

Ronald W. Hilton / David E. Platt

MANAGERIAL ACCOUNTING

Creating Value in a Dynamic
Business Environment



**Mc
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Hill**

twelfth edition



Managerial Accounting

Creating Value in a Dynamic
Business Environment

Twelfth Edition

Ronald W. Hilton
Cornell University

David E. Platt
University of Texas at Austin

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MANAGERIAL ACCOUNTING: CREATING VALUE IN A DYNAMIC BUSINESS ENVIRONMENT,
12TH EDITION

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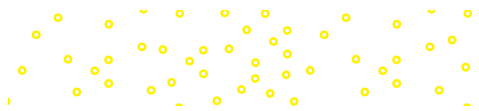
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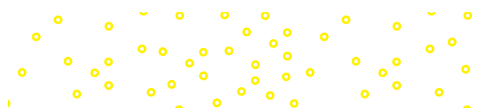
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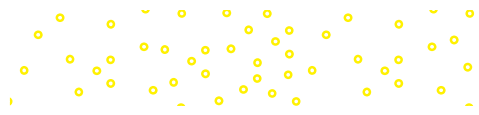
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Ronald W. Hilton:
To Meg, Brad, Molly, Tim, Kerry, and Liliana.

David E. Platt:
To Nancy, for her love and patience.





Praise for *MANAGERIAL ACCOUNTING*

Hilton is a comprehensive managerial accounting text that incorporates a wide variety of applications and examples. You are certain to find the examples and problems to fit your style. The emphasis of management of the firm and depth of coverage makes this text worthy of consideration.”

—**Todd Jensen, Sierra College**

The Hilton 11e text is a fantastic resource for an Introductory Managerial Accounting course. It covers all of the necessary topics in a logical order and with an appropriate level of rigor.”

—**Laura Zellers, Wichita State University**

“Extremely [comprehensive, easy to read](#) managerial accounting textbook that provides well-designed [integrated examples](#) along with coverage of [service-based companies](#).”

—**Angela Sandberg, Jacksonville State University**

“I am [loving the book](#), and I see the students [learning the concepts a lot quicker](#) than my previous experience.”

—**Patti Brown, The University of Texas at Austin**

“I would describe it as [the Cadillac of core management accounting textbooks](#).”

—**Bill Wempe, Texas Christian University**

“This is an excellent text—well balanced, well organized, and up to date with current topics, including service industries and state-of-the-art manufacturing environments. I highly recommend it also for the [excellent examples and illustrations through focus companies and contrasting companies](#).”

—**John C. Anderson, San Diego State University**

“I’ve been using this text since its second edition, and it [gets better each year](#) with continuous improvement.”

—**Steve G. Green, United States Air Force Academy**

“[Well written with good explanations of the ‘why’ and ‘how’](#).”

—**Christa Morgan, Georgia Perimeter College**

“Major strength is how it relates managerial accounting to the general management function and [reveals the managerial accountant as an important member of the management team](#).”

—**Linda C. Bowen, University of North Carolina–Chapel Hill**

“The book goes beyond covering the basics and organizes and [integrates contemporary topics nicely](#).”

—**Harrison McCraw, State University of West Georgia**

“[Well written, well organized](#) and excellent end of chapter problems.”

—**Kathleen Sevigny, Boston College**

“The technology [supplements and instructor resources are top-notch](#) and very appropriate for our students.”

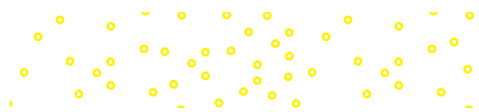
—**Marilyn Okleshen, Minnesota State University–Mankato**

“The book is [very thorough, well written](#), and still remains [student-friendly](#). The supplements are outstanding.”

—**Ben Baker, Davidson College**

“A solid, well-written, user-friendly book; [can’t go wrong with it!](#)”

—**Rochelle Greenberg, Florida State University**



Hilton & Platt *Managerial Accounting*: After 12 editions, one of the most enduring and respected managerial accounting books on the market.



Keeping pace with the speed of modern business, the authors combine their experience and expertise to make sure *Managerial Accounting* is the most relevant, accurate, and up-to-date textbook in the field. *Managerial Accounting* continues to focus and update content to bridge accounting and management practices.

About the Authors



©Jon Reis Photography

Ronald W. Hilton is a Professor Emeritus of Accounting at Cornell University. With bachelor's and master's degrees in accounting from The Pennsylvania State University, he received his PhD from The Ohio State University. A Cornell faculty member since 1977, Professor Hilton also has taught accounting at Ohio State and the University of Florida, where he held the position of Walter J. Matherly Professor of Accounting. Prior to pursuing his doctoral studies, Hilton worked for Peat, Marwick, Mitchell and Company and served as an officer in the United States Air Force.

Professor Hilton is a member of the Institute of Management Accountants and has been active in the American Accounting Association. He has served as associate editor of *The Accounting Review* and as a member of its editorial board. Hilton also has served on the editorial board of the *Journal of Management Accounting Research*. He has been a member of the resident faculties of both the Doctoral Consortium and the New Faculty Consortium

sponsored by the American Accounting Association. With wide-ranging research interests, Hilton has published articles in many journals, including the *Journal of Accounting Research*, *The Accounting Review*, *Management Science*, *Decision Sciences*, the *Journal of Economic Behavior and Organization*, *Contemporary Accounting Research*, and the *Journal of Mathematical Psychology*. He also has published a monograph in the *AAA Studies in Accounting Research* series, and he is a co-author of *Cost Management: Strategies for Business Decisions*, *Budgeting: Profit Planning and Control*, and *Cost Accounting: Concepts and Managerial Applications*. Professor Hilton's current research interests focus on contemporary cost management systems and international issues in managerial accounting. In recent years, he has toured manufacturing facilities and consulted with practicing managerial accountants in North America, Europe, Asia, and Australia.



Courtesy of University of Texas

David E. Platt is a member of the Accounting faculty and the Associate Dean for Undergraduate Programs at the McCombs School of Business, University of Texas at Austin. He earned a BS Econ from the Wharton School at the University of Pennsylvania, an MBA in Marketing from Syracuse University, and a PhD from Cornell University. After earning his CPA while working for Pricewaterhouse Coopers, he spent several years doing financial and product management at a supply chain systems integrator. Dr. Platt currently teaches a variety of managerial accounting courses at UT, including the sophomore-level Fundamentals of Managerial Accounting, and has received teaching awards at both the undergraduate and graduate levels. He directed UT–Austin's Center for International Business Education and Research (CIBER) and has served as a chair of the Partnership in International Management, a consortium of leading graduate business schools worldwide. He has been a visiting lecturer at the Sorbonne Graduate Business School in Paris, and has delivered training for companies in the United States, Europe, Latin America, and China.

What's New in the 12th Edition?

New and Enhanced Themes

In the 12th edition of Hilton & Platt *Managerial Accounting*, the authors have significantly increased their coverage of **data analytics** and so-called **big data** in the context of managerial accounting. The topic is first introduced in **Chapter 1**, where it is discussed in the context of the Whole Foods Market contrast company. It then gets deeper coverage in **Chapter 6**, which includes an illustration of data visualization using both Excel and Tableau. And discussions of big data and its impact in managerial decision making are sprinkled throughout the book, such as the new *Management Accounting Practice* (MAP) inset “Big Data ‘Use Cases’ in Managing Costs and Profits” in **Chapter 3**, other new MAPs in **Chapters 5, 9, and 10**, and in general discussion.



Hilton & Platt *Managerial Accounting* has long been a leader in integrating discussion of **business ethics** into the managerial accounting context through the use of the Institute of Management Accountants' *Statement of Ethical Professional Practice* and the *Focus on Ethics* feature that appears at the end of most chapters. In the 12th edition, the authors take a major step forward in business ethics coverage by updating a number of the *Focus on Ethics* scenarios and linking all of them to the thoughtful and entertaining ethics concepts videos produced by the business educators at *Ethics Unwrapped*. Indicated by the logo that appears at the front of this paragraph, the videos offer instructors the opportunity to expand the discussion of ethical concepts in business while providing students some conceptual underpinnings for the ethical dilemmas presented and their solutions.

New and Updated Content and Examples

Chapter 1 introduces managerial accounting to students and motivates them by demonstrating its relevance in managing different types

of organizations. **Based on user feedback**, the authors now focus less on managerial accountants per se and more on managerial accounting as a widely applicable toolset used by all managers. Consistent with this change in focus, the authors have streamlined the presentation of where managerial accountants are found in organizations. As mentioned above, they also add an introductory discussion of *data analytics* and *big data*, while updating thumbnail views of a few other key topics in management, such as the *value chain*, *capacity*, and the *balanced scorecard*. In addition, the discussions involving the contrast company Whole Foods Market have been updated to reflect the revised context of the company's acquisition by Amazon.

Chapter 2 sees the introduction of a **new contrast company**, Gold's Gym. Continuing their commitment to including plentiful service industry examples, the authors build their discussion of costs in the service industry around a fitness business, a context that will be familiar to many students, making the discussion more relevant to them and therefore more memorable.

After adding time-driven ABC (TDABC) in a health-care setting to **Chapter 5** in the last edition, the 12th edition further revises the presentation of traditional activity-based costing (ABC) in that chapter by introducing a **new focus company**, Dronze, Inc. This company produces recreational drones and, while staying close to the pedagogical approach to teaching ABC used in previous editions, the update continues the authors' commitment to keeping the example companies fresh and relevant for students.

Chapter 6, which covers cost behavior and cost estimation, continues the authors' thematic development of *data analytics* and *big data* in the 12th edition with a separate section addressing these topics. The challenges and opportunities of big data, though in large part beyond the scope of this text, are developed here to provide students

with a greater perspective on the origins and analysis of the data that is used in decision making, and to alert them to the relevance of a topic they likely will encounter in subsequent courses.

Data analytics, the process of examining data sets in order to draw conclusions about the information they contain, is increasingly important in managing many organizations. **Data visualization**, which is the presentation of data in a graphical or pictorial format to help managers discern patterns, trends, and complex scenarios embedded in the data, goes hand in hand with data analytics. To cover these emerging topics, the authors extend their discussion of the **Chapter 6** focus company, Donut Desire (a chain of five donut shops in Toronto). The example analyzes a data set consisting of ten years of monthly data about the utility costs and activity levels in the company's various shops. To augment the discussion of data visualization in the Donut Desire example, traditional Excel visualizations are supplemented by outputs from **Tableau**, which is a rapidly growing data visualization software package now used in many businesses.

Chapter 7, which covers cost-volume-profit analysis, addresses the role of income taxes in the chapter's appendix. In this edition, the authors have updated this coverage to reflect the **lower overall U.S. corporate tax rate** resulting from the **Tax Cuts and Jobs Act (TCJA)** that became effective in 2018.

During 2018, when the authors were beginning work on the 12th edition, there was increased focus on **corporate social responsibility** and conversations about the role of companies in society, exemplified by the "Letter to CEOs" published in January by Blackrock CEO Larry Fink. Believing that managerial accounting needs to be responsive to such concerns, the authors have rewritten and expanded the section of **Chapter 8** previously called "Costs of Environmental Sustainability" to broaden its coverage into corporate social responsibility generally, often characterized

currently as **"Environmental, Social, and Governance (ESG) Initiatives."** The chapter provides a discussion of ways in which managerial accounting measurement concepts apply to the ESG initiatives undertaken by companies and the ways in which ESG investors might use such data.

Chapter 12 has been formally split into two sections that can be covered independently: *Responsibility Accounting* and the *Balanced Scorecard*. While the responsibility accounting section is largely unchanged from the prior edition, based on user input the authors have **significantly expanded the text's balanced scorecard coverage**. In addition to expanding the discussion of the balanced scorecard technique, they have created a **new contrast company** example that places the balanced scorecard discussion in the context of a high-tech startup that is attempting to target Millennials and Gen Z consumers. This new example company will be more relevant and memorable for students, most of whom will fall into these generations, enhancing their understanding of this important performance management technique. They have also included a number of **startup performance metrics** in the example that students will find interesting (e.g., cash burn rate and runway) and added an exercise that reinforces these metrics. (Operational performance measures have been moved to a new appendix to **Chapter 12**.)

Chapter 15, on target costing and pricing decisions, has an updated discussion of **dynamic pricing on the Internet** by e-tailers, as well as a new *Focus on Ethics* inset.

Chapter 16, which covers capital expenditure decisions, addresses the role of income taxes in discounted-cash-flow analysis in Section 2 of the chapter. For the 12th edition, the authors have updated this coverage to reflect the lower overall U.S. corporate tax rate resulting from the **Tax Cuts and Jobs Act (TCJA)** that became effective in 2018. Also, while recognizing that this is not a tax textbook, they provide a brief discussion of

the **depreciation rules** (including the Modified Accelerated Cost Recovery System, or MACRS) under the TCJA. Moreover, the lower tax rates under the TCJA extend to **Chapter 16**'s end-of-chapter assignment material.

Updated Pedagogy

In addition to the specific examples above, many chapters include streamlined and condensed explanations, and the addition of more current examples and references from the popular business press.

Service Industry Examples

The service industry continues to play a dominant role in the U.S. economy, despite continuing emphasis on the importance of manufacturing. The authors have continued their track record of finding and integrating examples from service industry organizations, while making service industry examples featured in focus and contrast companies increasingly relevant for students. Widely acknowledged as having the most service industry focus of any managerial accounting text, the 12th edition widens the margin even further.

In Their Own Words

The authors continually work to update many of the quotations in this popular feature, keeping

them fresh and relevant for today's students. Many of the quotations are new in this edition. These quotes from practicing managers and managerial accountants portray the important role managerial accounting plays in today's dynamic business environment.

Management Accounting Practice (MAPs)

Many of these real-world examples have been revised and updated to make them more current, and several new examples have been added. While some of the MAPs are completely new, to address the data analytics theme mentioned above, many of the existing MAPs have been updated as well to keep them relevant and accurate. For example, in the **Chapter 1** MAP "Using Managerial Accounting to Monetize the Internet," the authors have added a discussion of various efforts to return journalism to profitability. And in **Chapter 2**, the MAP "Managing Health Care Costs Through Cost Behavior" has been updated for the current state of the debate over the Affordable Care Act.

Your feedback is crucial in improving each new edition of *Managerial Accounting* and has been the motivation for many changes in this 12th edition, including new themes, revised coverage of key topical areas, and new pedagogy for the most challenging topics.

How Does Hilton & Platt 12e Prepare Students for the Businesses of Today and Tomorrow?

Managerial Accounting.

Business is always changing: new technologies, new models, new global competitors. And students, despite being more technologically adept every year, need a framework for all of that change so that they can hit the ground running in their careers. To keep up, managers must be able to interpret the rapid flow of information and make the right decisions. Assisted by the tools of managerial accounting, and by managerial accounting professionals, managers will work side by side in global, cross-functional teams to make the complex decisions that today's dynamic business environment requires of them. The goal of *Managerial Accounting* is to acquaint students of business with the fundamental tools of managerial decision making and to provide a context for understanding and reacting to the dramatic ways in which business is changing. The emphasis throughout the text

is on using accounting information to help manage an organization, while explaining concepts in a way that students can relate to. They should not only be able to produce accounting information, but also understand how managers are likely to use and react to the information in a range of businesses.



“Hilton is a comprehensive managerial accounting text that incorporates a wide variety of applications and examples. You are certain to find the examples and problems to fit your style. The emphasis on management of the firm and depth of coverage makes this text worthy of consideration”

—Todd Jensen, CPA, Sierra College

Relevant.

Focus Companies provide a powerful strategy for fostering learning, and the integration of Focus Companies throughout the Hilton & Platt text is unmatched by other managerial accounting books. Each chapter introduces important managerial accounting topics within the context of a realistic company. Students see the immediate impact of managerial accounting decisions on companies and gain exposure to different types of organizations.

Balanced.

Hilton & Platt *Managerial Accounting* offers the most balanced coverage of service and manufacturing companies. The authors recognize that students will be working in a great variety of business environments and will benefit from exposure to diverse types of companies. A wide variety of examples from retail, service, manufacturing, and nonprofit organizations are included.

Contemporary.

Hilton & Platt continues to be the leader in presenting the most contemporary coverage of managerial accounting topics. The traditional tools of managerial accounting such as budgeting and product costing have been updated with current approaches. Emerging topics such as data visualization, environmental cost management, monetizing the Internet, and time-driven activity-based costing are also discussed.

Flexible.

Managerial Accounting is written in a modular format allowing topics to be covered in the order you want. For example, some instructors prefer to cover contribution-margin approaches to decision making and/or relevant costs early in the course. So Chapter 6 (cost behavior and estimation), Chapter 7 (CVP), and Chapter 14 (relevant costs) are written so they can be covered immediately after Chapter 2, which introduces basic cost concepts. A table showing the text's flexibility is in the Introduction to the Instructor's Manual.

"The company story acts as a hook to get students interested in the chapter material."

—Michele Matherly, University of North Carolina at Charlotte

"I think it's an excellent book for advanced and Masters-level studying management accounting."

—Michael Thomas Paz, Cornell University-SC College of Business

"Balanced, time-proven approach to managerial accounting."

—Michael Flores, Wichita State University

"A nice intro textbook, with multiple perspectives on the behavioral aspects of managerial accounting. Touches many modern issues facing the field."

Theodore Rodgers, Emory University

"Perhaps what sets Hilton & Platt apart from the competition is its recognition that the world consists of more than manufacturing firms and that managerial accounting plays a significant role in service and not-for-profit organizations."

—Lanny Solomon, University of Missouri-Kansas City

How Does Hilton & Platt 12e Help Students Learn Managerial Accounting in the Context of Business?

FOCUS COMPANIES

Students need to see the relevance of managerial accounting information in order to actively engage in learning the material. Ron Hilton and Dave Platt use their years working as managers and consultants to create Focus Companies that illustrate key concepts, and students immediately see the significance of the material and become excited about the content.

Whenever the Focus Company is presented in the chapter, its logo is shown so the student sees its application to the text topic.

"I like the 'Focus on the Company' at the beginning of each chapter and this type of boxed info throughout each chapter."

—Anna Cianci, Drexel University

CONTRAST COMPANIES

A Contrast Company is also introduced in each chapter. In most cases these highlight an industry different from that of the Focus Company. This feature allows even greater emphasis on service-industry firms and other nonmanufacturing environments. It also helps demonstrate the wide applicability of the managerial accounting techniques being taught.

1 The Crucial Role of Managerial Accounting in a Dynamic Business Environment

FOCUS COMPANY >>>



THIS CHAPTER'S FOCUS COMPANY is **The Walt Disney Company**. This entertainment services company is a giant in the industry with theme parks, feature film studios, animation studios, television broadcasting, hotels and resorts, and retail stores. Using The Walt Disney Company as an illustration, we will introduce the field of managerial accounting and its major themes. Some of you are excited about studying accounting. But even more of you are asking, "Why do I need to study managerial accounting? I'm not going to be an accountant!" That is a good question. Our primary focus in this book is the ways in which managers use managerial accounting concepts and tools to make their decisions. Along the way, we will also explore how managerial accountants work in partnership with managers to add value to the organization.

Each chapter is built around a focus company, in which the chapter's key points are illustrated. This chapter's focus is on The Walt Disney Company. The focus companies in subsequent chapters are not real companies, but they are realistic scenarios built on actual company practices. Whenever the focus company is discussed in the chapter, the company logo appears in the margin.



<<< IN CONTRAST



© 2014 FoodCityMarket

In contrast to the entertainment services setting of **The Walt Disney Company**, we will turn our attention to **Whole Foods Market**, a division of **Amazon.com, Inc.** This powerhouse food retailer has over 400 stores around North America and Europe. Historically a leader in the area of corporate social responsibility, Whole Foods Market is frequently faced with challenging decisions that require them to balance the need to run a profitable business, and generate a satisfactory return for Amazon.com, against the cost of their much-publicized commitment to organic foods and sustainable production. We will explore managerial accounting's contribution to Whole Foods Market's efforts to sell products that are more costly to produce in a competitive market, while still achieving appropriate returns for investors.

Each chapter also includes a contrast company. In most cases, the contrast company will present a key chapter topic in an industry that is different from that of the focus company. In this chapter, the focus company (Walt Disney) is an entertainment services company, whereas the contrast company (Whole Foods Market) is a food retailer.



Real-World Examples

The Hilton & Platt text provides a variety of thought-provoking, real-world examples to focus students on managerial accounting tools and professionals as an essential part of the management process. Featured organizations include Amazon, Gold's Gym, Southwest Airlines, Whole Foods Market, General Electric, FedEx, and many others. These companies are highlighted in blue in the text.

In Their Own Words

Quotes from both practicing managers and managerial accountants are included in the margins throughout the text. These actual quotes show how the field of management accounting is changing, emphasize how the concepts are actually used, and demonstrate that management accountants are key players in most companies' management teams. In the e-book, the quotes are hyperlinked to the appropriate point in the References. Many references have, in turn, been hyperlinked to the source material.

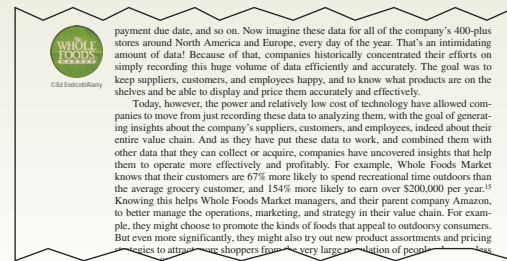
Management Accounting Practice

The managerial accounting practices of well-known, real-world organizations are highlighted in these boxes. They stimulate student interest and provide a springboard for classroom discussion.

Focus on Ethics

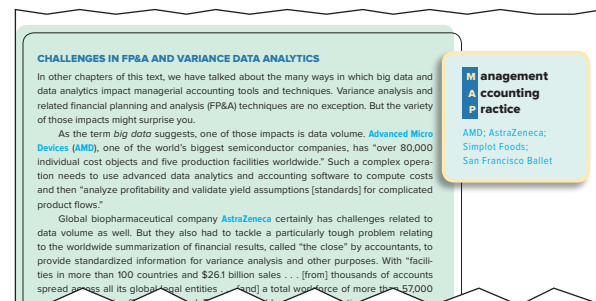
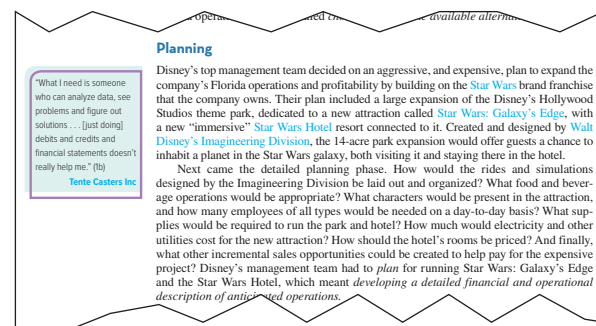
This feature is included in most chapters. Focus on Ethics poses an ethical dilemma, then asks tough questions that underscore the importance of ethical management. Some of these are based on real-world incidents while others are fictional but based on well-established anecdotal evidence. We anchor the discussions on the **Institute of Management Accountants' Statement of Ethical Professional Practice**, which is presented in the Focus on Ethics in Chapter 1.

At the end of each Focus on Ethics segment, we link to videos from the well-respected *Ethics Unwrapped* series to provide a conceptual underpinning and a basis for further discussion or assignments.



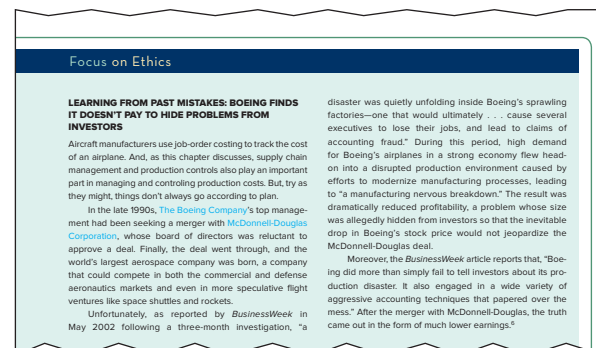
"Great graphics, exhibits, and illustrations to keep the computer generation interested."

—Kathy Seigny, Boston University



"Good extras within chapters—ethics at the end of each chapter, MAPs throughout chapter, the Focus vs. In Contrast real-world examples."

—Mike Thomas, Humboldt State University



How Can My Students Use Hilton & Platt 12e to Master the Concepts of Managerial Accounting?

End-of-Chapter Assignment Material

Each chapter includes an extensive selection of assignment material, including Review Questions, Exercises, Problems, and Cases. Our problem and case material conforms to AECC and AACSB recommendations and facilitates class discussions and projects.

Review Problems on Cost Classifications

Problem 1

Several costs incurred by Myrtle Beach Golf Equipment, Inc., are listed below. For each cost, indicate which of the following classifications best describe the cost. More than one classification may apply to the same cost item. For example, a cost may be both a variable cost *and* a product cost.

Cost Classifications

- a. Variable
- b. Fixed
- c. Period
- d. Product
- e. Administrative
- f. Selling
- g. Manufacturing
- h. Research and development
- i. Direct material
- j. Direct labor
- k. Manufacturing overhead

Cost Items

Legal used in

Review Problems present both a problem and a complete solution, allowing students to review the entire problem-solving process.

Key Terms are bolded in the text and linked to their definition in the eBook version. In the print version, they are repeated at the end of the chapter with page references. The book also includes a complete Glossary of Key Terms (fully hyper-linked in the eBook).

Key Terms

For each term's definition refer to the indicated page, or turn to the glossary at the end of the text.

attention-directing function, 7	chief financial officer (CFO), 13	data science, 22	staff positions, 13
balanced scorecard, 10	controller (or comptroller), 13	financial accounting, 11	strategic cost management, 18
big data, 22	cost accounting system, 11	internal auditor, 15	treasurer, 15
capacity, 19	cost drivers, 18	line positions, 13	value chain, 17
Certified Management Accountant (CMA), 23	cost relationship, 18	managerial accountants, 5	
Chartered Global Management Accountant (CGMA), 23	data analytics, 22	managerial accounting, 4	
	data governance, 22	practical capacity, 19	

Review Questions, Exercises, Problems, and Cases are comprehensive in covering the points in the chapter. They exhibit a wide range of difficulty, and the Instructor's Manual provides guidance for the instructor on the difficulty level and time required for each problem. Numerous adapted CMA and CPA problems are included.

Review Questions

- | | |
|---|---|
| 2-1. Distinguish between product costs and period costs. | 2-17. Which of the following costs are likely to be controllable by the chief of nursing in a hospital? Why? |
| 2-2. Why are product costs also called inventoriable costs? | a. Cost of medication administered. |
| 2-3. What is the most important difference between a manufacturing firm and a service industry firm, with regard to the classification of costs as product costs or period costs? | b. Cost of overtime paid to nurses due to scheduling errors. |
| 2-4. List several product costs incurred in the production of a backpack. | c. Cost of depreciation of hospital beds. |
| 2-5. List, describe, and give an example of each of the four different types of production processes. | 2-18. Distinguish between out-of-pocket costs and opportunity costs. |
| 2-6. Why is the cost of idle time treated as manufacturing overhead? | 2-19. Define the terms sunk cost and differential cost. |
| 2-7. Explain why an overtime premium is included in manufacturing overhead. | 2-20. Distinguish between marginal and average costs. |
| | 2-21. Think about the process of registering for classes at your college or university. What additional information would you like to have before you register? How |

“Best selection of problems of any text: a large number of problems, problems at all levels, including many interesting, different problems that challenge students, and often interesting real-world applications.”

—Lynda Thoman, Purdue University

EXCEL® Spreadsheets Spreadsheet applications are essential to contemporary accounting practice. Students must recognize the power of spreadsheets and know how accounting data are presented in them. Excel applications are discussed where appropriate in the text.

Several exercises and problems in each chapter include an optional requirement for students to **Build a Spreadsheet** to develop the solution.

“Good description of managerial accounting tools. Easy to read and understand. Strength is in the end-of-chapter problems—good variety and lots of them.”

—Priscilla Wisner, Thunderbird School of Global Management

Many problems can be solved using the Excel spreadsheet templates found in Connect. An Excel logo appears in the margin next to these problems for easy identification.

Each of these inventory balances was 10 percent higher at the end of the year.

Required:

1. Prepare a schedule of cost of goods manufactured for 20x1.
2. What was the cost of goods sold for the year?
3. **Build a spreadsheet:** Construct an Excel spreadsheet to solve all of the preceding requirements. Show how the solution will change if the following data change: direct material used amounted to \$281,000 and raw-material inventory on December 31 was \$28,000.

Exercise 3-31
Manufacturing Cost Flows
(LO 3-2, 3-6)

Reimel Furniture Company, Inc., incurred the following costs during 20x2.

Raw material used.....	\$174,000
Direct labor.....	324,000

During 20x2, manufacturing overhead of \$180,000 was applied to production. Products costing \$120,000 were finished, and products costing \$132,000 were sold on account for \$195,000. There were no purchases of raw material during the year. The beginning balances in the firm's inventory accounts are as follows:

Raw material.....	\$227,000
Work in process.....	18,000
Finished goods.....	30,000

Problems All applicable Problems are available in Connect.

The following data refer to Twisto Pretzel Company for the year 20x1.

Work-in-process inventory, 12/31x0.....	\$ 8,100	Utilities for sales and administrative offices.....	2,500
Selling and administrative salaries.....	13,800	Other selling and administrative expenses.....	4,000
Insurance on factory and equipment.....	3,600	Indirect-labor cost incurred.....	29,000
Work-in-process inventory, 12/31x1.....	8,300	Depreciation on factory building.....	3,800
Finished-goods inventory, 12/31x0.....	14,000	Depreciation on cars used by sales personnel.....	1,200
Cash balance, 12/31x1.....	6,000	Direct-labor cost incurred.....	79,000
Indirect material used.....	4,900	Raw-material inventory, 12/31x1.....	11,000
Depreciation on factory equipment.....	2,100	Accounts receivable, 12/31x1.....	4,100
Raw-material inventory, 12/31x0.....	10,100	Rental for warehouse space to store raw material.....	3,100
Property taxes on factory.....	2,400	Rental of space for company president's office.....	1,700
Finished-goods inventory, 12/31x1.....	15,400	Applied manufacturing overhead.....	58,000
Purchases of raw material in 20x1.....	39,000	Sales revenue.....	205,800
Utilities for factory.....	6,000	Income tax expense.....	5,100

Required:

1. Prepare Twisto Pretzel Company's schedule of cost of goods manufactured for 20x1.
2. Prepare the company's schedule of cost of goods sold for 20x1. The company closes overapplied or underapplied overhead into Cost of Goods Sold.
3. Prepare the company's income statement for 20x1.

Problem 3-42
Schedule of Cost of Goods Manufactured and Sold;
Income Statement
(LO 3-6)

1. Total manufacturing costs: \$175,100
3. Net income: \$7,100

Problem 3-43
Basic Job-Order Costing;

Burlington Clock Works manufactures fine, handcrafted clocks. The firm uses a job-order costing system, and the cost of goods sold on the direct labor department is as follows:

Excel Simulations Simulated Excel questions, assignable within Connect, allow students to practice their Excel skills—such as basic formulas and formatting—within the context of managerial accounting. These questions feature animated, narrated Help and Show Me tutorials (when enabled), as well as automatic feedback and grading for both students and professors.

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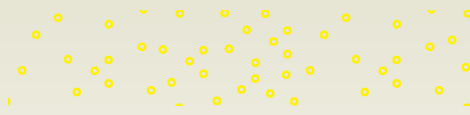
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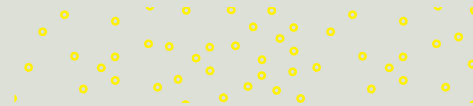
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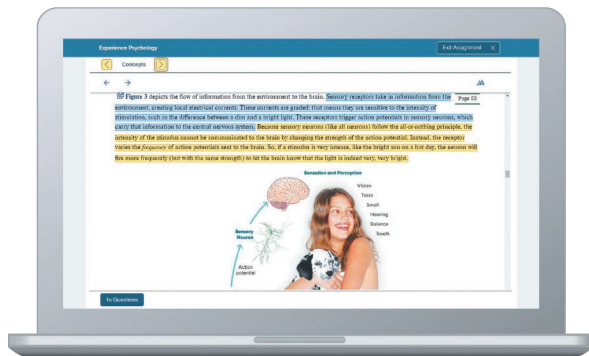


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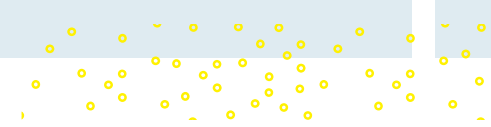


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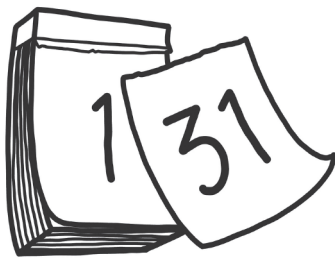
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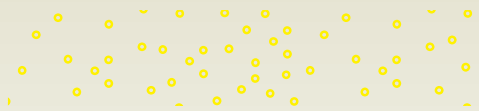
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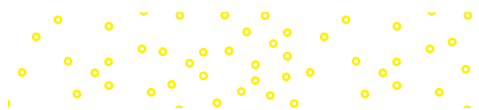
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Chapter Title	Focus Company	Focus Company Logo	Focus Company Industry	Contrast Company
1. The Crucial Role of Managerial Accounting in a Dynamic Business Environment	The Walt Disney Company		Entertainment	Whole Foods Market, Inc (grocery retailer)
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3. Product Costing and Cost Accumulation in a Batch Production Environment	Blue River Paddle Boards		Manufacturer, stand-up paddle boards	Small World Advertising (ad agency)
4. Process Costing and Hybrid Product-Costing Systems	MVP Sports, Wisconsin Div'n		Manufacturer, baseball gloves	MVP Sports, Minnesota Div'n (manufacturer)
5. Activity-Based Costing and Management	Dronze Inc.		Manufacturer, recreational drones	Immunity Medical Center (health care)
6. Activity Analysis, Cost Behavior, and Cost Estimation	Donut Desire		Food service retail chain	Constellation Communications Technology (manufacturer)
7. Cost-Volume-Profit Analysis	Seattle Contemporary Theater		Nonprofit arts organization	Digital: Time (manufacturer)
8. Variable Costing and Measurement of ESG and Quality Costs	FitDat.com		Designer and manufacturer, smart watches	FitDat.com (designer/manufacturer)
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12. Responsibility Accounting and the Balanced Scorecard	Aloha Hotels and Resorts		Resort hotel chain	FLIT FinTech (online financial services startup)
13. Investment Centers and Transfer Pricing	Suncoast Food Centers		Retail grocery chain	Suncoast Food Processing Division (manufacturing)
14. Decision Making: Relevant Costs and Benefits	Worldwide Airways		International airline	International Chocolate Company (manufacturer)
15. Target Costing and Cost Analysis for Pricing Decisions	Sydney Sailing Supplies		Manufacturer, sailboats	Sydney Sailing Marine Services (contractor)
16. Capital Expenditure Decisions	City of Mountainview		City government	High Country Department Stores (retailer)
17. Allocation of Support Activity Costs and Joint Costs	Riverside Clinic		Health care provider	International Chocolate Company (manufacturer)

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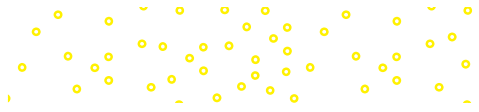
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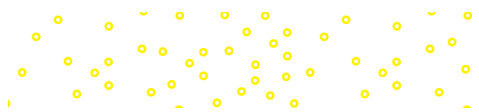
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Managerial Accounting

Creating Value in a
Dynamic Business Environment




1

The Crucial Role of Managerial Accounting in a Dynamic Business Environment

FOCUS COMPANY >>>



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THIS CHAPTER'S FOCUS COMPANY is **Walt Disney Company** . This entertainment services company is a giant in the industry with theme parks, feature film studios, animation studios, television broadcasting, hotels and resorts, and retail stores. Using The Walt Disney Company as an illustration, we will introduce the field of managerial accounting and its major themes. Some of you are excited about studying accounting. But even more of you are asking, "Why do I need to study managerial accounting? I'm not going to be an accountant!" That is a good question. Our primary focus in this book is the ways in which managers use managerial accounting concepts and tools to make their decisions. Along the way, we will also explore how managerial accountants work in partnership with managers to add value to the organization.



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Each chapter is built around a focus company, in which the chapter's key points are illustrated. This chapter's focus is on The Walt Disney Company. The focus companies in subsequent chapters are not real companies, but they are realistic scenarios built on actual company practices. Whenever the focus company is discussed in the chapter, the company logo appears in the margin.



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In contrast to the entertainment services setting of [The Walt Disney Company](#), we will turn our attention to [Whole Foods Market](#), a division of [Amazon.com, Inc.](#) This powerhouse food retailer has over 400 stores around North America and Europe. Historically a leader in the area of corporate social responsibility, Whole Foods Market is frequently faced with challenging decisions that require them to balance the need to run a profitable business, and generate a satisfactory return for Amazon.com, against the cost of their much-publicized commitment to organic foods and

Each chapter also includes a contrast company. In most cases, the contrast company will present a key chapter topic in an industry that is different from that of the focus company. In this chapter, the focus company (Walt Disney) is an entertainment services company, whereas the contrast company (Whole Foods Market) is a food retailer.

sustainable production. We will explore managerial accounting's contribution to Whole Foods Market's efforts to sell products that are more costly to produce in a competitive market, while still achieving appropriate returns for investors.



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After completing this chapter, you should be able to:

- 1-1** Define managerial accounting and describe its role in the management process.
- 1-2** Explain four fundamental management processes that help organizations attain their goals.
- 1-3** List and describe five objectives of managerial accounting activity.
- 1-4** Explain the major differences between managerial and financial accounting.
- 1-5** Describe the accounting and finance structure in an organization.
- 1-6** Describe the roles of an organization's chief financial officer (CFO) or controller, treasurer, and internal auditor.
- 1-7** Understand and explain the value chain concept.
- 1-8** Explain how investments in capacity affect managerial decision making.
- 1-9** Understand and explain big data and data analytics and how they interact with managerial accounting.
- 1-10** Discuss the professional organizations and certifications in the field of managerial accounting.
- 1-11** Describe the ethical responsibilities and ethical standards that apply to managerial accounting.

Learning Objectives highlight the key topics to be covered in the chapter. They are repeated in the margin of the text where they are discussed. Also, each end-of-chapter assignment lists its learning objectives in the margin.

Many different kinds of organizations affect our daily lives. Manufacturers, retailers, service industry firms, agribusiness companies, nonprofit organizations, and government agencies provide us with a vast array of goods and services. All of these organizations have two things in common. First, every organization has a set of *goals* or objectives. An airline, such as [Qantas](#) or [Southwest Airlines](#), might specify profitability and customer service as its goals. The [New York Police Department](#)'s goals would include public safety and security coupled with cost minimization. Second, in pursuing an organization's goals, managers need *information*. The information needs of management range across financial, production, marketing, legal, and environmental issues. Generally, the larger the organization, the greater management's need for information.

In this chapter, we will explore the role of managerial accounting within the overall management process. In the remaining chapters, we will expand our study by exploring the many concepts and tools used in managerial accounting.

Managerial Accounting: A Business Partnership with Management

Learning Objective 1-1

Define managerial accounting and describe its role in the management process.

Managerial accounting is the process of identifying, measuring, analyzing, interpreting, and communicating information in pursuit of an organization's goals. Managerial accounting is an integral part of the management process, and managerial accountants are important strategic partners in an organization's management team. But note that the actions listed above are not done just by accountants: all managers use the tools of

managerial accounting. That is why you are here—even if you are not planning to be an accountant!

An organization’s management team seeks to create value for the organization by managing resources, activities, and people to achieve the organization’s goals effectively and efficiently. Managerial accounting provides tools and perspectives that help managers accomplish this, and for that reason it is important that every business student study it.

Managerial accountants are specialists in using the tools of managerial accounting. They help the organization and support its managers in running the operation effectively. Their knowledge builds from the material in this textbook to include advanced tools as well as knowledge and techniques specific to a company and its industry.

The role of managerial accounting is very different now than it was years ago. In the past, managerial accountants were organized into support departments, often physically separated from the managers for whom they provided reports and information. Now, rather than isolate managerial accountants in a separate department, companies usually locate them in the operating departments where they are working with other managers to make decisions and resolve operational problems. Managerial accountants, often carrying the job title of “analyst,” take on leadership roles on their teams and are sought out for the valuable information they provide. The role of the accountant in leading-edge companies “has been transformed from number cruncher and financial historian to being business partner and trusted advisor.”² And the tools of managerial accounting can add value for all managers.

“As their role moves from governance to guidance, [managerial accountants are] turning complex data into actionable insight, implementing digitally-enabled business models, measuring new KPIs [key performance indicators] to measure value, managing rising levels of risk, and supporting their rapidly expanding customer bases.” (1a)¹

Oracle

Managing Resources, Activities, and People

The owners, directors, or trustees of an organization set its goals, generally with the help of management. For example, **The Walt Disney Company**’s goals are set by its board of directors, who are elected by the company’s stockholders. Disney’s mission, which guides the board in goal setting, says that they “seek to develop the most creative, innovative and profitable entertainment experiences and related products in the world.”³

In pursuing its goals, an organization acquires *resources* (for example, funding, patents, and buildings), hires *people*, and then engages in an organized set of *activities*. It is up to the management team to make the best use of the organization’s resources, activities, and people in achieving the organization’s goals. In trying to accomplish this, the day-to-day work of the management team comprises the following four activities:

1. Decision making
2. Planning
3. Directing operational activities
4. Controlling

**Walt Disney
Company**

Learning Objective 1-2

Explain four fundamental management processes that help organizations attain their goals.

¹*In Their Own Words* Throughout the text, you will find these quotes from both practicing managers and managerial accountants. Collectively they portray the important role managerial accounting plays in today’s dynamic business environment. The references for these quotes appear at the end of the text. The references are organized by chapter; thus reference (1a) relates to the first quote in Chapter 1, and so forth.

²Gary Siegel, “The Image of Corporate Accountants,” *Strategic Finance* 82, no. 2 (August 2000), p. 71.

³The Walt Disney Company, which is discussed in this chapter, is, of course, a real company, and information about its mission, structure and leadership can be found at www.thewaltdisneycompany.com/about/. However, the focus organizations around which subsequent chapters are built are not real organizations. They are instead realistic settings in which to discuss business and managerial accounting issues, and in most cases are based on real organizations. Similarly, each chapter includes a discussion of a contrast company. Some of these contrast companies, such as food retailer Whole Foods Market in this chapter, are real companies. Others are fictitious companies that are based on real organizations. These realistic illustrations and scenarios are intended to help students connect the business and managerial accounting issues discussed in this book to everyday life.

Decision Making

Recently, Disney's management and board of directors decided that one of the company's growth objectives would be to expand guest and hotel capacity in its [Walt Disney World Resort](#) in Florida. It was not immediately clear, however, how best to do this. Should they build a new hotel facility on the scarce available land near one of the company's four existing Florida theme parks—the [Magic Kingdom](#), [Epcot](#), [Disney's Hollywood Studios](#), and [Disney's Animal Kingdom](#)? Or should they build a new type of theme park with its own hotels, a substantial investment? Should they build new attractions in one or more of the existing parks, and renovate and expand one of the existing hotel properties? Or should the company branch out in a new direction with an entirely different type of facility? How would each of these alternative courses of action mesh with the company's mission to provide “creative, innovative and profitable entertainment?” Disney's top management team had to *make a decision* about the best way to expand the company's Florida operations, which entailed *choosing among the available alternatives*.

Planning

Disney's top management team decided on an aggressive, and expensive, plan to expand the company's Florida operations and profitability by building on the [Star Wars](#) brand franchise that the company owns. Their plan included a large expansion of the Disney's Hollywood Studios theme park, dedicated to a new attraction called [Star Wars: Galaxy's Edge](#), with a new “immersive” [Star Wars Hotel](#) resort connected to it. Created and designed by [Walt Disney's Imagineering Division](#), the 14-acre park expansion would offer guests a chance to inhabit a planet in the Star Wars galaxy, both visiting it and staying there in the hotel.

Next came the detailed planning phase. How would the rides and simulations designed by the Imagineering Division be laid out and organized? What food and beverage operations would be appropriate? What characters would be present in the attraction, and how many employees of all types would be needed on a day-to-day basis? What supplies would be required to run the park and hotel? How much would electricity and other utilities cost for the new attraction? How should the hotel's rooms be priced? And finally, what other incremental sales opportunities could be created to help pay for the expensive project? Disney's management team had to *plan* for running Star Wars: Galaxy's Edge and the Star Wars Hotel, which meant *developing a detailed financial and operational description of anticipated operations*.

Directing Operational Activities

Planning for the creation of the new attraction and hotel requires extensive prediction. But once the attraction and hotel have been built, equipped, and staffed, the dynamic process of actually running them begins. How many guests are expected to arrive this week? How many cashiers should be on duty on Saturday morning? How much of each type of food should be ordered each day? How much cash will be needed to meet the payroll, pay the utility bills, and buy maintenance supplies? All of these questions fall under the general heading of *directing operational activities*, which means *running the organization on a day-to-day basis*.

Controlling

As the new attraction and the hotel operate, the company can begin to observe the results of operations. Are Disney's goals for the attraction and hotel being accomplished? Is the new attraction “creative, innovative, and profitable?” How do we measure that? Generally, and most importantly, have operations adhered to the plans developed by management for achieving the goals? In seeking to answer these questions, management is engaged in *control*, which means *ensuring that the organization operates in the intended manner and achieves its goals*.

“What I need is someone who can analyze data, see problems and figure out solutions . . . [just doing] debits and credits and financial statements doesn't really help me.” (1b)

Tente Casters Inc

How Managerial Accounting Adds Value to the Organization

Managers need information for all of the managerial activities described in the preceding section. That information comes from a variety of sources, including economists, financial experts, marketing and production personnel, accountants, and the organization's managerial accounting system.

Objectives of Managerial Accounting Activity

Managerial accounting activity comprises a set of tools, systems, and perspectives that add value to an organization by supporting the following five major objectives:

1. Providing information for decision making and planning.
2. Assisting managers in directing and controlling operational activities.
3. Motivating managers and other employees toward the organization's goals.
4. Measuring the performance of activities, subunits, managers, and other employees within the organization.
5. Assessing the organization's competitive position, and working with other managers to ensure the organization's long-run competitiveness in its industry.

Although financial data make up a large part of the inputs and outputs of a managerial accounting system, there is a strong trend toward the presentation of nonfinancial data as well. Managerial accounting systems supply all kinds of information to management in support of management's role in directing the organization's activities. Measuring, managing, and continually improving operational activities are critical to an organization's success. As we will see in subsequent chapters, contemporary managerial accounting systems focus on the activities that occur at all levels of the organization.

To illustrate the objectives of managerial accounting activity, let us continue with the example of Star Wars: Galaxy's Edge and the Star Wars Hotel.

Providing Information for Decision Making and Planning For virtually all major decisions, Disney's management team would rely heavily on managerial accounting information. For example, the *decision* to establish the new attraction and hotel would be influenced by estimates of the costs of designing the rides and simulations and maintaining them throughout the attraction's life. The theme park's managers also would rely on managerial accounting data in formulating plans for the attraction's operations. Prominent in those *plans* would be a budget detailing the projected revenues and costs of operating the attraction.

Because of the complexity and importance of this decision, Disney's managers and accountants would work together on teams as decisions were made and plans formulated for the new attraction's operations.

Assisting Managers in Directing and Controlling Operational Activities Directing and controlling day-to-day operations require a variety of data about the process of providing entertainment services. For example, in *directing* operational activities, the park's management team would need data about customer food-service demand patterns in order to make sure appropriate staffing was provided in the theme park's various food venues. In *controlling* operations, management would compare actual costs incurred with those specified in the budget.

Managerial accounting information often assists management through its **attention-directing function**. Managerial accounting reports do not necessarily solve a decision problem. Most often, they direct managers' attention to an issue that requires their skills and then, ideally, provide the data that is relevant in helping them to solve the problem. To illustrate, suppose Star Wars: Galaxy's Edge incurred electricity costs that significantly exceeded the budget. This fact does not explain why the budget was exceeded, nor does

Learning Objective 1-3

List and describe five objectives of managerial accounting activity.

"You don't have resources to do everything. You focus on things that have the maximum return." (1c)

Kraft Heinz Co.

"What we're seeing is less transactional and more decision support type of work. More analytical, more . . . option analysis. Looking at the whole spectrum of options in helping management make decisions." (1d)

Boeing

it tell management what action to take, but it does direct management's attention to the situation. Suppose that upon further investigation, the accounting records reveal that the rate Disney pays for electricity has increased substantially. This information will help management in framing the decision problem. Should steps be taken to conserve electricity? Should they seek out a different electric power provider? Perhaps management should consider investing in a more sophisticated air conditioning system to manage the Florida heat.

Management Accounting Practice

Facebook, Walmart, REI, Amazon, Fox News, The New York Times, The Wall Street Journal, LinkedIn

The managerial accounting practices of well known, real-world organizations are highlighted in these boxes. You will see how topics in the chapter are actually used. Actual companies are indicated in blue whenever they are referenced.

USING MANAGERIAL ACCOUNTING TO MONETIZE THE INTERNET

For any company operating online, *monetizing the Internet* means finding a way to generate revenues from users in order to make a profit after the costs of providing the Internet service or content. Creating a successful revenue model is one of the biggest challenges faced by Internet companies, and managerial accounting information and techniques are a crucial part of finding and managing the correct model. Here are some examples of how companies are trying to monetize the Internet.

Targeted Content

Four months after **Facebook's** initial public offering (IPO) of its stock on May 18, 2012, with its shares trading more than 50% below their \$38 per share initial offering price, investors were demanding answers to a question they had begun asking soon after the IPO: "How will [Facebook] continue to monetize its more than 900 million users on a consistent basis?"⁴ Many changes in Facebook's site during the following months and years have been intended to do exactly that, with managerial accountants analyzing the costs and benefits of different courses of action. For example, design changes in March 2013 were intended to "help the company increase monetization by improving its ability to target content to users with increased precision based on 'likes.'"⁵ In subsequent years, Facebook seems to have solved the Internet monetization problem, becoming highly profitable with its stock trading by mid-2018 at five to six times the IPO price.

Competing with Amazon

Walmart was slow to embrace Internet sales because of their investment in bricks-and-mortar stores. But they and other companies that invest in physical stores, such as **REI**, see an opportunity to monetize the Internet in conjunction with their stores by providing what competitor **Amazon** cannot. "Walmart touches 90% of all Americans within 10 miles of a store [and] has demand to justify third-party sellers on its marketplace to ship products to 'forward deployed' warehouses (read: 'stores')."⁶ By offering customers the opportunity to have purchases shipped free of charge to its stores, Walmart could see cost efficiencies from using its existing supply chain to bring products to consumers. And when consumers visit a store to pick up their purchases, they are likely to purchase other products, an incremental profit opportunity not available to Amazon. Moreover, stores can deliver services to consumers along with the packages they have ordered online. "Stores are fighting back with what has always defined specialty retail: service and community . . . REI has offered events, skills clinics [and] last summer it created 1,000 more aimed squarely at women."⁷ But when services are provided free of charge, they must demonstrate that they drive increased sales to result in an overall net profit. Managerial accounting tools help provide that insight.

(continues)

⁴Steven Russolillo and Kaitlyn Kiernan, "MarketBeat: Facebook Shares Fall Below \$30," *Wall Street Journal*, May 29, 2012.

⁵Andrew Tonner, "What Does Facebook's Redesign Mean for Investors?" *The Motley Fool*, March 7, 2013, <http://www.fool.com/investing/general/2013/03/07/what-does-facebook-redesign-mean-for-investors.aspx>.

⁶Alex Moazed, "Walmart is Coming for Amazon—and Winning," *Inc.*, October 11, 2017.

⁷Mya Frazier, "Amazon's War on Gear," *Outside*, July 11, 2018.

Making Journalism Profitable Again

“Publishers are still experimenting with how best to reach, retain, and monetize their audiences.” One of the great seismic shifts of the last decade has been the stampede of advertisers from print to online media. Managers in news organizations that were built on print ad revenues are trying to figure out how to monetize their online presence in a world where online content is generally free—while also remaining independent of undue editorial influence by advertisers. Managerial accounting techniques help to divide costs among different channels while allocating revenues among those same channels, in order to better understand profitability. From [Fox News](#) trying out video content on Facebook’s “Watch” platform, to [The New York Times](#)’ various subscription models, to [The Wall Street Journal](#)-sponsored posts on [LinkedIn](#), there is still no clear business model for delivering the news, profitably.⁸

Motivating Managers and Other Employees Toward the Organization’s Goals

Organizations have goals. However, organizations also are made up of people who have goals of their own. The goals of individuals are diverse, and they do not always match those of the organization. A key purpose of managerial accounting is to motivate managers and other employees to direct their efforts toward achieving the organization’s goals. One means of achieving this purpose is through budgeting. In establishing a budget for Disney’s Star Wars: Galaxy’s Edge, top management indicates how resources are to be allocated and what activities are to be emphasized. When actual operations do not conform to the budget, the managerial accounting system will highlight the deviation from plan, and managerial accounting tools will help the theme park’s managers to analyze and explain the reasons for the deviation.

Measuring the Performance of Activities, Subunits, Managers, and Other Employees within the Organization

One means of motivating people toward the organization’s goals is to measure their performance in achieving those goals. Such measurements then can be used as the basis for rewarding performance through positive feedback, promotions, and pay raises. For example, most large corporations compensate their executives, in part, on the basis of the profit achieved by the subunits they manage. In other organizations, managers are rewarded on the basis of operational measures, such as product quality, sales, or on-time delivery. At Star Wars: Galaxy’s Edge, for example, management could be rewarded, in part, on the basis of growth in percent of theme park visitors who visit the attraction.

In addition to measuring the performance of people, the managerial accounting system measures the performance of an organization’s subunits, such as divisions, product lines, geographical territories, and departments. These measurements help the subunits’ managers obtain the highest possible performance level in their units. Such measurements also help top management decide whether a particular subunit is a viable economic investment. For example, it may turn out that a particular simulation at Star Wars: Galaxy’s Edge is too costly to maintain, despite the efforts of a skilled management team.

Assessing the Organization’s Competitive Position, and Working with Other Managers to Ensure the Organization’s Long-Run Competitiveness in Its Industry

The business environment often changes very rapidly. These changes result from global competition, rapidly advancing technology, and trends in communication such as social media.

⁸Pete Brown, “Platforms and Publishers: No Sign of Retreat,” *Columbia Journalism Review*, February 23, 2017; Deepa Seetharaman and Lukas I. Alpert, “Facebook Nears Deals on News Shows for Video Platform ‘Watch,’” *The Wall Street Journal*, May 31, 2018.