Controllership -- Problems or opportunities?

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We most certainly live in fascinating times—times producing tremendous achievements and monumental problems, both of them at ever accelerating rates. This increased velocity of change, both good and bad, is no doubt one of the fundamental factors characterizing our times. Change can be highly disturbing or highly exhilarating, depending on your disposition. Change can be viewed as a problem or as an opportunity, depending on the particular point of view you elect to adopt. To equate the term "change" with the term "problem" is to miss all the fun, so I elect to speak to the matter of "change" in terms of the "opportunities" it affords.

Change by Evolution or by Breakthroughs?

Many of the changes occurring that affect management—and the controller as a part of, and as a contributor to, management—are described as great new breakthroughs in management approaches, computer and information technology, and all the rest. From where I have the opportunity to view these developments, such assertions merely serve to confuse rather than clarify—and as a consultant to management I don't get paid for adding to the confusion.

Nowadays we find considerable attention being devoted to so-called "scientific management"—to an interest in applying to the business organism the approaches and techniques found successful in the physical and behavioral sciences. We find computer technicians, operations researchers, mathematical scientists, information specialists, and all manner of new types emerging on the business scene with educational and experience backgrounds in many fields unrelated to business or to management. Coincidental with these developments are new and unfamiliar—or even undefined—terminology: Systems Analysis; the Systems Approach; Information Technology; Management Science; Operations Research; Management Information Systems; and a host of others.
No wonder we have confusion. No wonder that such developments get described as "great new breakthroughs." But the facts are that management practices and the techniques available to the manager don't arise as "great new breakthroughs." By observing the Apollo program—and what a marvelous opportunity we had to see this program developed and executed—we see that our men on the moon didn't get there through some startling new development either. Rather, thousands of people contributed bits and pieces in a process that was essentially evolutionary. The program moved from one plateau of sophistication to another, and so on until we finally had three men, perched on top of thousands of components (each produced by the lowest bidder), who actually made it to the moon. In this light, one can with justice say this spectacular climax was but another modest plateau in a program to explore the solar system.

So it is with management approaches and techniques. What we are now observing is but a natural extension of a long evolutionary process stemming from management's continuous search for more effective means of managing.

**PRAGMATIC MANAGERS VS. TECHNICIANS**

I find that executive/managers are—by definition—pragmatists. They thrive and prosper on results—results reflected in a greater share of the market, in lower costs, in higher margins, in improved return on investment, and increased earnings per share. The new breed of technicians—computer specialists, information technicians, and all the rest represent people with solutions—in terms of techniques—who are looking for their kind of problem. As their activities impinge more and more on the executive suite, things are bound to happen—and they are.

What is needed is someone in the role of bridging the gap between our managers and the technicians, and this is a role offering real opportunity to the controller. Traditionally, the controller position is the one position, other than that of the chief executive, whose function spans the entire organization. As his is the job of measuring total results of an enterprise, it has required a broad and top-down point of view and the ability to find ways to put the calipers on all aspects of the business.

Today we see many controllers abdicating this role—or being relieved of it—and we see the newly arising technical types taking over. Positions such as directors of information systems, directors of corporate
planning, and the like are appearing more and more frequently on organization charts nowadays, structured outside the controller's function and outside the financial function altogether. Yet, planning, information, and all the rest have traditionally been the controller's prerogatives.

Perhaps this comes about because some controllers fail to see that what is going on is evolutionary and not some new set of breakthroughs in which he cannot assert his proprietary interest. To be sure, keeping-up requires effort but also acceptance of the notion that he has a heavy role to play if he really wants to play it.

THE COMPUTER

Among all these developments, the computer and computer technology lies at the heart. It is the computer that has the heaviest impact on business, because it provides the means for making the other techniques practicable to apply, and it should serve to relieve our managers of onerous chores so they can turn more of their attention to the arts of management.

But some do not see it this way. Rather than viewing the computer as the vehicle of opportunity, some view it as a threat—a threat to the established order of things, to be sure, but also a threat to the status of those affected. And the controller is certainly affected as much or more than anyone else in an organization.

Traditionally, the controller's function has had two aspects. First is the matter of recording and processing the data flowing from such transactions as sales, billing, payrolls, and all the rest. Second is the matter of planning, results measurements, reporting, decision-related analysis, and interpretation. The first of these two segments represents a production job essentially dependent on people for its execution, involving all the problems and difficulties that supervision of a group of people entails. The second of these two segments depends essentially on intellect—not a matter of dealing with the difficulties of getting productivity out of a group of people so much as the difficulties of getting sound analysis, interpretation, and conclusions out of the human mind and effectively communicated.

The first of these functions—the people-directing function—inevitably consumes by far the greatest amount of a controller's time and attention, and I know this to be a fact from my two experiences in indus-
try planning this role and from observing so many companies, in the
capacity of consultant. Each morning you think of all the great things
you want to do on the analysis and interpretation side, and each night
you criticize yourself because you haven't done them, because all those
people problems got in the way.

But yet, many view as a threat the computer and related techniques
that will serve to ease the production side of the job, to reduce the scope
of the position in terms of the numbers of people supervised, or even to
eliminate whole functions when computer operations are not under the
controller's jurisdiction.

There is, of course, another point of view that can be adopted—the
point of view that all this represents opportunity—that now, at last, the
controller can devote the major part of his energy to doing those things
of an intellectual nature that represent the higher order of contribution
to the success of the enterprise and, parenthetically, to his personal suc­
cess. Let someone else monitor the equipment and suffer the agonies
of getting out the bills, the paychecks, the trial balances. Turn your
attention from what the figures are (a matter of bookkeeping) to what
the figures mean (a matter of analysis, interpretation, and communica-
cation), and how to utilize the computer for these purposes. Here is a
classic illustration of the opportunity inherent in this situation.

As new, broad, integrated, and data-based systems are being built,
considerable impact on organization structures and the vested interests of
persons who staff those structures is beginning to emerge. We are
involved in a considerable number of such engagements in our practice,
and we find conflicts developing that are most difficult to resolve. Much
of this seems to me to result from a failure of the participants to see the
real opportunities these systems are opening for managers—opportunities
to get back to the fundamental and vital factors in management instead of
concentrating on getting on with the mechanics of the job. Back in the
good old days the manager delegated the record-keeping and mechanical
aspects to a bookkeeper on a high stool, with green eyeshade, who oper­
ated with a quill pen, and the manager devoted himself to matters of
management. Perhaps we will have gone full cycle to the point where
our managers and controllers can delegate the mechanics of the job to
that high-class PhD with the computer so management can again return
to matters vital to the success of the enterprise.

Effectiveness in performing the analysis and interpretation function
also requires adopting a proper attitude. In a real sense, the controller doesn't really control anything, but the merchants and operating people do. The only ways the controller can influence "control" are through his ability to communicate and through his ability to gain acceptance. The only way he can gain the necessary acceptance is through demonstrating his understanding of the merchants and of the operating man's problems. This requires devoting sufficient time and imagination to gaining the necessary level of understanding and the ability to communicate that understanding effectively.

In some organizations it is said the controller should play the devil's-advocate role. And some people say that nice controllers don't win the ball games. I don't believe the former is necessarily desirable or the latter necessarily true. The controller who forms a partnership with the merchants and the operating people who are under fire can contribute materially to making them look good rather than bad. He does this through his efforts in pointing to the problems disclosed by his analysis as well as in pointing to the actions required to solve them.

In all of this activity the controller must recognize that his data are historical and that the merchants and the operating people live in a prospective world. It is the controller's ability to view historical data for what they are—bases for predicting significant developments in the future that will permit him to contribute in an effective way to solving the problems of those responsible for turning in the sales and profits.

**REQUIREMENTS**

As the technology for building better, broader, and more sophisticated business systems has evolved, there has been an accompanying realization that in order to capitalize effectively on the capability and capacity of the computer and associated information technology, there needs to be a re-examination of requirements. It really makes little sense to apply all this power merely to doing what has always been done, essentially the same way it was done, only to do more of it more quickly. Besides, requirements for business systems and business information were defined in the past under the constraints existent in the facilities then available for capturing, storing, processing, and putting out data. Now that these constraints have largely been lifted, the definer of requirements can proceed with far fewer inhibitions than in the past. Unless this is
done, any computer user will be paying for capability and capacity that will not in fact be realized.

The fundamental need for an introspective analysis of a business and a total redefinition of informational requirements is an area in which the controller has a particularly important in-put to make, but many companies attempting to build 1970-model information systems simply ignore this need. I think that this matter of requirements definition is epitomized by this cartoon.

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“What it comes down to is this thing is capable of telling us a lot more than we really want to know.”

Although business systems produce customer bills and statements, paychecks, and similar essential documents related to day-to-day operations, the other out-puts consist essentially of information—information for planning and control and for decision-making. In this area, the

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essential objective is not necessarily more information but rather more timely, accurate, and complete information that is truly pertinent and relevant to the making of management decisions and to planning and control.

**PLANNING AND CONTROL**

Let me expand further on this matter of planning and control, for here is an area of most vital concern to the controller. As bookkeeping evolved into accounting and industrial accounting evolved into controllership, it was because certain things took place. A realization of a need for someone expert in the interpretation of records in addition to merely keeping them resulted in accounting. A realization that accounting data could be more useful to management if a planning dimension was added providing the means for control. Determine objectives and reduce to plans; measure and record results; compare the plan and the actual. You then had the basis for identifying the exceptions, making decisions, and taking action. In short, you had a control system, and controllership arose through the need for someone to preside over this system.

For the control system to function effectively, the results need to be communicated to those responsible for taking action, and hence reporting systems were developed. The controllership function doesn't necessarily end with the development and operation of a reporting system, for there is an opportunity and a need for someone to analyze and interpret the results. But the reporting system is the basis for the controller's analysis and the vehicle by which management is informed of the areas requiring attention.

Reports are, in a sense, the end product of the controller's effort. They should be of most personal concern to any controller, for reports are the one product of his efforts that the management sees and on which management largely bases its assessment of the controller's performance.

**REPORTING SYSTEMS**

Many, if not all, top managements are dissatisfied with their company's reporting systems. This is naturally so if you consider that management is an art and not a science; that it is highly concerned with the future and with all the imponderables the word "future" implies;
that it is largely judgmental, which makes it natural for one to conclude
that if he had a better set of relevant facts, he could better apply his
judgment. For these reasons, the matter of reporting comes up for
special attention at frequent intervals in almost every organization, and
the May Department Stores Company is no exception.

I have been describing some of the characteristics of general
changes now occurring that impact on the controller and the consequent
opportunities afforded those who wish to grasp them. As I zero in on
the matter, it seems that application of the newer techniques frees the
controller to concentrate more attention on the truly substantive part
of his role. At the heart of that job are the matters of planning, control,
and reporting, and these are the areas of concern in the work we are
now doing for your company. This work will result in change, but
change that will give all of you an opportunity to contribute more
effectively to management effectiveness in your company. Because you
therefore have a personal stake in this project, I want to discuss some
aspects of what this is all about.

REPORTS-STUDY APPROACHES

Approaches to studying management reports and the related
planning and control systems have, at least in my experience, gone
through a process of evolution, such as I described earlier with regard
to all business systems.

Adoption of an effective approach to management reporting de­
pends upon a proper definition of objectives. Too often the problem is
defined, particularly by management, as:

- Too many reports
- Excessive cost of reports
- Poor quality reports

Here the objective that is adopted is one of reducing reporting. The
approach is then to deal with present reports and to see how much
can be eliminated. The fallacies in this approach are that no effort is
made to find out what people really need. No search is made for op­
portunities for new reports that would be effective. No recognition is
given to the cost of not being informed versus cost of reports them­
selves—and the former may well be the key cost.

A proper definition of objectives has two aspects: (1) to see that
each key person has the information he needs to do his job effectively;
and (2) to see that all key control areas and control factors in the operation are identified, measured or accounted for, and reported. Reported to whom? Reported to the person in the organization structure assigned responsibility for the performance of each control factor.

Therefore, under this definition of objectives, you are concerned with what needs to be controlled and who controls it.

My first significant involvement in reporting systems was back in 1949 and 1950 when I spent almost two years on a consulting assignment for an airframe manufacturer.

The term “management information system” had not yet been coined, and the objective of this assignment was simply to develop improved management control reporting practices. This company had just undergone an organization study, and there was need to realign reporting practices to coincide with revisions in the delegation of authority and responsibility. There were no computers aboard, but they did have several punched card tabulating installations, a lot of desk calculators, slide rules, and quantities of lead pencils and tablets.

What did we do in 1950? First, we collected all the reports produced in the company on all subject matters—financial, cost, schedule, quality, personnel, and the like. Interviews were conducted with preparers of reports and users to gain an understanding of report content and uses made by those receiving such information. This part was relatively easy, the difficult part being to find a means for evaluating these reports once the findings were in.

One way, of course, is to pull the file on each report, review the report and the interview notes, and merely accept the report as responsive to a need, eliminate it, or modify it in some respect. Although I have seen this procedure applied, it has real limitations, for you are only considering what you see within the four corners and two sides of the report form. As we considered this problem, we concluded that what was needed was a structure in which any single report could be slotted and then evaluated in terms of its purpose and in comparison with other reports or new types of reports that could be developed.

The structure developed at that time was quite crude by today’s standards. It consisted of an identification of the major areas in the operation that should be covered by reports and a simple statement of the nature of the information pertinent to each of the major executive positions in the organization. Even though it was crude, it extended our
ability to evaluate reports beyond a straight examination of each report. It permitted all reports to be positioned against the structure and all reports pertaining to a given control area to be viewed as a group, and it added the dimension of an orderly assessment of what specific information was pertinent to achieving control in each area. The analysis disclosed areas not covered by reports and areas where report redundancy existed; and it permitted the distribution of reports to be adjusted and in addition provided opportunities for improving report design and content.

The point is that, at least in my experience, this employment was one of the early efforts to define total company-wide reporting requirements in terms of a structure built as a prerequisite to an evaluation of individual reports. Frequently, in those days, the problem of reporting was viewed as one of redundancy, and the objective was not a better reporting system, but rather one of reducing the number of reports and the cost of report preparation.

Subsequently, by building on that initial experience through a whole series of projects over the years, the approach now being applied in your company has evolved. Essentially, the approach consists of first building a reporting structure and then evaluating currently issued reports against that structure. The results are expressed as recommendations for report eliminations, modifications, and additions together with a procedure for maintaining the structure in the future as changes in operations occur so that the whole project does not need re-doing every few years.

The program included a considerable number of interviews with executives and managers, but it is far more than merely taking an inventory of what these people say they need and then responding to their requirements. The interviews are essentially for the purpose of giving us an insight into the organization and particular jobs as part of the analysis necessary to develop an over-all scheme that can then be reviewed with the executives/managers concerned.

Typically, a person moves into a position and inherits the flow of information through that office. Very quickly he is caught up in events and never really has an opportunity to assess objectively and comprehensively what information he would really like to have if he could get it. Further, merchants, operating, and other people really aren't in a good position to do this anyway, for they do not necessarily know
what the information possibilities are. Therefore, we undertake to build
the structure for the subsequent review and approval of those concerned.

What do I mean by "reporting structure"? Visualize, if you will,
a columnar arrangement on a sheet of paper with the following headings
across the page:

- Control areas and factors
- Planning
- Accounting-measurement
- Report content
- Report distribution and purpose

### Control Areas and Factors

The first step is to analyze the total operation to identify and
classify all areas and factors in the business that must be controlled
to produce a satisfactory over-all result. Some of these are obvious,
as in the sales and cost areas. Others are not so obvious, such as per­
sonnel factors, schedule factors, quality of service factors, and the like.
In any event, the concern is with inventoring the factors that need to
be controlled, and this takes a good bit of doing because it has probably
never been done for a particular business before.

### Planning

Planning comes next. The essence of planning is to predetermine
what results should be. Here you consider how best to establish a
standard of performance or goal for each control area and factor—a
forecast, budget, standard, some external index, or other basis for
comparison. Without planning there is no basis for developing com­
parative data for management reports except to compare with the prior
period. Comparisons with prior periods have limited usefulness at best;
last period results reflect good and poor performance, not what should
have been. The principle is: Look at last year or prior periods as one
factor when planning, but once a plan is established, planned perform­
ance is the target. The composite result from the application of all these
planning techniques must produce an aggregate result that is satis­
factory in terms of a return on investment and other objectives.

### Accounting

Accounting follows—and this might be better described as "mea-
surement or scorekeeping." Once control factors and the bases for planning are established it is relatively easy to decide what you need to keep track of in order to know where you stand. This is not an accounting or bookkeeping system per se; it covers accounting, operating, statistical data, and various units of measure in addition to dollars, on all types of subject matter.

**Reporting**

Reporting concerns a specification of what reports and report content are appropriate to display the results of operations and performance, both over all and for each control area and control factor.

Having proceeded from control areas to planning, and then to accounting or measurement, the report content falls out logically. Report content should show the current position regarding that factor and also performance, variations, causes, and responsibility.

Information displayed on reports should be integrated, bringing related factors and data together so users need not make their own search for correlated data.

Information on reports should be pyramided so that it is more and more condensed as you go from lower echelons of management to high—more and more detailed and exploded from top echelon down—but all information stemming from a single system of source data.

**Distribution**

Distribution of reports is also specified and distribution is tied to authority and responsibility as specified by the organization plan. A person is designated to receive a report on any given subject matter for one of three reasons: because he is responsible for controlling the matter; because he needs the information in order to plan his function; or because he needs to be informed since it may affect his operation.

Control is specified for the lowest level having complete cognizance over the subject matter: What one man gets for control, his superior gets for information. If you cannot identify control responsibility with a single position it means either that the factor has been defined too broadly or that the organization is not clear regarding that factor.

Under this approach, up to this point, no reports have been designed—only the structure has been built. This process, once done...
right, does not need to be repeated, although it does need to be reviewed periodically for updating to reflect changes in the operation, new planning techniques to be applied, changes in organization, and similar matters. A lot has been accomplished, however, with implications extending beyond report formats alone:

Key control factors have all been identified and classified, and responsibility for each one has been designated.

The types of planning techniques have been selected so that efforts to develop the techniques in detail can be programmed to proceed in an orderly manner.

Accounting, measurement, and record-keeping requirements have been specified. Procedures work and selection of data processing methods can be undertaken in terms of a set of specific requirements.

The system of reporting has been blueprinted, not only for the moment but for the future, since means are available to continue control over reports. Attempts to evaluate present reports, or requests for new reports, in the absence of an over-all plan of reports is a somewhat futile gesture. Without a reporting plan, consideration is restricted largely to what appears within the four corners and two sides of the report. Given an over-all plan, considerations extend to such things as: Where does this report fit into the structure? What control areas does it cover? What other reports on the same subject matter exist? These and similar questions make such inquiry far more productive.

As you can see, this type of analysis and layout of structure forms a blueprint for the whole control reporting system. It provides a fix on scope. It permits comparison of techniques and procedures already existent with what will be required and enables you to come up with an action program or task list for accomplishment.

The next step is to design pro forma reports. Given the structural layout or scheme and a set of reports, you are ready to deal with the procedural matters necessary to generate planning data and actual data for the production of reports.

The approach, then, is to identify control areas and relate them to organization, select appropriate planning and accounting techniques, and complete this phase with an over-all structure and report package.
We find that it is only when requirements have been so defined that you can proceed intelligently to evaluate current reports and to produce a result assuring that all key factors in the business are covered and that all key people have the information they need—and no more—to do their job effectively.