PART 1 Background

Before discussing specific management accounting processes and outputs, it is useful to look at management in general, what managers should accomplish, and the role of information in managers' work.

Chapter 1 contains an overview of these topics, a formal definition of management accounting, and the reasons that management accounting should now go beyond its traditional focus on costs. Because the purpose of management accounting is to assist decision makers, Chapter 2 discusses the process of making decisions and factors affecting the usefulness of information systems in producing effective decisions. These discussions are to set the stage for examining specific items of information with which management accountants are concerned, and the processes used to identify and manage them.

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CHAPTER 1

Accounting and Management

LEARNING OBJECTIVES

After studying this chapter, students should be able to:

1. Define accounting and differentiate between management accounting and financial accounting.
2. Discuss general organization functions, for which managers are responsible.
3. Explain the role of decision making in management and discuss general categories of information needed to support health care managers' decision responsibilities.
4. Explain the basic differences between for-profit and not-for-profit health care delivery organizations and their information needs.

Accounting Defined

The American Accounting Association has defined *accounting* as "the process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information."[1] Interestingly, the definition does not limit the form of the information to dollar amounts; it simply says "economic information." This opens accounting to the measurement of a wide range of variables. Additionally, the definition does not specify who the users will be. This implies that accounting should serve a wide array of decision makers.

The individuals whom accounting should serve can fall into two groups. First is the organization's management, ranging from the board of directors and executives to operating personnel who manage specific production and support activities. Second is the people outside the organization who are interested in the organization's performance and viability, such as investors, creditors, regulators, and union officials. These are people who must make decisions about their relationships with the organization. In trying to generalize accounting practice to meet the needs of different categories of users, two approaches have evolved.

The first has been called the "decision-model" approach. This approach develops normative measurement procedures and aggregated values to serve various users. It does this by computing numbers whose derivation is consistent across organizations. The rules for these computations constitute generally accepted accounting principles (GAAP). Because the decision makers know the rules used to compute the reported numbers, they can adjust these numbers as they think appropriate for their specific decisions. The other approach has been called the "decision-maker" approach. Here, specific types of decision processes are analyzed to understand how the decision is made, what variables are considered, and how measures on these variables can be aggregated to support each specific type of decision.[2] The difference between these two approaches can be illustrated in the problem of setting the value of an existing piece of equipment. The decision-model approach states the value of all equipment at its depreciated historic cost. Using the decision-maker approach, a manager attempting to decide on replacing a piece of equipment might use its current salvage value.

It is probably safe to say that as one looks inside an organization, a greater variety of information users makes more types of decisions than are made by accounting users outside the organization. The difference is between macrolevel decisions about the organization and the greater volume of microlevel decisions within the organization. This book will first, and primarily, address the role of accounting in supporting managers of the organization for which the accounting is being done. It will then relate this purely management accounting to financial accounting, which is done to assist people outside the organization. Before discussing information and measurements needed in decision processes that managers use, it is helpful to view the general situations that require managerial decisions.

The Work of Managers

The study of managerial work originally focused on the responsibilities that managers must assume. Managers are responsible for assuring that adequate planning, organizing, staffing, leading, and controlling happen within their organization.[3] In the 1970s, management study began to focus on what managers actually did to assure these functions were performed well.[4] A great deal of study about what management is and what managers do occurred in the last half of the 20th century. The results of this study can be summarized by saying that managers go through continual iterations of communicating, making decisions, and then communicating decisions. The specific processes involved in these cycles depend on an array of factors. This book is primarily concerned with the information that managers at various levels within health care organizations should have in order to make the decisions they must make, how that information can be acquired, and how it should be presented. The discussion of managers' work begins by describing the basic functions for which managers are responsible.

Planning

Classic American management thought assumes that an organization has objectives it is attempting to obtain. Typically, these can be expressed in a pyramidal hierarchy with a general, overreaching objective at the top. This objective is supported by more detailed objectives that must be met on the way to it.[5] The broad objective is often referred to as the *organization's mission*. The basic approach toward achieving the mission is frequently referred to as the *organization's strategy*. Recently, much has been written about forming basic objectives and planning strategy. Processes for doing this have primarily been derived from the study of businesses working in market economies. Classic theory assumes that someone has looked at society and determined that it desires (or needs) something it does not have. The decision is made to supply the need. Supplying such needs becomes a business organization's mission. The organization may already exist and choose to add this mission to its existing product (or service) line, or a new organization may be created to fill the need. In business terms, the society to be served is called the *market,* and each need is referred to as a *market opportunity*.

STRATEGIC PLANS Strategies have classically been considered long-term approaches or processes used to achieve the mission of the organization. Planning has been described as "thinking about the future," "action laid out in advance," "the design of a desired future and of effective ways to bring it about," and "the conscious determination of courses of action designed to accomplish purposes."[6] Mintzberg implies that planning can be thought of as making decisions in consideration of the future in attempts to control the future. He adds that the decisions referred to here are interrelated: "drawn together into a single, tightly coupled process so that they all can be made (or at least approved) at a single point in time."[7] Strategy is established by approval at a point in time of decisions to integrate a broad array of future activities.

In the 1960s, large quantities of resources were dedicated to strategic planning. This involved determining a mission and planning long-term sequences of activities leading to its accomplishment. This planning was frequently done in strategic-planning departments by professional planners. Their specific duties were to articulate the organization's mission and objectives and to lay out the organization's future activities. These activities were usually based on highly sophisticated analyses and stated in a strategic plan with a 5- to 10-year life. By the mid-1980s, many of these strategic-planning departments were found valueless and dismantled. The reason for the change was that, in many markets, the outside environment was changing too rapidly and too unpredictably to allow accurate forecasts of market needs or available technology over so long a period. Concurrently, strategic plans became controlled by professional planners. Organization managers who understood the markets and appropriate technology lost the power to manage the activities for which they were responsible. Organizations realized that strategic planning was not a task to be accomplished at set intervals based primarily on planning techniques. Effective strategy is determined by markets for products and available production technologies. Rather than annually producing new 5-year plans, strategies should be revised when changes in markets and technologies demand a change in the approach to meeting the mission. These changes are best predicted and understood by managers dealing with the organization's markets and the technologies that support them. This evolution in thinking about strategy and strategic planning is explained in detail by Henry Mintzberg.[8]

Although an organization should have a general strategy for attending to its market, deciding on strategy is more complicated than that implies. First, many organizations have more than one market. For instance, a hospital may have as its mission "To enhance the health of all the people in our regional community and to provide high-quality care in a compassionate and efficient manner."[9] Its general strategy may be to establish facilities that are capable of providing primary care health support activities to patients in any age group within no more than 15-minutes travel time and to provide tertiary care services in all medical and surgical specialties within no more than 1-hour travel time from its clients. In this case, providing cardiovascular care would be part of its mission. This would require that a strategy also be established for the delivery of the multitude of interventions involved in cardiovascular care. The point here is that when the intent is to accomplish a broad mission over a long period of time, strategy also takes on a pyramid structure of component strategies that support the mission. Setting each strategy demands information about the relevant markets and technologies.

As an example, suppose you are part of the executive management team of a large pharmaceutical company. Your company has become aware of the potential need to address the AIDS pandemic. You believe you have the capability to produce drugs that will be effective in radically slowing the progress of human immune viruses and delaying the onset of AIDS for undetermined amounts of time. Also assume that the general mission statement is that of one large pharmaceutical firm: "We will become the world's most valued company to patients, customers, colleagues, investors, business partners, and the communities where we work and live."[10] The mission statement then gets more specific in a statement of purpose: " . . . we dedicate ourselves to humanity's quest for longer, healthier, happier lives through innovation in pharmaceutical, consumer, and animal health products."[11] With such a mission and purpose, the first strategic decision would be whether to address market needs related to AIDS; then a technical strategy for producing and testing the drugs must be established. Assuming that drug development is successful, the company must establish a strategy for serving the market and producing a profit. Several alternative marketing strategies are available. Four of these would be to:

1. Assume that poor nations will be supplied funds to purchase the drugs and, therefore, produce and sell at established world market price so as to maximize world profits.
2. Assume that poor countries will not be able to pay more than the cost of producing the additional drugs they will use. The strategy could then be to set adequate prices in industrialized countries to earn adequate profits and

assume that there will be no accounting contribution from sales in poorer countries.

3a. Assume that poorer countries will not be able to pay any price. A strategy could then be to give the drugs to poor countries, capitalize on the public relations value of the contribution, and gain adequate revenue from sales in richer countries to cover all costs and an adequate profit.

3b. Or—market only in societies that can pay a price yielding adequate profit, because management believes inadequate distribution systems and internal corruption in poor nations would simply waste the resources used to supply them while reducing surpluses available for continued research.

Selecting an appropriate strategy in this oversimplified decision situation calls for information from a wide array of sources, such as market analysts, political analysts, distribution specialists, lawyers, medical researchers, pharmacological specialists, production specialists, and cost accountants. If early estimates about relevant variables indicate that none of the strategies would produce viable results, the basic objective should be abandoned. This means that setting objectives is, in itself, a planning activity. Note that some of these information sources are outside the organization, some are at high levels within the organization, and some are at lower levels within the organization. This means that information collection and use must involve systems to transmit the need for information and individual items of information across various organization boundaries. The breadth of this information need is determined by the variety of activities needed to meet the objective. Therefore, early questions to be answered include what activities must be accomplished in order to successfully provide significant pharmaceutical relief to the AIDS pandemic and what information will be needed to assure that these activities are performed efficiently and effectively. An important point here is that the information needed by managers cannot be determined until the activities essential to obtaining the organization's objectives are determined.

OPERATIONAL PLANS *Operational plans* are specific, preestablished sequences of actions to reach specific short-term objectives. Operational planning deals with specific activities necessary to meet the production needs of a set time frame under an existing strategy. The operational planning cycle has come to be the annual business cycle, and the operations plans are the basis for annual budgeting. Operations plans are built on projections of production needed to meet sales plans for the operating period. Budgets for the period can then be derived from an analysis of the activities needed to achieve the planned sales and estimates of the cost of resources needed for those activities. An extremely important fact in considering strategic and operations planning is that both begin with the market. Equally important, planning must be based on analysis of the activities necessary to reach the objectives. Much of this book will deal with analyses of these activities and the cost of the resources needed to complete them.

Organizing

The production and distribution of wellness interventions, as with many other products, requires a great variety of skills and specialized equipment. The expertise to apply these skills cannot be had by a single person. Hence, the industry has specialization; the necessary skills are distributed among groups of people who make up the organization. Organizing concerns deciding how these people (and the resources they use) are grouped and linked so as to maximize efficiency across all the activities needed to accomplish the organization's mission. *Staffing* is the process of selecting specific people to fill positions within the organization. Specialization is a consideration because it is usually both effective and efficient to have the work of people using similar skills coordinated and supervised by a person highly competent in using those skills. The nature of long-term assets needed is a consideration for similar reasons. As an example, surgeons apply similar knowledge and skills and use the same long-term assets (those in a surgical suite). It is logical for the management of surgical activities to be under a single person, such as the chief of surgery. This manager is the focal person for one set of activities, among many, that may be required to care for a patient—that is, the surgical procedures. The concept of organization based on the advantages of specialization needs little explanation today. However, an optimal organization structure for a specific organization is not obvious and may differ greatly in different situations. For example, should all surgical patients be placed in a completely surgical ward after leaving the recovery room? Under what conditions is this, or is this not, practical or efficient? If follow-up care for surgical patients is not managed by surgical specialists, who should manage the ward, and how should it be staffed? In somewhat the same vein, because addressing different illnesses uses different diagnostic tests and treatments that use different, specialized high-tech equipment, should management of these processes be grouped by the illness (cardiological, pulmonary, oncological, etc.) or by the technology applied? Are high-tech radiological diagnostic procedures for cancer patients better managed by radiologists or an oncologist? Dividing people and assets into modules to permit the desired quality of performance at adequate levels of efficiency is the rationale for departmentalization within the organization.

Producing a specific output generally requires integrating the activities of various departments. In a hospital, the treatment of a patient requires activities by administrative, diagnostic, medical, radiological, surgical, nursing, dietetic, and other personnel. To treat the patient effectively and efficiently, these activities must be managed. The effectiveness and efficiency of treatment is dependent both on the quality of the specialized activities and the quality of the coordination among the specialists. From the standpoint of the patient, the treatment is the integrated application of all the activities necessary to effect a cure. From a clinical perspective, understanding the case involves understanding the clinical activities applied to the case. From an economic perspective, understanding the case involves understanding the resources demanded by the activities needed to care for the patient. The implications of these facts in producing adequate cost data for management decisions is a primary subject of this book.

Leading

When managers make decisions whose implementation involves other people, the activities required of these people and any constraints that must be placed on their freedom to act must be communicated to them. Additionally, managers must communicate with members of their organization and generally conduct themselves in ways that motivate people to work cooperatively toward the organization's mission. Effective leadership is the subject of literature in the field of organization behavior. Accounting is not deeply involved in leading, but because parts of the system used to communicate information derived from management accounting data is also used to communicate directives, management accountants must become aware of problems caused by this joint use. For accountants, procedures for reporting information to its users are frequently intertwined with leading and leadership.

Controlling

Robert Anthony stated that "management control is the process by which managers influence other members of the organization to implement the organization's strategy."[12] The control function is needed at all levels of management. Anthony goes on to differentiate task control as " . . . the process of assuring that specific tasks are carried out effectively and efficiently."[13] At either level of detail and specificity, the control function involves seeing that the objectives of plans are realized. When they are not, control initiates the process of revising the objective, the plan, or the quality of process performance. Variables affecting economic implications involve volumes of outputs, the technologies applied in their production, the integration of production and distribution activities, their costs, and the revenue derived from sales. Management accounting is deeply involved in accurate measurement of these variables and communicating the control information derived from them.

DISCUSSION QUESTIONS

1. What are the differences between the content and use of management, as opposed to financial accounting?
2. What are the differences between "decision-model" and "decision-maker" approaches to determining measurements to support management decisions?
3. Why are accounting measurements more important to planning and controlling than to organizing and leading?

4. What is the difference between a mission and a strategy?
5. What is the relationship between markets and organizations' missions?

Narrowing the Management Accounting Arena

In fundamental ways, all activities of an organization affect its economic situation. According to the American Accounting Association's definition given in the first paragraph of this chapter, accounting should involve measuring and communicating information about all activities. Doing this would necessitate a wider array of skills than accountants, or any other specialists, could handle. Accounting's focus tends to be on information derived through quantitative measures, though the quantities are not limited to dollars.

Among necessary quantitative measures, those related to potential demands for services and the share of those demands that the organization can expect to acquire are generally left to marketing specialists. Marketing also assumes responsibility for estimating prices the market can be expected to pay. Estimates for the prices the organization must pay for the resources it uses are generally left to purchasing and personnel managers, though the use of these estimates in activity analysis is the work of accountants. Clinical information on the effectiveness of protocols is generally measured by clinical specialists. Again, this measurement by nonaccountants may be transmitted to accountants in order that the relative efficacy of protocols can be compared to their relative cost.

As information systems are increasingly used to integrate more types of data, accountants are becoming more involved with clinicians and computer support experts in designing decision support systems. For instance, analyzing the availability and cost of capital funds is the work of the finance staff and banking consultants. Measuring the amount of capital needed uses the efforts of management accountants. The dividing line between accounting and financial management is less well-drawn than this division implies. Both specialists use dollar amounts as a common denominator, and, quite often, both sets of activities are under the direction of a chief financial officer (CFO). In small organizations, some people may be involved in both types of work. This all means that management accountants must maintain close coordination and open communication channels with other activities within the organization.

Because much of the information used in the control function is dollar denominated and produced by management accounting, reporting information for control purposes has traditionally fallen to management accountants. However, when this information indicates the organization is not moving toward its objectives as planned, deciding on corrective action demands information on why this is happening. It is valuable for managers to know that problems exist. Information to indicate why they exist is of even greater value. Therefore, optimal management information includes both the degree to which objectives are being reached and the state of activities necessary to reach them.

Expanding Management Accounting Beyond Money Measurement

The survival of economic organizations, with the exception of not-for-profit organizations that are continually provided charity or grant capital, depends on revenue. In a for-profit organization, revenue provides the inflow of cash that leads to the ability to pay obligations, create retained earnings for reinvestment, and pay dividends to owners. If revenue does not provide adequate earnings before interest and taxes, cash from prior capitalization will run out. At this point, the organization is not able to pay its expenses, modernize, or expand to meet competition. Because it is unable to meet current creditor or equity holders' demands for return on their investments, it will generally be unable to raise more cash and will become bankrupt. Not-for-profit organizations with inadequate revenue will also become unable to meet existing obligations and will need additional injections of equity from charity or grants. Their ability to get this cash depends on the level of support from their community. This, in turn, depends on the degree to which the community believes it is being served by the organization. Continual injections of capital into nongovernment, not-for-profit health care organizations are relatively small and relatively rare. This is the reason that in health care, the financial management of for-profit and not-for-profit providers is much the same. In most cases, they both depend on revenue for survival.

Adequacy of revenue depends on the costs it must cover. These include the costs of modernization and expansion as well as operating expenses. To the extent that operating expenses are reduced, a given level or revenue will provide more money for modernization and expansion. The absolute amount of revenue earned depends on the quantity of services sold and their prices. These, in turn, depend on the market's demand and its perception of the quality of the services provided. These things can be measured by such variables as market share, patient satisfaction, and payer satisfaction. These are lagging variables, in that they are the result of past management action, and their amounts reflect historical conditions. Managers also need measurement on variables that cause improvement in these lagging variables. These are called *leading variables* and indicate the degree to which service providers are doing what is necessary to assure high-quality care, low expenses, customer satisfaction, and its resultant high revenue. As an example, a hospital may find that it has a 13 percent share of the emergency room business in its drawing area, and it may be using only 30 percent of its emergency room capacity. Patient satisfaction surveys might indicate that waiting times for services are thought to be too long, and the competing hospitals have better reputations for prompt attention. Waiting time should become a measure of quality of service. As it is shortened, emergency room revenue can be expected to climb. Waiting time is therefore considered a leading, quantitative measure for management control. Its measurement would become a task for management accounting. Reports that contain such leading indicators, as well as lagging money measurements of performance, are referred to as *balanced score cards*. The concept of balanced score card reporting is discussed in some detail in Chapter 16.

DISCUSSION QUESTIONS

1. What types of measurements are generally considered the responsibility of management accounting? Why?
2. What is the primary difference between lagging and leading variables associated with revenue?
3. Why should measurements of leading variables be reported to management in addition to common lagging variables which are currently in financial statements?

For-Profit and Not-for-Profit Objectives

One difference between health care and most other societal needs is that the health care industry has both for-profit and not-for-profit producers. In the for-profit (business) arena, providing a product is not the organization's basic objective—it is the means to the basic objective. For a business organization in a market society, the basic objective is profit. This is why not-for-profit organizations are often called *nonbusiness organizations*. To understand differences in the information needs of for-profit as opposed to not-for-profit organizations in health care, we should look more closely at this difference in objectives.

A market society uses the price-profit mechanism as its primary means of answering its fundamental economic questions: What shall we produce? What resources (including people) and technologies shall be used in production? And, who will get the things produced? The mechanism assumes that people will pay a price for products up to the amount at which they would get more benefit from spending their money on something else. A business organization can, therefore, make a profit only if it produces things that people value more than other products they can buy for the same amount of their money. To be successful, a for-profit organization must understand what markets want produced and the value the markets place on those things. If this is the case, the needs and desires of the members of society can be met through businesses' pursuit of profit.

An assumption in operating a market economy is that all members must have money with which to buy. Obviously, if some people do not have adequate amounts of money, they cannot purchase needed products at any price. If the society feels certain products—for instance, a given level of health care—should be available to everyone, there are three ways to furnish such things to those who cannot pay. The products can be produced for them by a not-for-profit organization, bought for them by a charity or government-funded organization, or given to them through charity from its for-profit producers. Health care is provided to medically indigent people by all three of these methods. However, whichever approach is used, people with money pick up the cost of care for people without money. This occurs through (1) providers charging higher prices than necessary to those who can pay in order to cover the costs of those who can't, (2) charitable contributions by people with money to organizations that produce or fund care for indigents, and (3) the government taxing those with the ability to pay in order to fund care for those who lack the ability to fund themselves.

There are two other key assumptions needed in order for a market economy to serve a society well. The first is that the buyers understand the relative benefits of all the products available and know the prices of these products. This is called the *perfect-knowledge assumption*. It allows buyers to make appropriate choices in spending limited funds among alternative products. The second is that, for each product available, there are many suppliers attempting to increase their revenue by selling a better product at the same price or the same product at a lower price than their competitors. This could be called the *competition imperative*. If these assumptions are operating, competition among producers attempting to sell to well-informed customers controls prices and promotes improvements in both products and services.

Whether a health care organization is a profit-seeking business or a not-for-profit entity, it must acquire funds in quantities great enough to pay for the resources it uses, including the periodic cost of new equipment needed to maintain modern medical practices. This means that managers of either type of organization must make decisions about the products desired by the market and the sources of money to buy the resources needed to produce those products. (For our purposes, both goods and services produced for sale will be called *products*.) Classic management theory has tended to flow from the study of for-profit businesses. It therefore focuses on sales revenue as the primary source of continuing funding. Money capital to meet large, periodic needs can be acquired by debt or the sale of equity to stockholders, but the price of this capital (interest on debt and profit on equity) must be paid from future revenue. Because revenue comes from sales, establishing strategy focuses on alternative ways to gain levels of sales necessary to survive among competitors. Not-for-profit care deliverers are at a disadvantage with respect to acquiring new capital; when debt and donations from charity or government or private grants are not available, they have no ability to raise private ownership equity. To the extent that additional injections of capital from government and charities are not available to not-for-profit care deliverers, they are dependent on debt and revenue. If they have borrowed beyond their debt limit, they must compete for this revenue with other not-for-profit and for-profit providers. The result of this financial reality is that not-for-profit care deliverers must make the same types of decisions that for-profit businesses must make in establishing their mission, selecting strategies, and budgeting from operational plans. This means that they also have the same demands for information to support the same types of decisions.

Though not-for-profit organizations are not required to bear the cash expense of taxes paid by for-profit care providers, governments have increased the enforcement of their obligations to meet tax responsibilities by providing unreimbursed services to their communities. However, not-for-profit providers do have a distinct advantage in the amount of revenue they can keep because they do not have to suffer cash outflows to pay the cost of their equity capital through dividend distribution. The primary difference in the information needs of not-for-profit care deliverers is information needed to secure equity capital from charity and direct community inputs and information needed to maintain their tax-free status.

DISCUSSION QUESTIONS

1. Why is the financial management of a not-for-profit health care organization essentially similar to that of a for-profit provider?
2. From question 1, in what ways do its financial pressures differ?

Conclusion

Health care deliverers are currently under severe financial pressure. The purchasing power of large third-party payers gives those payers unprecedented control of revenue. To a great extent, deliverers of care have become price takers rather than price setters. This means that care-delivering organizations' control over their revenue primarily rests in managing the volume of their sales. At any volume of sales, potential profit—even if the goal is simply to break even—is tied to costs. Costs occur from the use of resources in the activities necessary to deliver care. In responding to needs for care, there are usually alternative actions available. Efficient care delivery is produced when the lowest cost alternatives that produce acceptable quality of care are selected. Choosing these alternatives requires information on the quality of their outcomes, activities they involve, and the resources they consume. Assuring the financial survival of health care organization, therefore, depends to a large extent on the effectiveness of the organization's use of internal information to make sound decisions about activities leading to market success. Access to equity capital that can assure long term viability demands this success.

Key Points

- Accounting involves identifying, measuring, and communicating economic information to support decisions.
- Financial accounting supports decisions that people outside the organization make about their relationship with the organization.
- Management accounting supports decisions that are made within the organization by its managers.
- Decision-model approaches to generate information use predetermined, normative methods to identify variables and measure them, such as GAAP.
- Decision-maker approaches to generate information analyze specific decision-makers' models to isolate and measure the variables used in those models.
- Managers' work involves assuring that planning, organizing, staffing, leading, and controlling functions are performed within the organization.
- Planning involves setting sequences of actions needed to reach objectives.
- Determining a mission involves finding a product or service that is needed by society and could be supplied by the organization.
- Strategic planning involves setting a general approach for accomplishing a stated mission.
- Setting objectives involves determining specific ends that must be accomplished in order to fulfill a mission.
- Setting goals involves establishing measures that indicate that missions or objectives have been accomplished.
- Operational planning sequences specific activities that are to be done in order to meet specific objectives within an operating period, usually a year.
- Organizing involves setting a structure of work and resource units through which to accomplish plans.
- Staffing involves selecting specific individuals for specific roles within the organization's structure.
- Leading involves motivating the organization's members to work together to accomplish the organization's mission.
- Controlling involves assuring that the organization is reaching its objectives and revising objectives and/or plans as appropriate.
- Decisions made in performing these functions all demand that information be used in an appropriate decision model.
- Measurements related to the demand for products and the selling prices of products are usually left to marketing personnel.
- Measurements related to resource prices are usually left to purchasing and personnel managers.
- Measurements related to resource utilization and costs are made by management accountants.
- Measurements from accounting, marketing, purchasing, and personnel activities must be integrated to support managers' decisions. This is usually the responsibility of management accounting.
- Generally, both for-profit and not-for-profit health care organizations depend on revenues and cost control to maintain their viability. Therefore, financial management and management accounting are much the same in both types of organizations.
- For-profit organizations have the advantage of access to owners' equity.
- The efficiency of for-profit organizations'

service to society is tied to the validity of the perfect knowledge assumption and the competition imperative.

- Not-for-profit organizations are expected to "pay" taxes through community service. They are usually not under equal pressure to pay for their equity capital.
- Market success for businesses can be measured in profit. For not-for-profit organizations, it can be measured as accounting surpluses and the degree to which the organization furnishes unremunerated services to its community.
- The key point is that viability is dependent on efficient performance, which depends on high-quality management decisions. These, in turn, require effective decision models and good information.

Exercises

EXERCISE 1

It might be said that the development of managers begins with the process of the aspiring managers learning to manage themselves. Before discussing identifying, measuring, and presenting information to support the management of a health care delivery organization, consider the role of basic management functions in managing the activities necessary to prepare oneself for an entry health-services management position.

Assume you are such a person.

1. For each function, briefly state the activities that will be involved as your preparation proceeds.
2. What information will you need in order to (1) plan your preparation, (2) organize the resources for the activities that will be involved in the process, (3) motivate (lead) the activities of others related to your mission, and (4) control your preparation process. Make a list of the information items needed to support each of the four management functions.

EXERCISE 2

Divide the information items you have listed in Exercise 1 into those best presented in terms of dollars and those best presented in other units of measure.

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