to enable the firm to maintain its position in the market.

More often than not, though, the treatment of such expenditure is perhaps reduced to a token balance sheet value or eliminated entirely, with marketing *investment* outlays being treated as *current* expenditure. It is conceivable that the market the firm enjoys may be more valuable than its physical facilities and that the marketing outlays represent capital (earning) assets. They are likely to yield returns other than in the particular accounting period in which the expenditure took place, as in the case of a sale occurring many months after the advertising budget was spent that caused the sale.

Therefore marketing effort, properly directed, can make a critical contribution to consumer satisfaction and in so doing add value to physical products - if it did not do so then it would be considered a waste of resources. Consequently marketing expenditures should be viewed as investments, judged according to the returns they are capable of generating.

There is resistance from accountants to the acceptance of such an idea, owing mainly to the intangible nature of marketing assets. Such resistance could perhaps be overcome if it were realised that ultimately (and this is the test of successful marketing planning and control)the value of any product depends on the ability of that product to satisfy a consumer want. It can be argued that it is marketing therefore, rather than production, which is capable of adding the greater number of utilities or values.

The Management Process

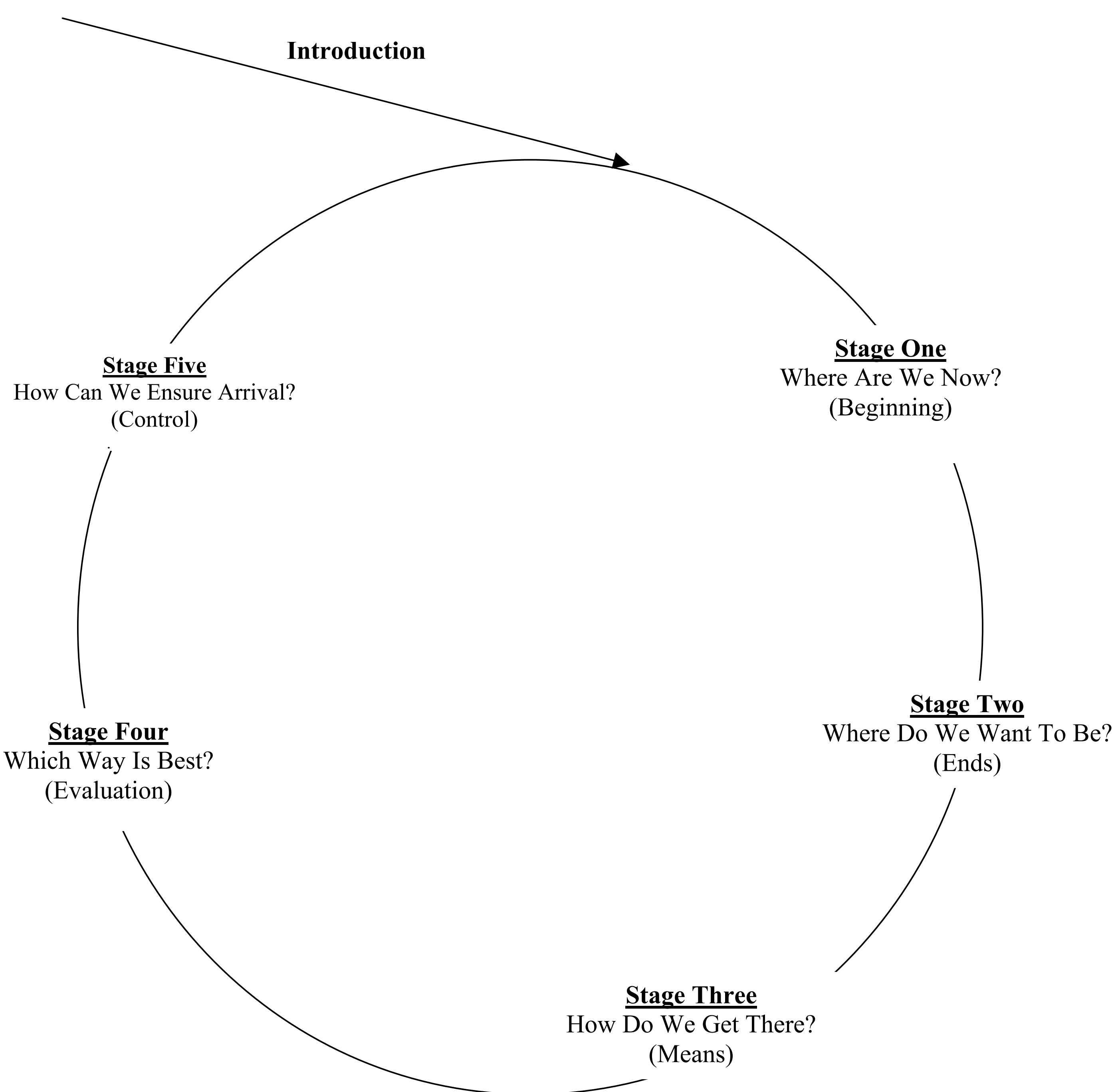
Management can be looked at from a variety of viewpoints. It may be seen from one perspective as being largely an *attitude* that reflects a willingness to debate issues and resolve them through the use of appropriate techniques and procedures. Alternatively, management may be viewed in terms of its *responsibility for achieving desired objectives* which requires

the selection of means to accomplish prescribed ends as well as the articulation of those ends. This view of management can be analysed further by focusing on its *task orientation* (e.g. in the functional context of marketing) or on its *process* orientation (i.e. the way in which the responsibility is exercised). In either case it has been suggested that decision making and management are the same thing (Simon, 1960, p.1).

The process of decision making is rendered problematic on account of the existence of risk and uncertainty. In the face of risk or uncertainty some managers postpone making a choice between alternative courses of action for fear of that choice being wrong. What they typically fail to recognize in this situation is that they are actually making another choice - they are deciding *not to decide* (Barnard, 1956, p.192), which favours the status quo rather than change. This is not a means of eliminating risk or uncertainty since it seeks to ignore them rather than to accommodate them: the imperative to adapt is one that cannot be ignored.

If the central question in the management process concerns the need to make decisions, we need to know *what* decisions should be made and *how* they should be made. We can deal with both these issues by following a sequence of stages that reflects a problem-solving routine. Figure 4 summarises these stages.

Figure 4 - The framework (Wilson & Gilligan (1997), p.6)



Stage One raises the question of where the organization is now in terms of its competitive position, product range, market share, financial position and overall effectiveness. In addressing this question we are seeking to establish a base line from which we can move forward.

Stage Two is concerned with where the organization should go in the future, which requires the specification of ends (or objectives) to be achieved. While top management in the organization will have some discretion over the choice of ends, this is constrained by various vested interests.

Stage Three deals with the question of how desired ends might be achieved, which begs the question of how alternative means to ends might be identified. This strategy formulation stage requires creative inputs which cannot be reduced to mechanical procedures.

Stage Four focuses on the evaluation of alternative means by which the most preferred (or 'best') alternative might be selected. The need to choose may be due to alternatives being mutually exclusive (i.e. all attempting to achieve the same end) or a consequence of limited resources (which means that a rationing mechanism must be invoked).

Stage Five covers the implementation of the chosen means, and the monitoring of its performance in order that any corrective actions might be taken to ensure that the desired results are achieved. Since circumstances both within the organization and in its environment are unlikely to stay constant while a strategy is being pursued it is necessary to adapt to accommodate such changes.

Within these stages are to be found the main managerial activities of:

- planning;
- decision making;
- control.

The entire sequence of Stages One to Five constitutes control, within which the planning activities are to be found in Stages One to Four. At every stage it is necessary for decisions

to be made, so it is apparent see that these managerial activities are closely intertwined. Moreover, their links are spread across three different time dimensions which are not of equal significance; the past, the present and the future. Let us consider these in turn.

The *past* brought the organization (and its products, competitors, etc.,) to their present positions. By gaining an understanding of how the organization arrived in its present position the managers of that organization might develop some insights to help them in deciding how to proceed in the future. However, there is no way in which the past can be influenced, so the best one can do is to attempt to learn from it instead of being constrained by it. If an organization simply continues on unchanging routes its viability is almost certain to be endangered as the environment changes but it does not.

Stage One is concerned with establishing the ways in which the past brought the organization to its present position.

The *present* is transient: it is the fleeting moment between the past and the future when one must take one's understanding of the past and link this to the development of one's aspirations for the future. Decisions are made (with both planning and control consequences) in the present, but their impact is intended to be in the future.

The time dimension that is of major relevance in any planning exercise must be the *future* rather than the present or the past. There is nothing about an organization that is more important than its future, and the spirit of this was aptly summarized by C.F. Kettering: 'I am interested in the future because that is where I intend to live.' The past may help us in deciding how to proceed in the future, but there is no way in which we can influence the past, so there is a limit to the amount of effort that should be applied to it as opposed to planning for the future. This is especially relevant when we consider what a constraint to innovation the past might be: in Goethe's terms, we see what we know, and if we are obsessed with carrying on along unchanging routes we must expect our viability to become endangered as the environment changes but we fail to adapt to those changes.

The Control Process

Since control is a process whereby management ensures that the organization is achieving desired ends, it can be defined as a set of organized (adaptive) actions directed towards achieving a specified goal in the face of constraints.

To bring about particular future events it is necessary to influence the factors that lie behind those events. It is the ability to bring about a desired future outcome at will that is the essence of control. In this sense it can be seen that control itself is a *process* and not an event. Moreover, the idea of control can be seen to be synonymous with such notions as adaptation, influence, manipulation and regulation. But control in the sense in which the term is used in this paper is *not* synonymous with coercion. Nor does it have as its central feature (as so often seems to be thought) the detailed study of past mistakes, but rather the focusing of attention on current and, more particularly, on future activities to ensure that they are carried through in a way that leads to desired ends.

The existence of a control process enables management to know from time to time where the organization stands in relation to a predetermined future position. This requires that progress can be observed, measured and re-directed if there are discrepancies between the actual and the desired positions.

Control and planning are complementary, so each should logically presuppose the existence of the other. Planning presupposes objectives (ends), and objectives are of very limited value in the absence of a facilitating plan (means) for their attainment. In the planning process management must determine the organization's future course of action by reconciling corporate resources with specified corporate objectives. This will usually involve a consideration of various alternative courses of action and the selection of the one that is seen to be the best in the light of the objectives. Figure 4 shows a framework for marketing planning and control that explicitly identifies the need for evaluation in choosing among alternative means.

In seeking to exercise control it is important to recognize that the process is inevitably value-laden: the preferred future state that one is seeking to realize is unlikely to be the same for individual A as for individual B, and that which applies to individuals also, within limits,

applies to organizations. Only human actors can decide what future outcomes they want to bring about, and in specifying these, they set goals for organizations.

In seeking to exercise control the major hindrances are uncertainty (since the relevant time horizon for control is the future, which cannot be totally known in advance) and the inherent complexity of socio-economic and socio-technical systems (such as business organizations). If one had an adequate understanding of the ways in which complex organizations function, and if this facilitated reliable predictions, then the information stemming from this predictive understanding would enable one to control the organization's behaviour. In this sense it can be seen that information and control have an equivalence.

Behind the presumption, therefore, that we can control anything there is an implied assertion that we know enough about the situation in question (e.g. what is being sought, how well things are going, what is going wrong, how matters might be put right). But do we actually know these things?

The concept of organizational control

The word 'control' is widely used in everyday talk and in scientific language. Herein lies the difficulty. Because it is widely used it means different things to different people in different settings. Indeed, Rathe (1960) showed that there were some '57 varieties' (borrowing the term from Mr Heinz) of the word. The most common meaning is that of dominance, as in A has control over B. But this represents only one possible meaning of the term.

In order to carefully define what we mean by organizational control we shall draw on cybernetics. This has been defined by one of its founders, Wiener (1948), as 'the science of control and communication in the animal and the machine'. This definition suggests the disciplines in which cybernetics has had the most impact - physics, biology and engineering. However, as a theory of control, cybernetics is sufficiently general to be of interest to those who are interested in managing human organizations.

In cybernetics, control has two distinctive aspects:

- Control is related to the regulation and monitoring of activities.
- Control involves the taking of actions that will ensure that desired ends are attained. Control is therefore related to some notion of goals and of purpose.

We may compare this cybernetic definition of control with an ordinary, everyday use of the term. Ordinary language use connotes the word 'control' in two main ways:

1. A situation that is 'in control' is seen generally as 'a good thing'. A situation that is 'out of control' is usually considered bad or undesirable. Think of a car, an epidemic, a school class or an economy that is out of control. These situations all carry negative connotations.
2. To be in control implies a prior notion of proper, desired behaviour. For example, a car or a class of students cannot be said to be 'out of control' unless we have a preconceived idea of how a car ought to function and a class to behave. Therefore, we need a statement of 'what ought to happen', or desired behaviour, in order to know whether uncontrollable behaviour exists.

From an analysis of cybernetic and everyday usage of the term, we note that control:

- is related to the regulation and monitoring of activities;
- involves the taking of actions that ensure that desired ends are met.

Organizational control may be defined to take account of these important aspects of control. Following Otley and Berry (1980: 233), we shall define organizational control as:

> The process of ensuring that the organization is pursuing courses of action that will enable it to achieve its purposes.

Basic control concepts

In this section (which draws on Wilson and Chua 1993), we will distinguish between:

- open-loop control; and

- closed-loop control.

We shall also distinguish between the two main forms of closed-loop control:

- feedforward control; and
- feedback control.

(a) Open-loop control

This form of control exists when an attempt is made by a system (for example, an organization) to achieve some desired goal, but no adjustments are made to its actions once the sequence of intended acts is under way. A very simple example is that of a golfer hitting a golf ball: his/her aim is to get the ball into the hole, and with this in mind he/she will take into account the distance, the hazards, and so forth, prior to hitting the ball. Once the ball is in the air there is nothing that the golfer can do but hope that he/she did things right.

To take another example, suppose a company wished to sell 100,000 personal computers over the next 12 months. Its managers would gear the company up to promote, manufacture and distribute the product at a predetermined price in the light of various assumptions regarding likely patterns of demand, possible competitive actions, and so on. If the company blindly proceeded to carry out its marketing, manufacturing and distribution plans without any modifications to take into account changes in its environment (e.g. competitive reactions in the form of price reductions) this would be an example of open-loop control. Within such a system there is a goal, a plan, but no mechanism to ensure that the plan is accomplished.

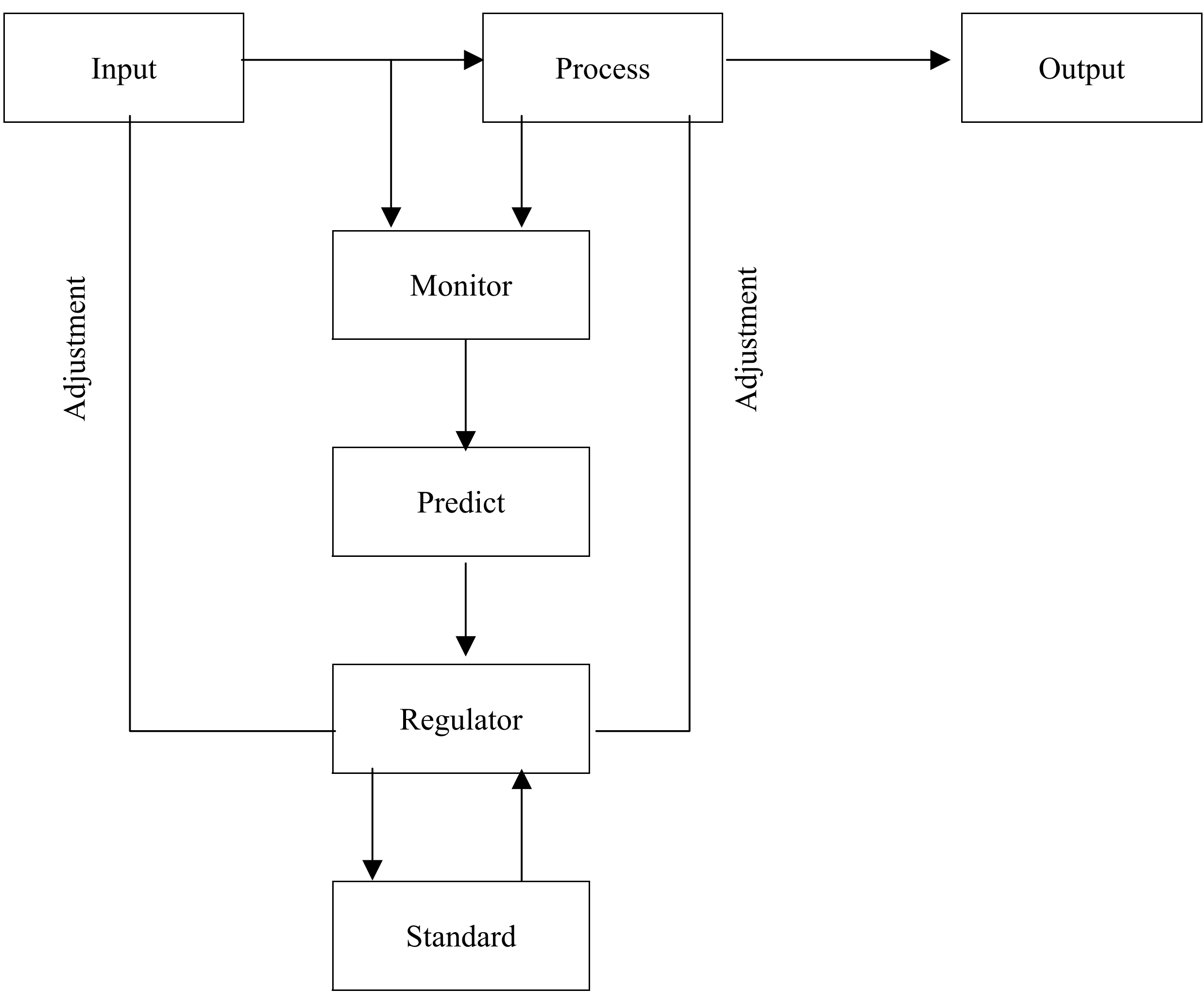
Two possible refinements to the basic open-loop model are:

(i) To introduce a monitoring device for the continual scanning of both the environment and the transformation process of the system (that is, the process by which the organization converts inputs into outputs). This will provide a basis for modifying either initial plans or the transformation process itself if it appears that circumstances are likely to change before the plan has run its course and the goal has been realized. This is *feedforward control*, and is illustrated in Figure 5.

Some examples of feedforward systems might be useful, and the following are commonly found:

- *Cash planning,* whereby an organization's cash balance is maintained at some desired level.
- *Inventory control*, whereby the balance of each item of inventory is regulated at a desired level. The process comprises the procurement, storing and issuing of raw materials, components, finished goods and other supplies. Inventory records contain the necessary measurements, and the regulator may be either a member of the stores personnel or a computer.

Figure 5 - A feedforward control system



The key input variable to an inventory feedforward control system will be either the anticipated level of sales of finished goods (in a marketing operation) or the rate of usage of materials/supplies (in a manufacturing or service operation). Other input variables will include:

- amount of purchases
- returns (whether of sales or purchases)
- spoilage
- shrinkage
- lead times (between ordering goods and receiving deliveries).

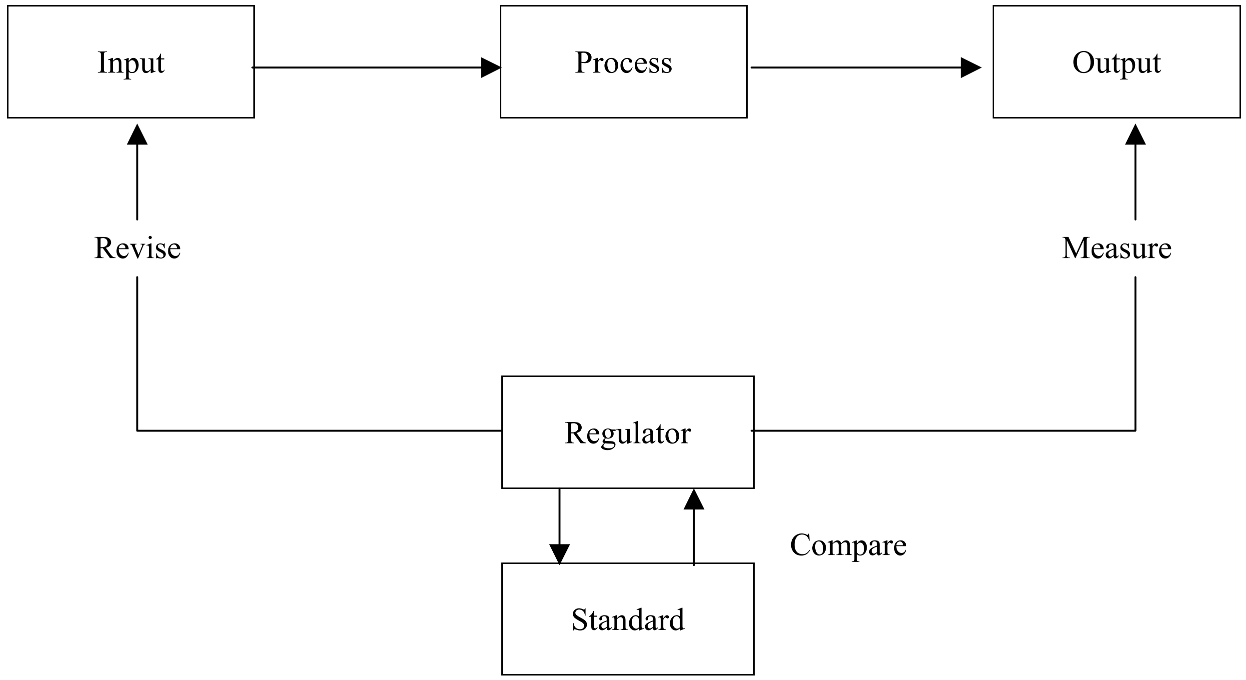
While it can be argued that the characteristic to be controlled is the balance of each item held in inventory, it will be apparent that this is a function of stockholding costs and the target level of service to be offered.

- *New product development* (NPD), which aims to introduce successful new products with an efficient use of resources. This requires careful coordination between the R & D, marketing research, engineering, manufacturing, marketing, distribution and finance functions. Feedforward control can help by regulating the timing of related activities and the quality of results.

  NPD is a good example of a *project*, and the focus of attention will be on the ultimate success of the project as a whole. Thus the revision of market demand estimates will lead to a prediction of the resulting impact on the new product's likely success and any necessary adjustment of plans for subsequent stages of the project.

(ii) To monitor the outputs achieved against desired outputs from time to time, and take whatever corrective action is necessary if a deviation exists. This is *feedback control*, and is illustrated in Figure 6.

Figure 6 - A feedback control system



As a hypothetical illustration, let us consider a company planning to sell 100,000 cassette players during the next 12 months. By the end of the third month it finds that the pattern of demand has fallen to an estimated 80,000 units for the 12 months due to the launch by another company of a competing product. After a further 3 months the competitor puts up the price of its product whilst the original company holds its own price steady, and this suggests that the annualized level of demand may increase to 150,000 units. Feedback signals would ensure that the company is made aware (e.g. by monthly reports) of the actual versus planned outcomes (in terms of sales levels). The launch of the competitive cassette player would be identified as the reason why sales levels were below expectations in the early months, and the competitor's price increase would be identified as the reason why sales levels subsequently increased. In response to deviations between actual and desired results (i.e. feedback) an explanation needs to be found, and actions taken to correct matters. Amending production plans to manufacture fewer (or more) cassette players, allowing inventory levels to fall (or rise) to meet the new pattern of demand, modifying promotional plans to counter competitive activities, and so forth, could all stem from a feedback control system.

If deviations (or *variances*, to give them their usual accounting name) are minor it is probable that the process could absorb them without any modifications, and inventory control systems, for example, are normally designed to accommodate minor variations between expected and actual levels of demand, with buffer stocks being held for this purpose. But in the case of extreme variations - such as the pattern of demand shifting from 100,000 units to 80,000 and then to 150,000 - it will be necessary to amend the inputs in a very deliberate way once the causes of the variations have been established. Inevitably there are costs associated with variances, and these will tend to be proportional to the length of time it takes to identify and correct them.

Both feedback and feedforward control entail linking outputs with other elements within the system, and this explains why they are termed *closed-loop* control systems.

(b) Closed-loop control

In an open-loop system errors cannot be corrected as the system goes along, whereas likely errors can be anticipated and steps taken to avoid them in a feedforward control system, and actual errors along the way can be identified and subsequent behaviour modified to achieve desired ends in a feedback control system.

The inadequacy of open-loop systems as a basis for organizational control (and hence for the design of marketing control systems) largely stems from our limited knowledge of how organizational systems operate, which in turn reflects the complexity of organizations and their environments, plus the uncertainty that clouds the likely outcomes of future events. If we possessed a full understanding of organizational processes and had a perfect ability to predict the future then we would be able to rely on open-loop systems to achieve the ends we desire since we would be able to plan with the secure knowledge that our plans would be attained due to our perfect awareness of what was going to happen, and how, and when (i.e. control action would be independent of the system's output).

In our current state of awareness we must rely on closed-loop systems, whether feedforward or feedback, in which control action is dependent upon the actual or anticipated state of the system.

It is helpful to think of four types of outcome in connection with the application of closed-loop systems to the problem of organizational control. These are:

S_0 = Initial *ex ante* performance (e.g. a budget based on a set of expectations, which might include, for instance, inflation at 5 per cent per annum; market growth of 10 per cent per annum; no labour disputes).

S_1 = Revised *ex ante* performance (e.g. an updated budget that has taken into account the experience of operating the system to date).

S_2 = *Ex post* performance (e.g. a revised budget based on what should have been achieved in the circumstances that prevailed during the period in question: say, inflation at 7 per cent per annum, market growth of 12 per cent per annum and a strike lasting three weeks).

A_0 = Observed performance (i.e. that which actually occurred).

An organization's forecasting ability is shown by A_0-S_0 (under feedback control) and, more precisely, by A_0-S_1 (under feedforward control). The extent to which the organization is not using its resources to maximum advantage (its opportunity cost of operating) is given by A_0-S_2.

A feedforward control system will function in a way that keeps revising S_0 as events are proceeding with a view to producing an eventual outcome in which $A_0 = S_1$. On the other hand, a feedback control system will, from time to time, compare A_0 and S_0, and S_0 will only be revised if a discrepancy has been experienced.

It is apparent, therefore, that feedforward control tends to be:

- *ex ante*
- pro-active
- continuous

and seeks to predict the outcomes of proposed courses of action, while feedback control tends to be:

- *ex post*
- reactive
- episodic.

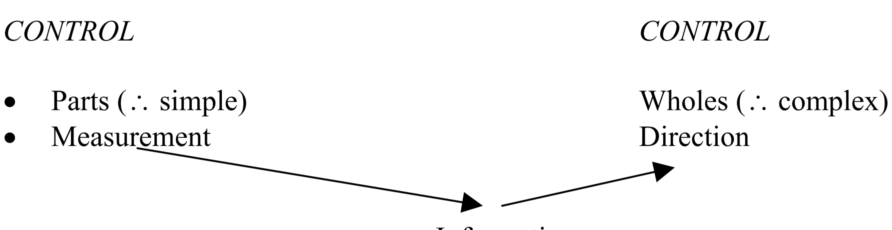
Control versus controls

In the language of management the word ‘controls’ is not the plural of ‘control’. Not only would it be wrong to assume that more ‘controls’ would automatically give us more ‘control’, it would be assuming they meant the same thing - which they do not.

‘Controls’ has the same meaning as measurement, or information, whereas ‘control’ is more akin to direction. ‘Controls’ is concerned with means whilst ‘control’ is concerned with ends, and they deal respectively with facts (i.e. events of the past) and expectations (i.e. desires about the future). From this it will be appreciated that ‘controls’ tend to be analytical and operational (concerning what was and what is), and ‘control’ tends to be normative (concerning what ought to be). A summary of key differences is shown in Figure 7.

Figure 7 - The different focus of control and control (Wilson, 1983, p.57)

$$\Sigma \text{ CONTROLS} \neq \text{CONTROL}$$
$$\Delta \text{ CONTROLS} \neq \Delta \text{ CONTROL}$$



CONTROL	CONTROL
• Measurable symptons	Unmeasurable causes
• Means	Ends
• Present/past orientation (∴ facts)	Future orientation (∴ expectations)
• Positive (what was/is)	Normative (what ought to be)
• Efficiency	Effectiveness
• Hardware (machines, physical processes)	Software (through human actors)

The increasing ability, especially with the availability of computing power, to develop 'controls' has not necessarily increased our ability to 'control' organizations. If controls are to lead to control they must encourage human actors to behave in a way that facilitates adaptive behaviour on the part of the organization as a whole.

The complexity and uncertainty of the control problem are apparent when, for example, controls reveal that 'profits are falling'. But this does not indicate how one might (or should) respond - indeed, it would not be possible even to identify the whole array of potential responses! What is needed, therefore, if control is to be effective, is a basis for forming expectations about the future, as well as understanding about the past, that will enable us to combine these in order that we might behave in an adaptive way by either anticipating external changes and preparing to meet them, or by creating changes.

From this arises the basic question, 'How do we control?' In large part this is resolved by the answer to another question, 'What do we measure in order to control?' Care must be taken in measuring the key elements in any situation rather than those elements that lend themselves to easy measurement. ('Controls' are only helpful in 'control' if they are designed in the context of the overall control problem.)

Within business organizations many critical factors are either non-measurable or go unmeasured. For example, how does (or should) one measure the ability of an organization to attract or retain capable managers? This is more important to survival, etc., than last year's reported profit, but it cannot be quantified even though it is distinctly significant to success. 'Controls' can only handle facts, i.e. observed events that are capable of measurement and quantification. There are no facts about the future, which is the temporal dimension of 'control', and there are many key control phenomena that are beyond our measuring competence. Furthermore, measurable facts are largely internal, whilst the environmental phenomena that give rise to the need for control are, by definition, external.

The marketing controller

If the controller is to execute his or her staff role satisfactorily for all areas of his or her organization, he or she must become familiar with the nature of the various departments - engineering, R & D, marketing, manufacturing, logistics, etc. It is from the point of view of

the operating managers located within these departments that the quality of the controller's service will be determined: if he or she is not supplying information that helps them to perform more effectively given their problems as they see them, then the controller in turn is not performing effectively. The link between information and action cannot be stressed too highly: the controller supplies the information, but if it is to lead to appropriate action it must be relevant to the circumstances within which the action must take place.

It will be apparent from the last paragraph that the idea of divisional or functional controllers is one that has frequently found favour in recent years. In a decentralized organization it is probable that a centralized controllership function will lack an adequate understanding of divisional activities, or that the controller's staff will not have empathy with the operating personnel. The outcome is likely to be a sub-optimal basis for effective control.

On the other hand, if each division has its own controller, there is a higher likelihood of a closer link between information and action. A variation on this theme that has not spread as widely as one might have anticipated, for reasons that are not wholly clear, is that of functional controllers. The idea of a marketing controller is well established, and the idea of a physical distribution controller also has support, with the holders of such posts being responsible for providing a planning and control information service for their functional superiors.

If one thinks about the reporting relationship between a divisional (or a functional) controller and, in the first place, his or her divisional superior and, in the second, his or her head-office superior, one sees the main inhibition to successfully employing this idea. A divisional controller cannot help having divided loyalties, and this puts him or her at risk in terms of being trusted and hence in term of being effective in his or her divisional role.

However, technique is not the most critical ingredient in bringing management accounting into marketing in order to improve organizational effectiveness. The organization of the accounting function must be designed in the most appropriate way. One can envisage a range of alternative approaches to the marketing-accounting interface, such as:

1. no organized accounting support for marketing;
2. marketing accountants located within the accounting department;

3. marketing accountants located within the marketing department.

The whole reporting system can be strengthened by the existence of financial analysts within the marketing department. They would be responsible for preparing analyses for decision-making, such as associating costs with physical units rather than with the value of sales. This automatically eliminates any distortions arising from price variations.

Moreover, these analysts could secure uniformity in the measures used by marketing management and the controller's department - especially in relation to sales-force activities. Such measures might well include: cost per call, cost per customer, cost per order, break-even order size and sales per call. These measures could then shed light on profitability, workloads, sales quotas and compensation problems.

This is one means of securing closer coordination of the accounting and marketing functions which is so obviously desirable. The marketing manager's responsibility for profitability demands that there be a concern with costs and budgetary methods employed within the firm. It also demands an understanding of the way in which costs are built up and allocated to individual products; how budgets are arrived at; and how the services of the financial controller can best be employed to secure effective control and effective forward planning. Additionally, the marketing manager must appreciate the effect on profit of changes in the volume of production and should know the marginal earnings of each product (within the existing limits of production and organization). However, very few instances have been found in which the financial controller has combined the variable costs of both marketing and production at various volume levels for the use of the marketing team.

Progress from approach 1 to approach 3 is likely to be evolutionary as both functions learn about how best to interact, and time is also needed to develop the accounting systems whereby the marketing function may be assisted. But, above all, management accountants must acquire an understanding of the nature of marketing and the need to look outwards to the challenges of the environment.

The part that the financial controller can play in helping to control the marketing function is only gradually being accepted. The controller has, in fact, been looked upon with either suspicion or doubt as someone who only considered figures whereas marketing executives

were convinced that people were more important. At best this made the controller a mere recorder of history - at worst, a positive barrier to progress.

Enlightenment will increase as the profit awareness of marketing management increases further, accompanied by an emphasis on the controller's service function. This service aspect of the controller's work requires that there should be a complete awareness of the firm's products, its markets, the marketing organization, and the particular problems that marketing management faces. Only when armed with this knowledge can the financial controller begin to develop the appropriate control and information systems.

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